

Arts Group

Arts Optical International Holdings Limited

雅視光學集團有限公司

(Incorporated in Bermuda with limited liability)

Arts Group

Interim Report **2004**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

NG Hoi Ying, Michael – Chairman
HUI Pui Woon
NG Kim Ying
LEE Wai Chung

Independent non-executive directors

Francis George MARTIN
KWONG Kam Kwan Alex

COMPANY SECRETARY

LEE Wai Chung

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Allen & Overy
Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 308, 3rd Floor, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

PRINCIPAL SHARE REGISTRAR

The Bank of Bermuda Limited
6 Front Street, Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of America (Asia) Limited
Bank of China (Hong Kong) Limited
China Construction Bank
Hong Kong Branch
Dah Sing Bank, Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Summary of results

The Group's consolidated turnover and net profit increased by 37% to HK\$331.3 million (2003: HK\$241.4 million) and 42% to HK\$51.2 million (2003: HK\$36.1 million) respectively for the six months ended 30th June, 2004. Basic earnings per share increased by 42% to 13.6 cents (2003: 9.6 cents) in the first half of 2004.

The Group's gross margin remained fairly stable at 34.2% during the period under review (2003: 34.5%). The positive effects of the economies of scale were offset by the increases in production costs arising from higher raw material costs and energy prices. Net profit margin improved slightly from 15.0% in the first half of 2003 to 15.5% in the corresponding period of 2004 as a result of the Group's strict measures on cost control.

Original design manufacturing (ODM) division

With the easing of negative effects on consumer confidence due to the military confrontation in the Middle East, sales orders received by the Group's ODM division began to recover in the third quarter of 2003 and the growth gained momentum in the last quarter of 2003. Increases in sales were registered in all the key export markets in the first half of 2004 and sales to ODM customers increased by 40% to HK\$295.9 million (2003: HK\$211.1 million). Europe and the United States remained as the main export markets of the Group's ODM products and sales to these regions increased by 61% and 29% to HK\$149.8 million and HK\$118.7 million respectively in the first half of 2004 (2003: HK\$92.8 million and HK\$91.8 million respectively). Our Group's products became more competitive due to the appreciation of Euro against United States dollars during the period under review. On a geographical basis, sales to Europe, United States, Asia and other regions accounted for 51%, 40%, 6% and 3% respectively of the sales of the Group's ODM products during the period under review (2003: 44%, 43%, 8% and 5% respectively). Sales of prescription frames and sunglasses grew by 20% and 113% to HK\$196.6 million and HK\$99.3 million respectively (2003: HK\$164.4 million and HK\$46.7 million respectively). Sunglasses registered a higher rate of growth as sales of this kind of products were more sensitive to economic performance of the Group's export markets. Sales of metal frames, plastic frames and spare parts accounted for 60%, 38% and 2% respectively during the period under review (2003: 71%, 27% and 2% respectively).

Distribution division

Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) increased by 53% to HK\$23.6 million for the six months ended 30th June, 2004 (2003: HK\$15.4 million). The strong improvement in business performance of this division was mainly attributable to the increased penetration of the Group's products via its distribution network and a lower comparable sales figure for 2003 as the marketing and sales activities of this division were adversely affected by the outbreak of severe acute respiratory syndrome in the first half of 2003. Sales to Europe, North America, Asia and other regions accounted for 46%, 24%, 14% and 16% respectively of the Group's turnover of distribution division in the period under review (2003: 40%, 13%, 32% and 15% respectively).

Retailing division

Turnover of the retailing division decreased by 21% to HK\$11.8 million in the first half of 2004 (2003: HK\$14.9 million). The Group closed its retailing operations in Nanjing and Shanghai during the period under review. As at 30th June, 2004, the Group operated a total of 18 shops in the PRC including 12 shops in Beijing and 6 shops in Shenzhen.

Prospects

ODM division

The management believes that the effects of recovery of the export markets have been substantially reflected in the first half of 2004. The Group will continue to face the challenges imposed by escalating production costs arising from higher material costs and energy prices in the second half of the year. The pace of consolidation in the distribution and retailing sectors in both American and European markets is anticipated to accelerate. The Group currently has 3 months sales orders on hands and the management is cautiously optimistic about the financial performance of the Group in the second half of 2004.

Distribution division

The management expects the sales performance of this division will remain strong in the second half of 2004 and will continue its efforts in further developing and strengthening its brands portfolio. Discussions with potential licensor and professional agency for licensing opportunities of some selected brands are underway. Cross-selling possibilities of the Group's branded products with its ODM customers will also be evaluated.

Retailing division

The operating environment of optical retailing market in mainland China remains difficult and more new players are attracted by the apparently high level of gross margin of this industry. The Group will continue to consolidate and develop its retailing operations in Beijing and Shenzhen where the regulatory infrastructure is more sophisticated.

Summary

Despite the challenges facing the Group as mentioned in the previous analysis, the management is confident that the Group will report satisfactory results for the whole year of 2004. The Group's core business will continue to generate strong cash inflow for funding of the Group's expansion plan and payment of dividends to the shareholders.

Financial Review

During the period under review, the Group's operating activities generated a net cash inflow of HK\$53.3 million (2003: HK\$71.5 million). The relatively lower level of net cash inflow was mainly attributable to the increase in the level of working capital employed, with trade debtors and inventory balances increased by HK\$26.7 million and HK\$8.6 million respectively as compared with the balances at 31st December, 2003. The net cash position of the Group (bank and cash balance plus pledged bank deposit less bank borrowing) decreased from HK\$192.2 million at 31st December, 2003 to HK\$150.9 million at 30th June, 2004 primarily due to the payment of final dividend and second special dividend for 2003.

The current ratio of the Group as at 30th June, 2004 was 3.6 to 1 (31st December, 2003: 4.1:1) with HK\$421.5 million of current assets (31st December, 2003: HK\$432.0 million) and HK\$116.9 million of current liabilities (31st December, 2003: HK\$105.8 million). Because of the progressive increase in production activity during the period under review, inventory turnover period (ratio of inventory balance to cost of sales) increased from 73 days in the first six months of 2003 to 76 days in the corresponding period of 2004. Debtors turnover period (ratio of the total of trade debtor and discounted bills balances to sales) also increased from 81 days in the first six months of 2003 to 93 days in the corresponding period of 2004 due to the extension of trade credit terms to certain key customers of the Group.

The Group had 376,870,000 shares in issue at both 30th June, 2004 and 31st December, 2003 with a total shareholders' equity amounting to HK\$572.7 million and HK\$578.0 million at 30th June, 2004 and 31st December, 2003 respectively. Net asset value per share as at 30th June, 2004 was HK\$1.52 (31st December, 2003: HK\$1.53). Total long term liability and debt to equity ratio (expressed as a percentage of total long term liability over equity) were HK\$9.0 million (31st December, 2003: HK\$8.0 million) and 1.6% (31st December, 2003: 1.4%) respectively.

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either United States dollars, Hong Kong dollars and Renminbi and the exchange rates movements between these currencies were relatively stable during the period under review.

Employee and Remuneration Policies

The Group employed approximately 6,800 full time staff as at 30th June, 2004. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market price while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

Ng Hoi Ying, Michael
Chairman

Hong Kong, 13th September, 2004



INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 7 to 16.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 13th September, 2004

CONDENSED CONSOLIDATED INCOME STATEMENT*For the six months ended 30th June, 2004*

		Six months ended	
	<i>NOTES</i>	30.6.2004	30.6.2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>
Turnover	3	331,290	241,400
Cost of sales		<u>(217,866)</u>	<u>(158,111)</u>
Gross profit		113,424	83,289
Other operating income		5,182	4,298
Distribution costs		(21,387)	(14,716)
Administrative expenses		(39,707)	(30,895)
Other operating expenses		<u>(783)</u>	<u>(1,045)</u>
Profit from operations	3&4	56,729	40,931
Finance costs	5	<u>(28)</u>	<u>(22)</u>
Profit before taxation		56,701	40,909
Taxation	6	<u>(5,120)</u>	<u>(4,470)</u>
Profit before minority interests		51,581	36,439
Minority interests		<u>393</u>	<u>332</u>
Net profit for the period		<u>51,188</u>	<u>36,107</u>
Dividend	7	<u>34,122</u>	<u>56,531</u>
Earnings per share			
– Basic	8	<u>13.6 cents</u>	<u>9.6 cents</u>
– Diluted	8	<u>13.4 cents</u>	<u>9.5 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET*At 30th June, 2004*

	<i>NOTES</i>	30.6.2004 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2003 <i>HK\$'000</i> <i>(audited)</i>
Non-current Assets			
Investment property	9	2,500	2,500
Property, plant and equipment	9	242,889	237,737
Deposit for acquisition of property, plant and equipment		6,604	–
Deposit for acquisition of unlisted investment		6,119	–
Loan receivable	10	20,982	20,982
Goodwill	11	1,529	1,784
		<hr/>	<hr/>
		280,623	263,003
Current Assets			
Inventories		91,156	82,511
Debtors, deposits and prepayments	12	179,382	157,106
Taxation recoverable		82	215
Pledged bank deposits		18,042	18,037
Bank balances and cash		132,862	174,128
		<hr/>	<hr/>
		421,524	431,997
Current Liabilities			
Creditors and accrued charges	13	115,021	95,360
Taxation payable		1,875	10,439
		<hr/>	<hr/>
		116,896	105,799
Net Current Assets			
		<hr/>	<hr/>
		304,628	326,198
Total Assets less Current Liabilities			
		<hr/>	<hr/>
		585,251	589,201
Capital and Reserves			
Share capital	14	37,687	37,687
Reserves		534,988	540,331
		<hr/>	<hr/>
		572,675	578,018
Minority Interests			
		3,530	3,137
Non-current Liability			
Deferred tax liabilities		9,046	8,046
		<hr/>	<hr/>
		585,251	589,201
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2003	37,441	106,743	(3,269)	(1,006)	585	439,575	580,069
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	-	-	-	-	(116)	-	(116)
Released upon disposal of subsidiaries	-	-	-	-	(4)	-	(4)
Net profit for the period	-	-	-	-	-	36,107	36,107
Dividend paid	-	-	-	-	-	(29,953)	(29,953)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2003	37,441	106,743	(3,269)	(1,006)	465	445,729	586,103
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	-	-	-	-	1	-	1
Released upon disposal of subsidiaries	-	-	-	6	42	-	48
Issue of shares upon exercise of share options	246	1,919	-	-	-	-	2,165
Net profit for the period	-	-	-	-	-	46,232	46,232
Dividend paid	-	-	-	-	-	(56,531)	(56,531)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2003	37,687	108,662	(3,269)	(1,000)	508	435,430	578,018
Net profit for the period	-	-	-	-	-	51,188	51,188
Dividend paid	-	-	-	-	-	(56,531)	(56,531)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2004	<u>37,687</u>	<u>108,662</u>	<u>(3,269)</u>	<u>(1,000)</u>	<u>508</u>	<u>430,087</u>	<u>572,675</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2004

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	53,320	71,508
Net cash used in investing activities	(39,667)	(37,124)
Net cash used in financing activities	<u>(54,919)</u>	<u>(31,493)</u>
Net (decrease) increase in cash and cash equivalents	(41,266)	2,891
Cash and cash equivalents at the beginning of the period	<u>174,128</u>	<u>204,769</u>
Cash and cash equivalents at the end of the period	<u><u>132,862</u></u>	<u><u>207,660</u></u>
Being:		
Bank balances and cash	<u><u>132,862</u></u>	<u><u>207,660</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2004

1. Basis of preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of an investment property.

The accounting policies adopted for the preparation of the condensed financial statements are consistent with those adopted by the Group in its financial statements for the year ended 31st December, 2003.

3. Segment information

Geographical segments

Segment information of the Group by location of customers is presented as below:

	Six months ended			
	30.6.2004	30.6.2004	30.6.2003	30.6.2003
	Revenue	Results	Revenue	Results
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Europe	160,591	30,619	99,046	22,269
United States	120,472	22,779	93,103	17,417
Asia	33,266	2,651	37,306	(409)
Other regions	16,961	2,837	11,945	2,183
	<u>331,290</u>	<u>58,886</u>	<u>241,400</u>	<u>41,460</u>
Unallocated corporate expenses		(2,492)		(2,140)
Interest income		335		984
Gain on disposal of other investment		–		46
Gain on disposal of subsidiaries		–		557
Dividend income		–		24
Profit from operations		<u>56,729</u>		<u>40,931</u>

Business segments

The Group is principally engaged in the design, manufacture and sales of optical products. No business segment analysis is presented as the management considers this as one single business segment.

4. Profit from operations

	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Amortisation of goodwill (charged to other operating expenses)	255	255
Depreciation and amortisation of property, plant and equipment	22,911	22,553
(Gain) loss on disposal of property, plant and equipment	(790)	231
	<u> </u>	<u> </u>

5. Finance costs

The finance costs represent interest expense on bank borrowings wholly repayable within five years.

6. Taxation

	Six months ended	
	30.6.2004	30.6.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation		
Hong Kong Profits Tax	4,120	2,580
Deferred taxation		
Current year	1,000	1,275
Attributable to change in tax rate in Hong Kong	—	615
	<u> </u>	<u> </u>
	<u>5,120</u>	<u>4,470</u>

The charge represents Hong Kong Profits Tax calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the directors, that portion of the Group's profit is not at present subject to taxation in any other jurisdiction in which the Group operates.

7. Dividend

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Interim dividend declared in respect of 2004 of 9 cents (2003: 8 cents) per share	34,122	30,150
First special dividend declared in respect of 2004 of nil cent (2003: 7 cents) per share	–	26,381
	<u>34,122</u>	<u>56,531</u>

The interim dividend of HK\$34,122,000 in respect of 2004 is calculated by reference to 379,130,000 shares in issue on 13th September, 2004.

On 7th June, 2004, dividends of 8 cents and 7 cents (2002: 8 cents and nil cent) per share were paid to the shareholders of the Company as final dividend and second special dividend in respect of 2003 respectively.

8. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share – Net profit for the period	<u>51,188</u>	<u>36,107</u>
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	376,870,000	374,410,000
Effect of dilutive potential shares in respect of share options	<u>4,777,801</u>	<u>5,820,211</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>381,647,801</u>	<u>380,230,211</u>

9. Movements in investment property/property, plant and equipment

	Investment property HK\$'000	Property, plant and equipment HK\$'000
COST OR VALUATION		
At 1st January, 2004	2,500	509,714
Additions	–	33,024
Disposals	–	(15,833)
	<hr/>	<hr/>
At 30th June, 2004	2,500	526,905
	<hr/>	<hr/>
DEPRECIATION AND AMORTISATION		
At 1st January, 2004	–	271,977
Provided for the period	–	22,911
Eliminated on disposals	–	(10,872)
	<hr/>	<hr/>
At 30th June, 2004	–	284,016
	<hr/>	<hr/>
NET BOOK VALUE		
At 30th June, 2004	2,500	242,889
	<hr/> <hr/>	<hr/> <hr/>

The Group's investment property was revalued by the directors at 30th June, 2004. There were no surplus or deficit arising on revaluation of the investment property as at 30th June, 2004.

10. Loan receivable

The amount is secured, bears interest at market rate and will not be repaid within the next twelve months from the balance sheet date and, accordingly, the amount is shown as non-current.

11. Movement in goodwill

	<i>HK\$'000</i>
COST	
At 1st January, 2004 and at 30th June, 2004	2,549
	<hr/>
AMORTISATION	
At 1st January, 2004	765
Provided for the period	255
	<hr/>
At 30th June, 2004	1,020
	<hr/>
NET BOOK VALUE	
At 30th June, 2004	1,529
	<hr/> <hr/>

Goodwill is amortised over a period of five years on a straight-line basis.

12. Debtors, deposits and prepayments

The Group allows an average credit period of 30 days to 90 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$164,892,000 (31.12.2003: HK\$138,219,000), an aging analysis of which at the balance sheet date is as follows:

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Current	121,758	110,025
1 to 90 days overdue	38,149	25,925
More than 90 days overdue	4,985	2,269
	<u>164,892</u>	<u>138,219</u>

13. Creditors and accrued charges

Included in the Group's creditors and accrued charges are trade creditors of HK\$85,980,000 (31.12.2003: HK\$71,224,000), an aging analysis of which at the balance sheet date is as follows:

	30.6.2004 <i>HK\$'000</i>	31.12.2003 <i>HK\$'000</i>
Current to 90 days overdue	85,070	69,629
More than 90 days overdue	910	1,595
	<u>85,980</u>	<u>71,224</u>

14. Share Capital

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
<i>Authorised:</i>		
At 30th June, 2004 and at 31st December, 2003	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 30th June, 2004 and at 31st December, 2003	<u>376,870,000</u>	<u>37,687</u>

15. Pledge of assets

At 30th June, 2004, leasehold properties with an aggregate net book value amounting to approximately HK\$7,544,000 (31.12.2003: HK\$12,252,000) and bank deposits of approximately HK\$18,042,000 (31.12.2003: HK\$18,037,000) were pledged to banks to secure short term banking facilities granted to the Group.

16. Contingent liabilities

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bills discounted with recourse	<u>3,377</u>	<u>3,310</u>

At 30th June, 2004, the Group had contingent liability in respect of a corporate guarantee issued in favour of a financial institution to the extent of HK\$9,750,000 (31.12.2003: HK\$9,750,000). Full amount of such facilities was utilised at the balance sheet dates.

17. Capital commitments

	30.6.2004	31.12.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	4,016	4,336
– leasehold improvements	710	1,946
– plant and machinery	8,949	924
– furniture, fixtures and office equipment	<u>14</u>	<u>83</u>
	<u>13,689</u>	<u>7,289</u>

SUPPLEMENTARY INFORMATION

Dividend

The Directors have resolved to declare an interim dividend of 9 cents per share for the six months ended 30th June, 2004 (2003: interim dividend of 8 cents per share and first special dividend of 7 cents per share). The interim dividend will be payable on 12th October, 2004 to shareholders whose names appear on the register of members of the Company on 5th October, 2004.

Closure of Register of Members

The register of members of the Company will be closed from 4th October, 2004 to 5th October, 2004, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 30th September, 2004 in order to qualify for the interim dividend mentioned above.

Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2004.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

At 30th June, 2004, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

1. Shares in the Company (Long Position)

Name of director	Number of shares held			Total	Percentage of issued share capital of the Company
	Personal interests	Family interests	Other interests		
Ng Hoi Ying, Michael	1,326,000	36,682,000	151,000,000	189,008,000	50.15%
		<i>(Note a)</i>	<i>(Note b)</i>		
Hui Pui Woon	36,682,000	152,326,000	-	189,008,000	50.15%
		<i>(Note c)</i>			
Ng Kim Ying	300,000	-	18,500,000	18,800,000	4.99%
			<i>(Note d)</i>		
Lee Wai Chung	1,200,000	-	-	1,200,000	0.32%

Notes:

- (a) These shares were owned by Ms. Hui Pui Woon, the wife of Mr. Ng Hoi Ying, Michael.
- (b) These shares were held by Ratagan International Company Limited (“Ratagan”). The entire issued share capital of Ratagan was held by Newcourt Trustees Limited as trustee for The Arts 1996 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Hoi Ying, Michael and his family members.
- (c) 1,326,000 shares and 151,000,000 shares were respectively held by Mr. Ng Hoi Ying, Michael, the husband of Ms. Hui Pui Woon, and Ratagan.
- (d) These shares were held by Universal Honour Developments Limited (“Universal Honour”). The entire issued share capital of Universal Honour was held by Newcourt Trustees Limited as trustee for The Optical 2000 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Kim Ying and his family members.

2. *Underlying shares in the Company (Share Options)*

Details of the share options held by the Directors of the Company are detailed in the “Share Options” section below.

Save as disclosed above, at 30th June, 2004, none of the Directors or chief executive had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTIONS

At the 2003 Annual General Meeting, the Company's share option scheme adopted on 24th October, 1996 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted in order to comply with the amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in relation to share option scheme.

No share option under the New Share Option Scheme was granted, exercised, cancelled or lapsed during the six months ended 30th June, 2004. A summary of the movements in share options which were granted under the Old Share Option Scheme to certain eligible employees of the Group on 7th July, 2000 is as follows:

	Number of share options			Percentage of issued share capital
	Outstanding at 1st January, 2004	Lapsed during the period	Outstanding at 30th June, 2004	
Category: Directors				
Ng Hoi Ying, Michael	1,530,000	–	1,530,000	0.40%
Ng Kim Ying	450,000	–	450,000	0.12%
Lee Wai Chung	1,050,000	–	1,050,000	0.28%
	<u>3,030,000</u>	<u>–</u>	<u>3,030,000</u>	<u>0.80%</u>
Category: Employees	<u>4,350,000</u>	<u>(600,000)</u>	<u>3,750,000</u>	<u>1.00%</u>
Total all categories	<u>7,380,000</u>	<u>(600,000)</u>	<u>6,780,000</u>	<u>1.80%</u>

The above share options are exercisable pursuant to a vesting scale between 7th July, 2000 and 23rd October, 2006 at an exercise price of HK\$0.88 per share. The consideration paid by each employee for the options granted was HK\$1.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares

As at 30th June, 2004, the interests and short positions of every person, other than the interests disclosed under the heading “Directors’ Interests and Short Positions in Shares, Underlying Shares and Debentures” above, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Shares in the Company (Long Position)

Name of shareholder	Number of shares held	Percentage of issued share capital of the Company
Templeton Asset Management Ltd.	29,270,000	7.77% <i>(Note)</i>
Templeton International, Inc.	29,270,000	7.77% <i>(Note)</i>
Templeton Worldwide, Inc.	29,270,000	7.77% <i>(Note)</i>
Franklin Resources, Inc.	29,270,000	7.77% <i>(Note)</i>
David Michael Webb	19,648,000	5.21%

Note: Templeton Asset Management Ltd. is wholly owned by Templeton International, Inc. which is wholly owned by Templeton Worldwide, Inc.. Templeton Worldwide, Inc. is wholly owned by Franklin Resources, Inc.. Hence, Templeton International, Inc., Templeton Worldwide, Inc. and Franklin Resources, Inc. are deemed to be interested in the same parcel of 29,270,000 shares held by Templeton Asset Management Ltd. under Part XV of the SFO.

All the interests stated above represent long position. Save as disclosed above, at 30th June, 2004, the register maintained by the Company pursuant to Section 336 of the SFO recorded no other interests or short positions in shares or underlying shares of the Company.

Compliance with the Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.