



ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司

(incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

INTERIM RESULTS

The Board of Directors (the “Directors”) of Arts Optical International Holdings Limited (the “Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30th June, 2002 together with comparative figures for the corresponding period in 2001 are as follows:–

		Six months ended	
	Notes	30.6.2002 HK\$'000 (unaudited)	30.6.2001 HK\$'000 (unaudited)
Turnover	1	289,763	274,073
Cost of sales		(187,304)	(170,325)
Gross profit		102,459	103,748
Other revenue		4,263	4,228
Selling and distribution costs		(17,009)	(13,081)
Administrative expenses		(32,165)	(26,347)
Other operating expenses		(1,172)	(1,189)
Profit from operations	1&2	56,376	67,359
Finance costs	3	(86)	(292)
Profit before taxation		56,290	67,067
Taxation	4	(7,049)	(5,438)
Profit before minority interests		49,241	61,629
Minority interests		(830)	(1,051)
Net profit for the period		50,071	62,680
Dividend	5	29,925	28,248
Earnings per share			
– Basic	6	13.6 cents	17.9 cents
– Diluted	6	13.3 cents	17.7 cents

Notes:

1. SEGMENT INFORMATION Geographical segments

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

	Six months ended			Six months ended	
	30.6.2002 Revenue HK\$'000	30.6.2002 Results HK\$'000		30.6.2001 Revenue HK\$'000	30.6.2001 Results HK\$'000
Europe	120,148	25,741		109,195	28,891
United States	110,817	25,806		111,141	33,289
Mainland China	32,823	(378)		24,983	(1,968)
Others	25,975	5,780		28,754	7,533
	289,763	56,949		274,073	67,745
Unallocated corporate expenses		(1,377)			(3,397)
Interest income on bank deposits		804			3,011
Profit from operations		56,376			67,359

Business segments

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

2. PROFIT FROM OPERATIONS

	Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	22,886	22,666
Loss on disposal of property, plant and equipment	50	–
and after crediting:		
Interest income on bank deposits	804	3,011
Gain on disposal of subsidiaries	1,647	–
Gain on disposal of other investment	183	–
Gain on disposal of property, plant and equipment	–	227

3. FINANCE COSTS

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

4. TAXATION

The charge represents Hong Kong Profits Tax calculated at 16% 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.

5. DIVIDEND

	Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Interim dividend declared in respect of 2002 of 8 cents (2001: 8 cents) per share	29,925	28,248
The interim dividend of HK\$29,925,000 in respect of 2002 is calculated by reference to 374,060,000 shares in issue on 12th September, 2002.		
On 10th June, 2002, a dividend of 8 cents per share (2000: 7 cents) was paid to shareholders as final dividend for 2001.		

6. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2002 HK\$'000	30.6.2001 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	50,071	62,680
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	369,394,751	350,640,000
Effect of dilutive potential shares in respect of share options	7,997,632	3,268,956
Weighted average number of shares for the purpose of diluted earnings per share	377,392,383	353,908,956

DIVIDEND

The Directors have resolved to declare an interim dividend of 8 cents per share for the six months ended 30th June, 2002 (2001: 8 cents per share). The interim dividend will be payable on 8th October, 2002 to shareholders whose names appear on the register of members of the Company on 4th October, 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 2nd October, 2002 to 4th October, 2002, 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 registrars in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 30th September, 2002 in order to qualify for the interim dividend mentioned above.

BUSINESS REVIEW

Summary of results

The year 2002 continues to be a difficult and challenging year for the Group. The Group's consolidated turnover increased by 6% to HK\$289.8 million (2001: HK\$274.1 million) whereas its net profit decreased by 20% to HK\$50.1 million (2001: HK\$62.7 million) respectively in the six months ended 30th June, 2002. Basic earnings per share also decreased by 24% to 13.6 cents (2001: 17.9 cents) in the first half of 2002.

Original design manufacturing (ODM) division

The economies of both the United States (“US”) and Europe generally remained sluggish in the period under review. Although the ODM customers had substantially completed their inventory reduction process in 2001, they remained very cautious in replenishing their inventory. There were signs of improvement in market sentiment since March 2002, but the pace of recovery remained relatively slow. Sales to ODM customers increased by 4% to HK\$255.0 million (2001: HK\$244.1 million) in the first half of 2002. Europe and US accounted for 45% and 43% respectively (2001: 42% and 45%) of the turnover of the ODM division. Metal frames, handmade plastic frames, titanium frames, injection moulded plastic frames and spare parts accounted for 42%, 28%, 22%, 6% and 2% respectively of the Group's turnover of ODM business in the period under review (2001: 48%, 35%, 13%, 2% and 2% respectively). Gross margins dropped during the period as a result of the price pressure on sales to certain medium-sized customers.

Distribution division

The Group's distribution division was adversely affected by the slowdown in the global economy. Sales of the Group's own-branded and licensed branded products (including both optical frames and lenses) decreased by 5% to HK\$16.1 million in the six months ended 30th June, 2002 (2001: HK\$16.9 million). Sales to China and Europe accounted for 41% and 35% respectively of the Group's turnover of distribution division in the period under review (2001: 31% and 34%).

Retailing division

The Group continued to expand its retail chains “ARTS 1000” and “SUNNY ARTS” in mainland China in 2002. As at 30th June, 2002, it operated a total of 35 Arts 1000 shops and 28 SUNNY ARTS shops in various major cities in China (31st December, 2001: 29 shops and 13 shops respectively) including Beijing, Shanghai, Nanjing, Guangzhou and Shenzhen. Turnover of the retailing division increased by 43% in the first six months of 2002 to HK\$18.7 million (2001: HK\$13.1 million). As retailing business was still at a development stage, it had not yet generated any significant contribution to the Group.

PROSPECTS

ODM division

Our customers' preference for shorter lead times, smaller order sizes and minimal inventory will continue and competition among manufacturers will intensify further. In spite of the economic uncertainty and low visibility of prospects in most export markets, the Group expects to maintain a stable order book through further upgrading of the quality of its products and services. Full implementation of the enterprise resources planning system in January 2002 had provided a technological platform for the Group to meet these challenges. The Directors expect that the financial performance of this division will remain relatively stable in the second half of the year.

Distribution division

To further integrate its distribution operations and capture the benefits generated from economies of scale, the Group acquired the 49% minority interest of the joint venture company from its British business partner, Rayner and Keeler Group, in July 2002. The management is determined to spearhead growth by devoting more resources to the acquisition of rights relating to well-known fashion brands and towards product development.

Retailing division

The Group is on track with its plan to expand its retailing network in mainland China. Total number of retail outlets is expected to reach 100 by the next 6 to 9 months. At this level of operations, the Group should be able to reach critical mass for enjoying the benefits of economies of scale. Despite the relatively strong performance of the economy in China, competition in the retail environment remains keen. The Group will continue to adopt a long term and cautious approach in the expansion of this division and adjust the pace of its expansion plan according to its market conditions.

Summary

Although the profitability of the Group declined in the first six months of 2002 as compared with the corresponding period in 2001, the financial performance of the Group has actually recovered from the second half of 2001. While the second half of this year will remain challenging, the Directors are steadfast in maintaining its leading and competitive position in the optical industry. The Group's core business continues to generate strong cash inflow and this provides a solid foundation for maintaining a satisfactory dividend payout to the shareholders. The management will continue to follow the guiding principles of business diversification and financial prudence with the ultimate objective of bringing long-term profitability to the Group and value creation to its shareholders.

FINANCIAL REVIEW

Financial position and liquidity

During the period under review, the Group's operating activities generated net cash flow of HK\$70.4 million (2001: HK\$74.9 million). The placing of new shares to Templeton Strategic Emerging Markets Fund LDC in January, 2002 raised HK\$31.2 million. Capital expenditure has been closely monitored by the management. As at 30th June, 2002, the Group had a net cash position (bank and cash balance plus pledged bank deposit) of HK\$208.7 million (31st December, 2001: HK\$156.9 million) and did not have any bank borrowings (31st December, 2001: nil).

The current ratio of the Group as at 30th June, 2002 was 3.7 to 1 (31st December, 2001: 3.9:1) with HK\$419.7 million of current assets (31st December, 2001: HK\$358.1 million) and HK\$112.2 million of current liabilities (31st December, 2001: HK\$92.0 million). As a result of the management's strenuous efforts in streamlining the internal operations, inventory turnover period (ratio of inventory balance to cost of sales) decreased by 16% from 93 days in the first six months of 2001 to 78 days in the corresponding period of 2002. Debtors turnover period (ratio of the total of debtors and discounted bill balances to sales) increased by 8% from 66 days in the first six months of 2001 to 71 days in the corresponding period of 2002 as the value of exports to ODM customers increased by 12% in the months of May and June of 2002 as compared with the corresponding months of 2001.

18,500,000 new shares were issued pursuant to the placing of shares completed in January, 2002 and the total number of shares in issue increased from 353,450,000 shares as at 31st December, 2001 to 371,950,000 shares as at 30th June, 2002. Total shareholders' funds and net asset value per share as at 30th June, 2002 were HK\$558.8 million and HK\$1.50 (31st December, 2001: HK\$507.4 million and HK\$1.44 respectively). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity) were HK\$0.8 million (31st December, 2001: HK\$7.3 million) and 0.1% (31st December, 2001: 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 or Renminbi and the exchange rate movements between these currencies were relatively stable during the period under review.

Pledge of assets

At 30th June, 2002, leasehold properties with an aggregate net book value amounting to HK\$14,529,000 (31st December, 2001: HK\$14,821,000) and bank deposits of HK\$9,030,000 (31st December, 2001: HK\$8,981,000) were pledged to banks to secure short term banking facilities granted to the Group.

Contingent liabilities

	30.6.2002 HK\$'000	31.12.2001 HK\$'000
a. Bills discounted with recourse	1,766	4,781

b. The Inland Revenue Department (the “IRD”) has tax disputes with certain subsidiaries of the Group and had issued notices of additional assessments to those subsidiaries. The Group had objected against these additional assessments and is under negotiation process with the IRD. No provision for the potential interest or surcharge has been made to the financial statements of the Group as, in the opinion of the Directors, the outcome of this matter cannot be determined with reasonably certainty at this time.

EMPLOYEE AND REMUNERATION POLICIES

The Group employed approximately 5,700 full time staff as at 30th June, 2002. 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.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Exchange”) will be published on the Exchange's website in due course. The Group's unaudited interim financial statements have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, and a report of their review, will be included in the Interim Report to the shareholders 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, 2002, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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, 2002.

By order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 12th September, 2002