



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, 2003

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, 2003 together with comparative figures for the corresponding period in 2002 are as follows:–

		Six months ended	
	<i>Notes</i>	30.6.2003	30.6.2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	Restated (unaudited)
Turnover	<i>1</i>	241,400	289,763
Cost of sales		(158,111)	(187,304)
Gross profit		83,289	102,459
Other operating income		4,298	4,263
Distribution costs		(14,716)	(17,009)
Administrative expenses		(30,895)	(32,165)
Other operating expenses		(1,045)	(1,172)
Profit from operations	<i>1 & 2</i>	40,931	56,376
Finance costs	<i>3</i>	(22)	(86)
Profit before taxation		40,909	56,290
Taxation	<i>4</i>	(4,470)	(6,973)
Profit before minority interests		36,439	49,317
Minority interests		332	(830)
Net profit for the period		36,107	50,147
Dividend	<i>5</i>	56,531	29,953
Earnings per share			
– Basic	<i>6</i>	9.6 cents	13.6 cents
– Diluted	<i>6</i>	9.5 cents	13.3 cents

Notes:

1. SEGMENT INFORMATION

Geographical segments

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

	30.6.2003 Revenue HK\$'000	Six months ended 30.6.2003 Results HK\$'000	30.6.2002 Revenue HK\$'000	30.6.2002 Results HK\$'000
Europe	99,046	22,269	120,148	25,741
United States	93,103	17,417	110,817	25,806
Asia	37,306	(409)	43,139	2,436
Other regions	11,945	2,183	15,659	2,966
	<u>241,400</u>	<u>41,460</u>	<u>289,763</u>	<u>56,949</u>
Unallocated corporate expenses		(2,140)		(3,207)
Interest income		984		804
Gain on disposal of other investment		46		183
Gain on disposal of subsidiaries		557		1,647
Dividend income		24		–
Profit from operations		<u>40,931</u>		<u>56,376</u>

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 30.6.2003 HK\$'000	30.6.2002 HK\$'000
Profit from operations has been arrived at after charging:		
Amortisation of goodwill (charged to other operating expenses)	255	–
Depreciation and amortisation of property, plant and equipment	22,553	22,886
Loss on disposal of property, plant and equipment	231	50
	<u>23,039</u>	<u>22,936</u>

3. FINANCE COSTS

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

4. TAXATION

	Six months ended 30.6.2003 HK\$'000	30.6.2002 HK\$'000
Current taxation		
Hong Kong Profits Tax	2,580	7,049
Deferred taxation		
Hong Kong Profits Tax	1,275	(76)
Attributable to change in tax rate in Hong Kong	615	–
	<u>4,470</u>	<u>6,973</u>

The charge represents Hong Kong Profits Tax calculated at 17.5% (2002: 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 30.6.2003 HK\$'000	30.6.2002 HK\$'000
Interim dividend declared in respect of 2003 of 8 cents (2002: 8 cents) per share	30,150	29,953
Special dividend declared in respect of 2003 of 7 cents (2002: nil) per share	26,381	–
	<u>56,531</u>	<u>29,953</u>

The interim dividend and special dividend of HK\$30,150,000 and HK\$26,381,000 respectively in respect of 2003 are calculated by reference to 376,870,000 shares in issue on 10th September, 2003.

On 3rd June, 2003, a dividend of 8 cents per share (2001: 8 cents) was paid to shareholders of the Company as final dividend for 2002.

6. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2003	30.6.2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Earnings</i>		
Earnings for the purposes of basic and diluted earnings per share – net profit for the period	36,107	50,147
<i>Number of shares</i>		
Weighted average number of shares for the purpose of basic earnings per share	374,410,000	369,394,751
Effect of dilutive potential shares in respect of share options	5,820,211	7,997,632
Weighted average number of shares for the purpose of diluted earnings per share	380,230,211	377,392,383

DIVIDEND

The Directors have resolved to declare an interim dividend of 8 cents per share and a special dividend of 7 cents per share for the six months ended 30th June, 2003 (2002: interim dividend of 8 cents per share). The interim dividend and special dividend will be payable on 8th October, 2003 to shareholders whose names appear on the register of members of the Company on 30th September, 2003.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 29th September, 2003 to 30th September, 2003, 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 not later than 4:00 p.m. on 26th September, 2003 in order to qualify for the interim dividend and special dividend mentioned above.

BUSINESS REVIEW

Summary of results

As reported in the 2002 Annual Report, 2003 continues to be another challenging and difficult year for the global economy as well as the Group. The Group's consolidated turnover decreased by 17% to HK\$241.4 million (2002: HK\$289.8 million) whereas its net profit decreased by 28% to HK\$36.1 million (2002: HK\$50.1 million) respectively in the six months ended June, 2003. Basic earnings per share also decreased by 29% to 9.6 cents (2002: 13.6 cents) in the first half of 2003.

The relatively greater decline in net profit as compared to turnover in the period under review was attributable to the decline in gross profit margin from 35.4% in the first 6 months of 2002 to 34.5% in the corresponding period of 2003 as a result of the effect of dis-economies of scale arising from the reduction in production level and the additional HK\$2.0 million deferred taxation charge in 2003 following the adoption of the revised accounting standard on Income Taxes.

Original design manufacturing (ODM) division

Europe and the United States remained the key markets for the Group's ODM division and accounted for 44% and 43% respectively of the sales of this division in the first six months of the year (2002: 45% and 43%). Export sales orders began to slow down since December 2002 and this trend continued in the first half of 2003, amid the poor consumer spending sentiment in these markets and the military conflict in the Middle East. Sales to ODM customers decreased by 17% to HK\$211.1 million (2002: HK\$255.0 million) in the first half of 2003.

Distribution division

The marketing and sales activities of the Group's distribution division were adversely affected by the outbreak of severe acute respiratory syndrome ("SARS") as the epidemic principally affected the major markets of this division. Sales of the Group's own-branded and licensed branded products (including both optical frames and lenses) decreased by 4% to HK\$15.4 million in the six months ended 30th June, 2003 (2002: HK\$16.1 million). Sales to Europe (mainly United Kingdom) and Asia accounted for 40% and 32% respectively of the Group's turnover of distribution division in the period under review (2002: 35% and 50%). The decline in the amount and relative proportion of sales to Asian customers was mainly due to the impact of SARS in the second quarter of 2003.

Retailing division

The Group implemented a consolidation plan in its retailing business in mainland China in the first 6 months of 2003. Total number of shops dropped from 73 at 31st December, 2002 to 33 at 30th June, 2003. Shops that did not meet the Group's predetermined performance target were either closed or relocated and the two lines of chains, namely Arts 1000 and Sunny Arts, were combined in the cities of Beijing, Nanjing and Shanghai. The outbreak of SARS during April to June also affected the sales performance of this division as it affected sales during the labour day holiday in May, which usually accounted for a substantial amount of the Group's sales during the first six months of a year. Turnover of the retailing division decreased by 20% to HK\$14.9 million in the first six months of 2003 (2002: HK\$18.7 million).

PROSPECTS

ODM Division

With the easing of military conflict in the Middle East and signs of economic recovery in the United States since the middle of 2003, the Group's major customers show a more aggressive approach in launching new marketing projects and replenishment of inventory. Sales orders received in the months of July and August registered a rebound as compared to the corresponding period of last year. As the impact on sales as a result of the order rebound will only be reflected in the last quarter of 2003, the management is cautiously optimistic about the financial performance of the second half of 2003.

Distribution Division

The Group has critically reviewed the financial performance of its own brands and licensed brands in 2003. More resources will be devoted to those brands with better business potential while the rest will be gradually phased out. The Group obtained the exclusive right to manufacture and distribute the Italian fashion brand "Fiorucci" for the entire Asia excluding Japan for a term of 5 years commencing in April 2003. Sales of Fiorucci eyewear will commence in the second half of the year.

Retailing Division

The consolidation exercise has been substantially completed and the coming challenging task is to fully explore the earning potential of existing sales network. A new corporate image has been launched in Beijing with encouraging response. Despite the relatively strong performance of the economy of China, competition in the retail environment remains keen and deflation as well as inadequate regulatory infrastructure are the biggest challenges facing all the retailers. A long term and cautious approach in the expansion of this division is being adopted with further capital investment be made only in key strategic areas.

Summary

Although the Group is operating in a highly unpredictable and competitive environment in 2003 and recorded a decline in its financial performance in the first 6 months of the year, the management believes that there are signs indicating that a business rebound is looming. As stated in the previous financial reports, the management will continue to adopt the established 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. The payment of a special dividend is one of the means of rewarding the long term support from the shareholders to the Group.

Financial position and liquidity

During the period under review, the Group's operating activities generated net cash inflow of HK\$71.5 million (2002: HK\$70.4 million). In view of the uncertain business environment, capital expenditure spent in the production facilities and retailing business was closely monitored. Despite the decline in profitability, the Group still managed to increase its net cash position (bank and cash balance plus pledged bank deposit less bank borrowings, if any) from HK\$214.1 million at 31st December, 2002 to HK\$215.9 million at 30th June, 2003. The Group did not have any bank borrowings at 30th June, 2003.

The Group placed strong emphasis on balance sheet management and cash earnings. The current ratio of the Group as at 30th June, 2003 was 5.1 to 1 (31st December, 2002: 4.3:1) with HK\$405.4 million of current assets (31st December, 2002: HK\$441.0 million) and HK\$79.4 million of current liabilities (31st December, 2002: HK\$102.7 million). As a result of the management's strenuous efforts in reducing the delivery lead time in anticipation of the industry trend, inventory turnover period (ratio of inventory balance to cost of sales) decreased from 78 days in the first six months of 2002 to 73 days in the corresponding period of 2003. Debtors turnover period (ratio of the total of debtor and discounted bills balances to sales) increased from 71 days in the first six months of 2002 to 81 days in the corresponding period of 2003 as a result of granting of longer credit terms to a selected group of customers.

The Group had 374,410,000 shares in issue at both 30th June, 2003 and 31st December, 2002 with a total shareholders' equity amounting to HK\$586.1 million and HK\$580.0 million at 30th June, 2003 and 31st December, 2002 respectively. Net asset value per share as at 30th June, 2003 was HK\$1.57 (31st December, 2002: HK\$1.55). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity) were HK\$9.2 million (31st December, 2002: HK\$7.4 million) and 1.6% (31st December, 2002: 1.3%) respectively. The management

expects the Group to continue to maintain a strong financial position and liquid balance sheet after the payment of the special dividend which will have the effect of enhancing the return on equity of the Group.

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. The Group is in active discussion with its bankers to seek alternative ways of hedging the risks of appreciation of Renminbi against other currencies.

Pledge of assets

At 30th June, 2003, leasehold properties with an aggregate net book value amounting to approximately HK\$13,944,000 (31st December, 2002: HK\$14,236,000) and bank deposits of approximately HK\$8,220,000 (31st December, 2002: HK\$10,895,000) were pledged to banks to secure short term banking facilities granted to the Group.

Contingent liabilities

At 30th June, 2003, the Group had bill discounted with recourse and had given corporate guarantees in favour of a financial institution and a minority shareholder of a subsidiary totalling HK\$14,511,000 (2002: HK\$962,000).

EMPLOYEE AND REMUNERATION POLICIES

The Group employed approximately 4,900 full time staff as at 30th June, 2003. 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 to 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 be despatched 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, 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Exchange.

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, 2003.

By order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 10th September, 2003

"Please also refer to the published version of this announcement in The Standard".