



ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1120)

FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2003

FINAL RESULTS

The Board of Directors (the “Board”) of Arts Optical International Holdings Limited (the “Company”) is pleased to announce that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2003 together with last year’s comparative figures are as follows:

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000
Turnover	2	519,411	602,518
Cost of sales		(343,433)	(383,413)
Gross profit		175,978	219,105
Other operating income	3	6,973	8,418
Distribution costs		(26,788)	(40,088)
Administrative expenses		(58,332)	(64,079)
Other operating expenses		(6,787)	(7,099)
Profit from operations	4	91,044	116,257
Finance costs	5	(43)	(109)
Gain on disposal of subsidiaries		508	1,647
Profit before taxation		91,509	117,795
Taxation	6	(9,544)	(13,412)
Profit before minority interests		81,965	104,383
Minority interests		(374)	(1,304)
Net profit for the year		82,339	105,687
Dividends	7	113,062	59,906
Earnings per share	8		
– Basic		21.9 cents	28.4 cents
– Diluted		21.6 cents	27.9 cents

* For identification purposes only

Notes:

1. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, Hong Kong Financial Reporting Standard (“HKFRS”) – the Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income taxes” issued by the Hong Kong Society of Accountants (the “HKSA”). The term of HKFRS is inclusive of SSAPs and interpretations approved by the HKSA.

2. SEGMENT INFORMATION

Turnover

Turnover represents the net amounts received and receivable for goods sold to outside customers during the year.

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.

Geographical segments

The Group’s operations and assets are located in Hong Kong and elsewhere in the People’s Republic of China.

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

For the year ended 31st December, 2003

	Europe HK\$’000	United States HK\$’000	Asia HK\$’000	Other regions HK\$’000	Consolidated HK\$’000
<i>Turnover</i>					
External sales	<u>208,009</u>	<u>227,279</u>	<u>61,208</u>	<u>22,915</u>	<u>519,411</u>
<i>Result</i>					
Segment result	<u>44,707</u>	<u>45,063</u>	<u>(529)</u>	<u>3,777</u>	93,018
Unallocated corporate expenses					(3,862)
Dividend income from other investment					76
Gain on disposal of other investment					46
Interest income on bank deposits					<u>1,766</u>
Profit from operations					91,044
Finance costs					(43)
Gain on disposal of subsidiaries					<u>508</u>
Profit before taxation					91,509
Taxation					<u>(9,544)</u>
Profit before minority interests					81,965
Minority interests					<u>(374)</u>
Net profit for the year					<u>82,339</u>

For the year ended 31st December, 2002

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000 (Restated)
<i>Turnover</i>					
External sales	249,420	243,190	76,648	33,260	602,518
<i>Result</i>					
Segment result	60,485	57,278	(6,587)	7,789	118,965
Unallocated corporate expenses					(4,991)
Dividend income from other investment					66
Gain on disposal of other investment					200
Interest income on bank deposits					2,017
Profit from operations					116,257
Finance costs					(109)
Gain on disposal of subsidiaries					1,647
Profit before taxation					117,795
Taxation					(13,412)
Profit before minority interests					104,383
Minority interests					(1,304)
Net profit for the year					105,687

3. OTHER OPERATING INCOME

Included in other operating income are:

	2003 HK\$'000	2002 HK\$'000
Dividend income from other investment	76	66
Gain on disposal of other investment	46	200
Property rental income less negligible outgoings	376	398
Interest income on bank deposits	1,766	2,017
Sales of scrap materials	3,184	3,654

4. PROFIT FROM OPERATIONS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,050	1,200
Amortisation of goodwill (charged to other operating expenses)	510	255
Depreciation and amortisation of property, plant and equipment	44,696	46,147
Impairment loss recognised in respect of property, plant and equipment (<i>Note</i>)	1,400	–
Loss on disposal of property, plant and equipment	1,774	1,121
Operating lease rentals in respect of rented premises	10,507	13,324
Revaluation decrease in investment property	400	–
Unrealised holding loss on other investment	–	380
Staff costs		
– Directors' emoluments		
– Current year (net of amount waived in respect of 2003 and 2002)	2,519	2,438
– Amount waived in respect of 2002 and 2001	(597)	(662)
	<hr/>	<hr/>
	1,922	1,776
– Other staff		
– Salaries and other allowances	98,426	94,776
– Retirement benefit scheme contributions net of forfeited contribution of HK\$268,000 (2002: HK\$127,000)	908	890
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	101,256	97,442

Note: The directors of the Company have reviewed the carrying amounts of the assets of the Group as at 31st December, 2003 and have determined to recognise the impairment loss amounting to HK\$1,400,000 in respect of a leasehold property with reference to the recoverable amount of such property.

5. FINANCE COSTS

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

6. TAXATION

The charge comprises:

	2003 HK\$'000	2002 HK\$'000
Current taxation		
Hong Kong Profits Tax		
– Current year	9,184	13,320
– (Over)under provision in respect of prior years	(331)	108
	<u>8,853</u>	<u>13,428</u>
Deferred taxation		
Current year	2	(16)
Attributable to a change in tax rate	689	–
	<u>691</u>	<u>(16)</u>
	<u>9,544</u>	<u>13,412</u>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/2004. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

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.

In 2002, the Inland Revenue Department (the "IRD") had tax disputes with certain subsidiaries of the Company and had issued notices of additional assessments in respect of prior years to those subsidiaries. This matter was finalised with the IRD during the current financial year. The resulting additional tax charge of HK\$2,700,000, which had been provided for in 2002, was paid during the year.

7. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim dividend paid in respect of 2003 of 8 cents (2002: 8 cents) per share	30,150	29,953
Special dividend paid in respect of 2003 of 7 cents (2002: Nil) per share	26,381	–
Final dividend proposed in respect of 2003 of 8 cents (2002: 8 cents) per share	30,150	29,953
Special dividend proposed in respect of 2003 of 7 cents (2002: Nil) per share	26,381	–
	<u>113,062</u>	<u>59,906</u>

The final dividend and special dividend in respect of 2003 of 8 cents and 7 cents (2002: 8 cents and nil) per share respectively has been proposed by the directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

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

	2003 HK\$'000	2002 HK\$'000
Earnings for the purposes of basic and diluted earnings per share		
– Net profit for the year	82,339	105,687
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	375,394,000	371,699,863
Effect of dilutive potential shares in respect of share options	5,397,075	6,978,197
Weighted average number of shares for the purpose of diluted earnings per share	380,791,075	378,678,060

DIVIDENDS

The Directors have resolved to recommend a final dividend and special dividend of 8 cents and 7 cents per share respectively for the year ended 31st December, 2003. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 27th May, 2004, the final dividend and special dividend will be payable on 7th June, 2004 to shareholders whose names appear on the Register of Members of the Company on 27th May, 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24th May, 2004 to 27th May, 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 registrars 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 4:00 p.m. on 21st May, 2004 in order to qualify for the proposed final dividend and special dividend mentioned above.

BUSINESS REVIEW

Summary of results

The Group's consolidated turnover and net profit decreased by 14% and 22% to HK\$519.4 million (2002: HK\$602.5 million) and HK\$82.3 million (2002: HK\$105.7 million) respectively in 2003. Basic earnings per share decreased by 23% to 21.9 cents (2002: 28.4 cents) in 2003.

Original design manufacturing (ODM) division

The financial performance of the ODM division remained subdued in 2003 because of the adverse effects of the military confrontation in the Middle East and the relatively poor consumer sentiment in the Groups' major markets. Sales to ODM customers decreased by 14% to HK\$460.6 million (2002 : HK\$534.7 million) in 2003. US and Europe remained the major markets of this division and accounted for 49% and 42% respectively

(2002: 45% and 44%) of the turnover of this division. The market began to show signs of recovery since the middle of 2003 and the recovery gained momentum in the last quarter of the year. As a result, the percentage decline in sales decreased from 17% in the first half to 11% in the second half of the year as compared with the corresponding period of 2002. Metal frames, plastic frames and spare parts accounted for 70%, 28%, and 2% respectively of the Group's turnover of ODM business in 2003 (2002: 68%, 30% and 2%). Average unit selling prices remained fairly stable throughout the year.

Distribution division

Sales of the Group's own-branded and licensed branded products (including both optical frames and lenses) decreased by 11% to HK\$30.1 million in 2003 (2002: HK\$33.9 million). Sales to Europe and Asia accounted for 43% and 27% respectively of the turnover of the Group's distribution division in 2003 (2002: 35% and 50%). Europe surpassed Asia as the single largest market as a result of the successful launching of the Group's house brand "STEPPER" in several European countries and the negative impact of the outbreak of severe acute respiratory syndrome ("SARS") in Asia during the year. Some of the house brands and licensed brand that did not meet the predetermined financial target of the Group were gradually phased out. The Group also started the launching of the licensed Italian fashion label "FIORUCCI" in certain Asian countries in the last quarter of the year.

Retailing division

The Group consolidated its retailing operations and combined its two retail chains of "ARTS 1000" and "SUNNY ARTS" in 2003. Total number of shops dropped from 73 at 31st December, 2002 to 27 at 31st December, 2003. As a result of this consolidation exercise and the impact of SARS in the second quarter of the year, turnover of the retailing division decreased by 15% to HK\$28.7 million in 2003 (2002: HK\$33.9 million). No significant write-offs were made for the consolidation scheme.

Financial position and liquidity

During the year, the Group's operating activities generated a net cash inflow of HK\$113.8 million (2002: HK\$133.4 million). Capital expenditure was closely monitored by the management. Despite the payment of substantial amount of cash dividends during the year, the Group still managed to maintain a satisfactory net cash position throughout the year. At 31st December, 2003, the Group had a net cash position (bank and cash balances plus pledged bank deposits net of any bank borrowings) of HK\$192.2 million (2002: HK\$214.1 million). The Group did not have any bank borrowings at 31st December, 2003 (2002: HK\$1.5 million).

The current ratio of the Group at 31st December, 2003 was 4.1 to 1 (2002: 4.3 to 1) with HK\$432.0 million of current assets (2002: HK\$441.0 million) and HK\$105.8 million of current liabilities (2002: HK\$102.7 million). Due to the granting of longer credit periods to a selected group of key customers, debtors turnover period (ratio of the total of debtor and discounted bills balances to sales) increased from 80 days in 2002 to 99 days in 2003. Inventory turnover period (ratio of inventory balance to cost of sales) also increased from 68 days in 2002 to 88 days in 2003 because of the substantial increase in work in progress balance at the end of 2003 as a result of the increase in production activity in order to satisfy the strong sales orders received in the last quarter of the year.

As at 31st December, 2003, the Group had 376,870,000 shares (2002: 374,410,000 shares) in issue with a total shareholders' funds amounting to HK\$578.0 million (2002: HK\$580.0 million). Net asset value per share was HK\$1.53 (2002: HK\$1.55). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over shareholders' funds) were HK\$8.0 million (2002: HK\$7.4 million) and 1.4% (2002: 1.3%) 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 year.

Contingent Liabilities

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Bills discounted with recourse	3,310	–

At 31st December, 2003, the Group had given a corporate guarantee in favour of a financial institution to secure general credit facilities to the extent of HK\$9,750,000 (2002: Nil). The extent of facilities utilised at 31st December, 2003 amounted to approximately HK\$9,750,000 (2002: Nil).

In addition to the above, at the balance sheet dates, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (approximately HK\$962,000) in consideration of the guarantee given by this minority shareholder in favour of banks to secure general banking facilities to the extent of RMB2,000,000 (approximately HK\$1,887,000) granted to this subsidiary. No such facilities were utilised by the aforesaid subsidiary at 31st December, 2002 and 2003.

At 31st December, 2003, the Company had given corporated guarantees in favour of banks to secure general banking facilities to the extent of HK\$111,130,000 (2002: HK\$119,130,000) granted to its subsidiaries. Other than the bills discounted with recourse amounting to HK\$3,310,000 as stated above, there was no outstanding balance of banking facilities utilised by the subsidiaries at 31st December, 2003 (2002: HK\$1,540,000).

Pledge of Assets

At 31st December, 2003, leasehold properties with an aggregate net book value amounting to approximately HK\$12,252,000 (2002: HK\$14,236,000) and bank deposits of approximately HK\$18,037,000 (2002: HK\$10,895,000) were pledged to banks to secure short term banking facilities granted to the Group.

Employee and Remuneration Policies

At 31st December, 2003, the Group employed approximately 6,400 (2002: 5,800) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performances, experiences and prevailing market salaries while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

PROSPECTS

ODM division

The pick up in demand for the Group's products since the middle of last year continues in the first quarter of 2004. The Group registered satisfactory growth in sales of this division in the first three months of 2004. Although business visibility remains low and customers' buying sentiment seems to be changing more frequently,

the management is confident that this division should show a recovery of performance in 2004. Increase in proportion of sales of higher margin products, strict containment on unit production costs, coupled with anticipated volume growth, have facilitated the improvement in gross margin of this division.

Distribution division

The Group will continue to restructure its brands portfolio and focus on selected brands more sharply. Meanwhile, active negotiations are being undertaken with its ODM customers and other professional middleman for the feasibility of enlarging its brands portfolio by means of acquisition or licensing arrangements. More distributors will be appointed globally for the cross-selling of the Group's house branded and licensed branded products.

Retailing division

The consolidation scheme implemented in 2003 enhanced the competitiveness and strengthened the earnings potential of the retailing division of the Group. Beijing and Shenzhen will be the focuses for further expansion of the retail chain because of the relatively sophisticated regulatory infrastructure in these two cities. Keen competition remains the major challenge of this business division and a long term and cautious approach will continue to be adopted in any further expansion of this division.

Summary

Despite the difficulties and challenges encountered in 2003, the Group still managed to maintain strong financial stability and liquidity. The management is optimistic of the macro-economic environment as well as the financial performance of the Group in 2004. It will continue to adopt the guiding principles of taking a proactive approach to business development and diversification with particular emphasis on financial prudence, balance sheet management and cash earnings. The Group is well-positioned to capture any business opportunities under the above solid fundamentals.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) 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.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Thursday, 27th May, 2004. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 29th April, 2004.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Exchange.

An Audit Committee (the "Committee") has been established by the Company since 1998 to act in an advisory capacity and make recommendations to the Board. The Committee currently comprises Messrs. Kwong Kam Kwan Alex and Francis George Martin, both of whom are independent non-executive directors of the Company. During the year, three Committee meetings were held and the Committee members met with representatives

from the management and/or external auditors of the Company to review the interim and annual reports of the Group as well as various auditing, financial reporting and internal control matters. All the Committee members attended these three meetings.

A Remuneration Committee was established in 2003 and currently comprises Messrs. Francis George Martin and Kwong Kam Kwan Alex, both of whom are independent non-executive directors of the Company. The duties of the Remuneration Committee include the determination of remuneration of executive directors and review of remuneration policy of the Group. One Committee meeting was held during the year and all Committee members attended this meeting.

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 year.

DIRECTORS

The board of directors of the Company comprises of six directors, of which four are executive directors, namely Mr. Ng Hoi Ying, Michael, Ms. Hui Pui Woon, Mr. Ng Kim Ying and Mr. Lee Wai Chung and two are independent non-executive directors, namely Mr. Francis George Martin and Mr. Kwong Kam Kwan Alex.

By order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 16th April, 2004

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