



ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司

(incorporated in Bermuda with limited liability)

FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER, 2001

FINAL RESULTS

The Board of Directors (the “Directors”) 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, 2001 together with last year’s comparative figures are as follows:

	<i>Notes</i>	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Turnover	1	547,011,601	602,542,467
Cost of sales		(349,702,351)	(373,678,223)
Gross profit		197,309,250	228,864,244
Other revenue	2	6,970,219	9,603,243
Distribution costs		(17,916,814)	(24,632,026)
Administrative expenses		(68,236,699)	(77,876,711)
Other operating expenses		(7,788,878)	(6,881,718)
Profit from operations	3	110,337,078	129,077,032
Finance costs	4	(423,288)	(2,298,893)
Profit before taxation		109,913,790	126,778,139
Taxation	5	(9,766,265)	(9,816,372)
Profit before minority interests		100,147,525	116,961,767
Minority interests		(2,304,483)	(4,734,295)
Net profit for the year		102,452,008	121,696,062
Dividends	6	58,004,000	48,624,100
Earnings per share			
– Basic	7	29.2 cents	35.8 cents
– Diluted	7	28.8 cents	35.4 cents

Notes:

1. Segment information

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, 2001

	Europe <i>HK\$</i>	United States <i>HK\$</i>	Asia <i>HK\$</i>	Other regions <i>HK\$</i>	Consolidated <i>HK\$</i>
<i>Revenue</i>					
External sales	225,140,844	213,172,575	80,110,221	28,587,961	547,011,601
<i>Result</i>					
Segment result	53,939,465	53,375,184	(1,880,108)	6,003,776	111,438,317
Unallocated corporate expenses					(5,830,323)
Interest income on bank deposits					4,729,084
Profit from operations					110,337,078
Finance costs					(423,288)
Profit before taxation					109,913,790
Taxation					(9,766,265)
Profit before minority interests					100,147,525
Minority interests					(2,304,483)
Net profit for the year					102,452,008

For the year ended 31st December, 2000

	Europe <i>HK\$</i>	United States <i>HK\$</i>	Asia <i>HK\$</i>	Other regions <i>HK\$</i>	Consolidated <i>HK\$</i>
<i>Revenue</i>					
External sales	221,714,224	263,837,440	78,285,793	38,705,010	602,542,467
<i>Result</i>					
Segment result	52,419,178	68,898,318	(1,358,698)	9,973,268	129,932,066
Unallocated corporate expenses					(7,852,496)
Interest income on bank deposits					6,997,462
Profit from operations					129,077,032
Finance costs					(2,298,893)
Profit before taxation					126,778,139
Taxation					(9,816,372)
Profit before minority interests					116,961,767
Minority interests					(4,734,295)
Net profit for the year					121,696,062

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. Other revenue

Included in other revenue are:

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Interest income on bank deposits	4,729,084	6,997,462
Dividend income from other investment	70,303	–

3. Profit from operations

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Profit from operations has been arrived at after charging:		
Auditors’ remuneration	900,000	913,645
Deficit arising on revaluation of an investment property	–	900,000
Depreciation and amortisation	45,488,940	40,798,661
Impairment loss on goodwill	2,664,604	–
Loss on disposal of property, plant and equipment	809,413	1,723,588
Staff costs		
– Directors’ emoluments	4,081,099	6,329,635
– Other staff		
– Salaries and other allowances	84,543,432	95,564,680
– Retirement benefit scheme contribution net of forfeited contribution of HK\$462,191 (2000: HK\$96,289)	555,191	1,055,200
	89,179,722	102,949,515
Operating lease rentals in respect of rented premises and after crediting:	9,768,649	6,491,677
Property rental income less negligible outgoings	477,623	–

4. Finance costs

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

5. Taxation

The charge represents Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year.

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.

6. Dividends

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Interim dividend paid in respect of 2001 of 8 cents (2000: 7 cents) per share	28,248,000	24,079,300
Final dividend proposed in respect of 2001 of 8 cents (2000: 7 cents) per share	29,756,000	24,544,800
	58,004,000	48,624,100

The final dividend in respect of 2001 of 8 cents (2000: 7 cents) per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting.

7. Earnings per share

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

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Earnings for the purposes of basic and diluted earnings per share		
– Net profit for the year	102,452,008	121,696,062
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	351,455,425	340,125,519
Effect of dilutive potential shares in respect of share options	4,656,307	4,001,636
Weighted average number of shares for the purpose of diluted earnings per share	356,111,732	344,127,155

DIVIDENDS

The Directors have resolved to recommend a final dividend of 8 cents per share for the year ended 31st December, 2001. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 29th May, 2002, the final dividend will be payable on 10th June, 2002 to shareholders whose names appear on the Register of Members of the Company on 29th May, 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23rd May, 2002 to 29th May, 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 22nd May, 2002 in order to qualify for the final dividend mentioned above.

BUSINESS REVIEW

Summary of results

2001 was a difficult year for the Group. The Group’s consolidated turnover and net profit decreased by 9% and 16% to HK\$547.0 million (2000: HK\$602.5 million) and HK\$102.5 million (2000: HK\$121.7 million) respectively in 2001. Earnings per share also decreased by 18% to 29.2 cents (2000: 35.8 cents) in 2001.

Original design manufacturing (ODM) division

As most of the customers of the Group’s ODM division were importers or distributors, they actively ran down their inventory level since the United States (“US”) economy began to slow down in the second half of 2000. This inventory reduction process had adversely affected the global demand of the Group’s products in 2001. The September 11 incident in the US further delayed the Group’s exports in the period between September to November of 2001. Sales to ODM customers decreased by 12% to HK\$483.6 million (2000: HK\$550.7 million) in 2001. US and Europe each accounted for 44% (2000: 48% and 40%) of the turnover of the Group’s ODM division. The Group continued its efforts to further diversify into higher margin metal and titanium frames. This diversification helped to relieve the pressure on the Group’s gross margin as a result of the decline in sales and production volume. Metal frames, handmade plastic frames, titanium frames, injection moulded plastic frames and spare parts accounted for 47%, 31%, 18%, 2% and 2% respectively of the Group’s turnover of ODM business in 2001 (2000: 40%, 46%, 11%, 2% and 1% respectively).

Distribution division

The Group’s 51% joint venture company with Rayner and Keeler Group of the United Kingdom reported its first full year results in 2001 and this contributed towards most of the increase in the Groups’ turnover of its distribution division. Sales of the Group’s own-branded and licensed branded products (including both optical frames and lenses) increased by 15% to HK\$34.5 million in 2001 (2000: HK\$30.1 million). Sales to Asia and Europe (mainly United Kingdom) accounted for 58% and 30% respectively of the Group’s turnover of distribution division in 2001 (2000: 86% and 12% respectively).

Retailing division

The Group continued to expand its retail chain “ARTS 1000” in mainland China and operated a total of 29 retail outlets in various major cities as at 31st December, 2001 (2000: 21 outlets) with 11 shops in Beijing, 7 shops in Shanghai, 7 shops in Shenzhen and 4 shops in Nanjing. The Group also launched another retail chain “SUNNY ARTS” specializing in selling high-end sunglasses in late 2001. As at 31st December, 2001, the Group operated a total of 13 SUNNY ARTS shops (7 shops in Guangzhou and 6 shops in Shenzhen). Turnover of the retail division increased by 33% in 2001 to HK\$28.9 million (2000: HK\$21.7 million). Performances were mixed during 2001 due to the different stages of development and scale of operations of the various outlets.

Financial position and liquidity

The financial position of the Group remained strong and healthy throughout 2001. As at 31st December, 2001, the Group did not have any bank borrowings (2000: HK\$4.0 million) and had a net cash position (bank and cash balances plus pledged bank deposits net of any bank borrowings) of HK\$156.9 million (2000: HK\$139.9 million). The current ratio of the Group as at 31st December, 2001 was 3.9 to 1 (2000: 2.9 to 1) with HK\$358.1 million of current assets (2000: HK\$343.2 million) and HK\$92.0 million of current liabilities (2000: HK\$117.4 million). Inventory turnover period (ratio of inventory balance to cost of sales) decreased from 94 days in 2000 to 90 days in 2001 as a result of the management’s continued efforts in monitoring and controlling inventory flow. Debtors turnover period (ratio of the total of debtors and discounted bills balances to sales) increased from 60 days in 2000 to 66 days in 2001 as export deliveries were more concentrated in the last month of 2001 after the September 11 incident in the United States, resulting in a higher level of debtor balances at the end of 2001.

As at 31st December, 2001, the Group had 353,450,000 shares (2000: 350,640,000 shares) in issue with a total shareholders’ funds amounting to HK\$507.4 million (2000: HK\$454.1 million). Net asset value per share was HK\$1.44 (2000: HK\$1.29). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over shareholders’ funds) were HK\$7.3 million (2000: HK\$7.3 million) and 1.4% (2000: 1.6%) respectively.

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

Pledge of assets

At 31st December, 2001, leasehold properties with an aggregate net book value amounting to approximately HK\$14,821,000 (2000: HK\$15,405,000) and bank deposits of approximately HK\$8,981,000 (2000: HK\$11,293,000) were pledged to banks to secure short term banking facilities granted to the Group.

Contingent liabilities

	The Group 2001 <i>HK\$</i>	2000 <i>HK\$</i>
Bills discounted with recourse	4,781,046	12,148,176

At 31st December, 2001, the Group had given a corporate guarantee in favour of the minority shareholder of a subsidiary to the extent of RMB1,020,000 (2000: RMB1,020,000) (approximately HK\$962,000 (2000: HK\$953,000)) 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 (2000: RMB2,000,000) (approximately HK\$1,887,000 (2000: HK\$1,869,000)) granted to this subsidiary.

Employee and remuneration policies

As at 31st December, 2001, the Group employed approximately 5,100 (2000: 5,160) 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 Group believes that the inventory reduction process of its ODM customers had been substantially completed in 2001 and is cautiously optimistic about the performance of its ODM division in the coming year. Market sentiment has been gradually improving since March, 2002, but any significant impact on the Group’s financial performance is only expected to be reflected in the last quarter of 2002. Strenuous efforts are being implemented by the management in enhancing its competitiveness in this business division by internal streamlining of its operations and implementation of a new enterprises resources planning system in January, 2002. Major emphasis will be placed on shortening delivery lead time, producing more innovative designs, improving quality of service and products as well as reduction of inventory carrying costs.

Distribution and Retailing Divisions

The Group will continue to adopt a cautious approach in developing its global distribution business and retail network in mainland China and firmly believes that execution is the key element in its diversification plan. The objectives of such diversification are to develop a long term recurrent income base for the Group and to strengthen the relationship between the Group and its ODM customers. The number of retailing outlets in mainland China is expected to double in the coming 12 to 18 months. Despite its rapid expansion, the Group does not expect its operations in mainland China to generate any significant return to its operating profits before 2004 because of the time required to achieve economies of scale under its current business plan.

Impact of Accession by China to the World Trade Organisation (“WTO”)

The Group believes that China's accession to the WTO in 2001 will have a mixed impact on the various business divisions within the Group. While the Group is currently not directly competing with its mainland counterparts in the ODM business due to the differences in the market focus and product segments, accession to the WTO will definitely facilitate mainland Chinese manufacturers to compete in the international optical arena. On the other hand, accession to WTO will bring long term favourable impact on the Group's distribution and retail businesses due to the increasing affluence of the general population, improvement in the overall regulatory environment and planned reductions in import duties as well as value added taxes.

Financial and cash flow management

The Group will continue its emphasis on balance sheet management and cash earnings. The core ODM division will continue to generate healthy cash inflow to the Group and any capital expenditure will be carefully evaluated before commitment and implementation. Diversification projects are currently under periodic review by management and adjustments will be made when necessary. Despite the business uncertainty discussed in preceding paragraphs, the management is confident that the Group will be able to maintain a satisfactory dividend payout in 2002.

Summary

Although the repercussions arising from the slowdown in the US economy in recent years and the September, 11 incident have created volatility and uncertainty on the business performance of the Group, the Directors believe that, given its guiding management principles of business diversification and financial prudence, the Group is able to cope with such challenges and is well positioned to capture any business opportunities ahead.

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.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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 (appointed on 6th February, 2001) and Francis George Martin, both of whom are independent non-executive directors of the Company. During the year, 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.

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.

By order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 12th April, 2002

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Arts Optical International Holdings Limited (the “Company”) will be held at Inter-Continental VI-VII, Hotel Inter-Continental Hong Kong, 18 Salisbury Road, Kowloon, Hong Kong on 29th May, 2002 at 3:30 p.m. for the following purposes:

- To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31st December, 2001;
- To declare a final dividend for the year ended 31st December, 2001;
- To re-elect the retiring Director and to authorise the Board of Directors to fix the Directors' remuneration;
- To re-appoint Deloitte Touche Tohmatsu as Auditors and to authorise the Board of Directors to fix their remuneration;
- As special business, to consider and, if thought fit, pass with or without amendments the following resolution which will be proposed as an ordinary resolution:

“**THAT:**

- subject to paragraph (b) below of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK\$0.10 each in the capital of the Company, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time, be and is hereby generally and unconditionally approved;
- the aggregate nominal amount of shares to be repurchased by the Company pursuant to the approval in paragraph (a) above of this resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of this resolution and the said approval shall be limited accordingly; and
- for the purpose of this resolution,
“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
 - the conclusion of the next annual general meeting of the Company;
 - the expiration of the period within which the next annual general meeting of the Company is required by the laws of Bermuda or the Bye-laws of the Company to be held; and
 - the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.”

- As special business, to consider and, if thought fit, pass with or without amendments the following resolution which will be proposed as an ordinary resolution:

“**THAT:**

- subject to paragraph (c) below of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options which would or might require the allotment of such shares, be and is hereby generally and unconditionally approved;
- the approval in paragraph (a) above of this resolution shall authorise the Directors during the Relevant Period (as hereinafter defined) to make or grant offers, agreements or options which would or might require the allotment of such shares after the end of the Relevant Period (as hereinafter defined);
- the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) above of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares as scrip dividends pursuant to the Bye-laws of the Company from time to time; (iii) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or any of its subsidiaries of shares or rights to subscribe for shares in the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company at the date of this resolution, and the said approval shall be limited accordingly; and
- for the purposes of this resolution,
“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
 - the conclusion of the next annual general meeting of the Company;
 - the expiration of the period within which the next annual general meeting of the Company is required by the laws of Bermuda or the Bye-laws of the Company to be held; and
 - the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.
“Rights Issue” means an offer of shares open for a period fixed by the Directors to the holders of shares on the register of members on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any applicable stock exchange).”

- As special business, to consider and, if thought fit, pass with or without amendments the following resolution which will be proposed as an ordinary resolution:

“**THAT** conditional upon the passing of resolutions no. 5 and 6 the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with additional shares pursuant to the said resolution no. 6 set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 5 set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company at the date of this Resolution”.

Notes:

- Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
- To be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notorially certified copy thereof 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 less than 48 hours before the time appointed for holding the meeting, or any adjournment thereof.
- The register of members of the Company will be closed from 23rd May, 2002, to 29th May, 2002 (both days inclusive), during which period no transfers of shares will be effected. In order to qualify for the proposed final dividend, 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, for registration not later than 4:00 p.m. on 22nd May, 2002 in Hong Kong.
- An explanatory statement containing further details regarding resolution No. 5 above will be sent to Shareholders together with the annual report of the Company for the year ended 31st December, 2001.

By order of the Board
Lee Wai Chung
Company Secretary

Hong Kong, 12th April, 2002