



ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1120)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2004

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, 2004 together with comparative figures for the corresponding period in 2003 are as follows:–

		Six months ended	
	Notes	30.6.2004 HK\$'000 (unaudited)	30.6.2003 HK\$'000 (unaudited)
Turnover	1	331,290	241,400
Cost of sales		(217,866)	(158,111)
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		(783)	(1,045)
Profit from operations	1 & 2	56,729	40,931
Finance costs	3	(28)	(22)
Profit before taxation		56,701	40,909
Taxation	4	(5,120)	(4,470)
Profit before minority interests		51,581	36,439
Minority interests		393	332
Net profit for the period		51,188	36,107
Dividend	5	34,122	56,531
Earnings per share			
– Basic	6	13.6 cents	9.6 cents
– Diluted	6	13.4 cents	9.5 cents

Notes:

1. SEGMENT INFORMATION

Geographical segments

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

	Six months ended			
	30.6.2004 Revenue HK\$'000	30.6.2004 Results HK\$'000	30.6.2003 Revenue HK\$'000	30.6.2003 Results HK\$'000
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
	331,290	58,886	241,400	41,460
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		56,729		40,931

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	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
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

3. FINANCE COSTS

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

4. TAXATION

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
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

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.

5. 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

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, dividend 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 of 2003 respectively.

6. EARNINGS PER SHARE

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

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

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.

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.

Financial position and liquidity

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 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 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.

Pledge of assets

At 30th June, 2004, leasehold properties with an aggregate net book value amounting to approximately HK\$7,544,000 (31st December, 2003: HK\$12,252,000) and bank deposits of approximately HK\$18,042,000 (31st December, 2003: HK\$18,037,000) were pledged to banks to secure short term banking facilities granted to the Group.

Contingent liabilities

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

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 (31st December, 2003: HK\$9,750,000). Full amount of such facilities was utilised at balance sheet dates.

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.

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.

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") in force prior to 31st March, 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1st July, 2004 under the transitional arrangements, 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, 2004, 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, 2004.

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Mr. Ng Hoi Ying, Michael, Ms. Hui Pui Woon, Mr. Ng Kim Ying and Mr. Lee Wai Chung and the independent non-executive directors are Mr. Francis George Martin and Mr. Kwong Kam Kwan Alex.

By order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 13th September, 2004

* For identification purpose only

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