



ARTS

# Chairman's Statement



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 AND PROSPECTS

### Original design manufacturing (ODM) division

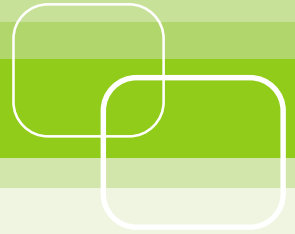
As most of the customers of the Group's ODM division were importers or distributors, they actively ran down their inventory level since the United States ("US") economy began to slow down in the second half of 2000. This inventory reduction process had adversely affected the global demand of the Group's 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).

## 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.

## 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



### **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.



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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 HK\$	2000 HK\$
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.

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## 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.

## APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere appreciation and thanks to our shareholders, customers, suppliers, bankers and staff for their effort and commitment.

**Ng Hoi Ying, Michael**

*Chairman*

Hong Kong, 12th April, 2002