

INTERIM REPORT 2008



Arts Group

Arts Optical International Holdings Limited
(Incorporated in Bermuda with limited liability) Stock code: 1120

CONTENTS

	<i>PAGE(S)</i>
CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	3-7
REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION	8-9
CONDENSED CONSOLIDATED INCOME STATEMENT	10
CONDENSED CONSOLIDATED BALANCE SHEET	11-12
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	13
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	14-15
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	16-23
SUPPLEMENTARY INFORMATION	24-28

CORPORATE INFORMATION

Board of directors

Executive directors

NG Hoi Ying, Michael – *Chairman*

NG Kim Ying

LEE Wai Chung

Independent non-executive directors

Francis George MARTIN

WONG Chi Wai

CHUNG Hil Lan Eric

Company secretary and qualified accountant

LEE Wai Chung

Auditor

Deloitte Touche Tohmatsu

Legal advisers

Allen & Overy

Conyers Dill & Pearman

Registered office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Head office and principal place of business in Hong Kong

Unit 308, 3rd Floor, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

Principal share registrar

The Bank of Bermuda Limited
6 Front Street, Hamilton HM 11
Bermuda

Hong Kong branch share registrar

Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

Principal bankers

Bank of China (Hong Kong) Limited
China Construction Bank (Asia)
Corporation Limited
China Construction Bank Corporation
Hong Kong Branch
Chong Hing Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited

Website

www.artsgroup.com

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Profitability review and analysis

2008 is a very challenging year for Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"). The Group's consolidated revenue increased by 10% to HK\$669.5 million (2007: HK\$609.4 million) whereas the profit attributable to the equity holders of the Company decreased by 9% to HK\$74.8 million (2007: HK\$81.9 million) in the six months ended 30th June, 2008. Basic earnings per share decreased by 9% to 19.5 HK cents (2007: 21.3 HK cents) in the period under review.

The gross margin of the Group continued to be under pressure in 2008. Gross profit margin declined by 3.7% from 28.5% in the first half of 2007 to 24.8% in the corresponding period of 2008. Although modest adjustments were made to the selling prices of the Group's products, this could not offset the effects of escalating raw material costs, labour wages, record energy prices and gradual appreciation of Renminbi. The implementation of the Labour Contract Law in mainland China on 1st January, 2008 as well as the shortage of skilful labour in Southern China pushed up the labour wages significantly and limited the flexibility of the production capacity during critically peak seasons.

Despite the general inflationary business environment in both Hong Kong and mainland China, the management succeeded in containing the increase in general expenses. Total expenses to revenue ratio decreased slightly by 0.1% from 15.6% in the first half of 2007 to 15.5% in the corresponding period of 2008. As a result of reduction of gross profit margin by 3.7%, the net profit margin (ratio of profit attributable to the equity holders of the Company to revenue) also decreased by 2.2% from 13.4% to 11.2% in the first six months of 2008.

Original design manufacturing (ODM) division

The slowdown in global economy since the middle of 2007 continued to affect the demand for the products of the core ODM division of the Group. Sales to ODM customers recorded a relatively modest growth rate of 10% from HK\$554.5 million in the first six months of 2007 to HK\$607.9 million in the period under review. Sales to Europe increased by 18% to HK\$411.4 million (2007: HK\$350.1 million) whereas sales to the United States remained flat at HK\$176.7 million (2007: HK\$177.4 million). On a geographical basis, sales to Europe, United States, Asia and other regions

accounted for 68%, 29%, 2% and 1% respectively of the sales of this division in the first six months of 2008 (2007: 63%, 32%, 3% and 2% respectively). Sales of prescription frames registered a satisfactory growth of 19% to HK\$324.2 million in the first half of 2008 (2007: HK\$271.3 million) whereas sales of sunglasses only grew by 1% to HK\$275.0 million in the same period (2007: HK\$273.0 million) as the market demand for sunglasses was generally more sensitive to the economic cycle. Sales of plastic frames, metal frames and spare parts accounted for 52%, 47% and 1% respectively of the sales of this division during the period under review (2007: 54%, 44% and 2% respectively).

Distribution and retailing divisions

For the purposes of optimizing efficiency and maximizing cross-selling opportunities, the Group had merged its two distribution companies under a single umbrella in March 2008. As an incentive to further improve the business performance, the Group had also sold a minority interest to the management team of the distribution division at the time of merger. Sales of the Group's own-branded and licensed branded products increased by 24% to HK\$55.9 million in the six months ended 30th June, 2008 (2007: HK\$45.0 million). Sales to Europe, Asia, North America and other regions accounted for 52%, 25%, 7% and 16% respectively of the Group's turnover of distribution division in the period under review (2007: 60%, 17%, 12% and 11% respectively). Double-digit sales growth was recorded in all major markets except for North America.

The Group has cut down the total number of retail shops by half by disposing all the 3 shops in Beijing and closing down 1 shop in Shenzhen in the first half of 2008. Turnover of the retailing division decreased by 42% to HK\$5.7 million in the first half of 2008 (2007: HK\$9.9 million). The Group operated a total of 4 shops in Shenzhen as at 30th June, 2008 (31st December, 2007: 5 shops in Shenzhen and 3 shops in Beijing).

Financial position and liquidity

During the period under review, the Group's operating activities generated a net cash inflow of HK\$70.2 million (2007: HK\$161.6 million) and the reduction was mainly due to the increase in working capital used (increase of inventory and debtors balances less increase in creditors balance) which amounted to HK\$41.0 million whereas a decrease in working capital of HK\$38.6 million was recorded in the first six months

of 2007. Capital expenditure incurred during the period amounted to HK\$59.7 million (2007: HK\$77.4 million) and dividend payment of HK\$30.7 million was made (2007: HK\$26.9 million). The net cash position of the Group (bank and cash balance less bank borrowing) decreased from HK\$71.6 million as at 31st December, 2007 to HK\$64.7 million as at 30th June, 2008.

The current ratio of the Group as at 30th June, 2008 was 2.2 to 1 (31st December, 2007: 2.1 to 1) with HK\$684.4 million of current assets (31st December, 2007: HK\$679.1 million) and HK\$305.9 million of current liabilities (31st December, 2007: HK\$325.2 million). The management continued its efforts of cutting down the delivery lead time for production and inventory turnover period (ratio of inventory balance to cost of sales) decreased slightly to 79 days in the first six months of 2008 from 80 days of the corresponding period of 2007 (or 83 days for the full year of 2007). On the other hand, customers were generally demanding longer credit period under the current sluggish economic environment and debtors turnover period (ratio of the trade debtors to sales) increased from 95 days in the first six months of 2007 (or 98 days for the full year of 2007) to 101 days in the first half of 2008.

The Group had 383,650,000 shares in issue as at both 30th June, 2008 and 31st December, 2007 with an equity attributable to equity holders of the Company amounting to HK\$977.4 million and HK\$907.9 million as at 30th June, 2008 and 31st December, 2007 respectively. Net asset value per share (equity attributable to equity holders of the Company divided by the total number of shares in issue) as at 30th June, 2008 was HK\$2.55 (31st December, 2007: HK\$2.37). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity attributable to equity holders of the Company) were HK\$16.7 million (31st December, 2007: HK\$16.6 million) and 1.7% (31st December, 2007: 1.8%) 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, except to the extent of the gradual continuous appreciation of Renminbi against United States dollars and Hong Kong dollars.

Prospects*ODM division*

The management does not expect any significant rebound in market demand in the American and European markets in the second half of year 2008. Although customers are still cautious in their business expansion and procurement plan, the Group still manages to have a stable order book of three months sales order. The growth in the ODM business in the first half of 2008 suggests that the Group may be gaining market share in the ODM market as the Group has become a strategic vendor of most of the industry leaders which view the Group as a reliable and quality partner in its supply chain.

Distribution and retailing divisions

The performance of the distribution division in the first half of 2008 demonstrated the success of the merger of the two distribution companies of the Group. More marketing resources will be devoted to boost the sales performance of owned and licensed brands through the enlarged network of distributors. Although this division still only accounts for a relatively small portion of the Group's business, it will gradually evolve as the long term growth driver of the Group given its potential sales growth rate as well as higher margin contribution.

After the implementation of the down-sizing exercise of the retailing operations in recent years, the management expects the contribution of its retailing division will continue to remain relatively limited and will keep on evaluating its business value to the Group.

Liquidity and financial management

The management will continue to follow its guiding principles of prudent financial management which is particularly important under the current volatile and uncertain business environment. The Group has raised a HK\$50 million five years term loan from its bank for the purposes of capital contribution to its wholly-owned manufacturing subsidiary in Shenzhen in July 2008 and the funds will be used for long term capital expenditure of this subsidiary. As at 12th September, 2008, the Group had a net cash position (bank and cash balance less bank borrowing) of approximately HK\$86.3 million.

Summary

The Group is now experiencing the most challenging business environment since the shares of the Company were listed 12 years ago. Despite this, the management believes that the Group's solid financial position and earning capability enable the Group to meet these challenges and seize any new business opportunities.

Employee and remuneration policies

The Group employed approximately 12,500 full time staff in mainland China, Hong Kong and Europe as at 30th June, 2008 (31st December, 2007: 12,000). The Group remunerates its employees based on their performances, experiences, qualifications and prevailing market salaries 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, provident fund schemes as well as a share option scheme.

Ng Hoi Ying, Michael

Chairman

Hong Kong, 18th September, 2008

Deloitte.
德勤

德勤·關黃陳力會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF
ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 10 to 23, which comprises the condensed consolidated balance sheet of Arts Optical International Holdings Limited as of 30th June, 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

18th September, 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	NOTES	Six months ended	
		30.6.2008 HK\$'000 (unaudited)	30.6.2007 HK\$'000 (unaudited)
Revenue	3	669,473	609,420
Cost of sales		(503,709)	(435,573)
Gross profit		165,764	173,847
Other income		21,897	11,639
Distribution and selling expenses		(22,743)	(19,805)
Administrative expenses		(75,540)	(74,477)
Other expenses		(4,967)	(753)
Finance costs	4	(479)	(124)
Profit before taxation		83,932	90,327
Taxation	5	(8,580)	(8,706)
Profit for the period	6	75,352	81,621
Attributable to:			
Equity holders of the parent		74,765	81,893
Minority interests		587	(272)
		75,352	81,621
Dividend paid	7	30,692	26,856
Earnings per share	8		
– Basic		19.5 HK cents	21.3 HK cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2008

	NOTES	30.6.2008 HK\$'000 (unaudited)	31.12.2007 HK\$'000 (audited)
Non-current Assets			
Investment property	9	7,400	7,400
Property, plant and equipment	10	547,771	501,674
Prepaid lease payments		35,109	33,565
Deposits paid for acquisition of property, plant and equipment		5,177	4,783
Intangible assets		4,680	4,680
Loan receivable	11	13,572	14,137
Available-for-sale investments		5,858	5,858
Deferred tax assets		53	53
		<hr/>	
		619,620	572,150
		<hr/>	
Current Assets			
Inventories		218,973	210,980
Debtors, deposits and prepayments	12	378,111	353,241
Loan receivable	11	2,262	2,262
Prepaid lease payments		878	834
Tax recoverable		–	108
Short-term bank deposit		5,001	7,506
Bank balances and cash		79,133	100,934
		<hr/>	
		684,358	675,865
Assets classified as held for sale		–	3,227
		<hr/>	
		684,358	679,092
		<hr/>	

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AT 30TH JUNE, 2008

	NOTES	30.6.2008 HK\$'000 (unaudited)	31.12.2007 HK\$'000 (audited)
Current Liabilities			
Creditors and accrued charges	13	277,447	286,348
Bank borrowings	14	19,419	36,835
Tax liabilities		9,061	1,967
		<hr/>	
		305,927	325,150
		<hr/>	
Net Current Assets		378,431	353,942
		<hr/>	
Total Assets less Current Liabilities		998,051	926,092
		<hr/>	
Capital and Reserves			
Share capital		38,365	38,365
Reserves		939,022	869,551
		<hr/>	
Equity attributable to equity holders of the parent		977,387	907,916
Minority interests		3,989	1,552
		<hr/>	
Total Equity		981,376	909,468
		<hr/>	
Non-current Liabilities			
Deferred tax liabilities		15,566	15,566
Loan from a minority shareholder of a subsidiary		1,109	1,058
		<hr/>	
		16,675	16,624
		<hr/>	
		998,051	926,092
		<hr/>	

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	Attributable to equity holders of the parent							Minority interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1st January, 2007 (audited)	38,365	113,950	(3,269)	645	17,742	586,775	754,208	142	754,350
Exchange differences arising on translation of foreign operation recognised directly in equity	-	-	-	-	11,101	-	11,101	130	11,231
Profit (loss) for the period	-	-	-	-	-	81,893	81,893	(272)	81,621
Total recognised income and expense for the period	-	-	-	-	11,101	81,893	92,994	(142)	92,852
Dividend paid	-	-	-	-	-	(26,856)	(26,856)	-	(26,856)
Deemed contribution from a minority shareholder of a subsidiary	-	-	-	272	-	-	272	-	272
At 30th June, 2007 (unaudited)	38,365	113,950	(3,269)	917	28,843	641,812	820,618	-	820,618
At 1st January, 2008 (audited)	38,365	113,950	(3,269)	1,023	44,563	713,284	907,916	1,552	909,468
Exchange differences arising on translation of foreign operation recognised directly in equity	-	-	-	-	25,398	-	25,398	112	25,510
Profit for the period	-	-	-	-	-	74,765	74,765	587	75,352
Total recognised income for the period	-	-	-	-	25,398	74,765	100,163	699	100,862
Dividend paid	-	-	-	-	-	(30,692)	(30,692)	-	(30,692)
Disposal of partial interests in a subsidiary	-	-	-	-	-	-	-	1,738	1,738
At 30th June, 2008 (unaudited)	38,365	113,950	(3,269)	1,023	69,961	757,357	977,387	3,989	981,376

Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the surplus account of Allied Power Inc., pursuant to the group reorganisation in 1996.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	Six months ended	
	30.6.2008 HK\$'000 (unaudited)	30.6.2007 HK\$'000 (unaudited)
NET CASH FROM OPERATING ACTIVITIES	70,220	161,568
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(59,102)	(75,370)
Additions to prepaid lease payments	(562)	(2,030)
Deposits paid for acquisition of property, plant and equipment	(5,177)	(22,318)
Proceeds from disposal of partial interests in a subsidiary	4,990	–
Proceeds from disposal of assets classified as held for sale	9,253	–
Proceeds from disposal of property, plant and equipment	386	65
Interest received	178	743
Repayment of loan receivable	565	1,018
NET CASH USED IN INVESTING ACTIVITIES	(49,469)	(97,892)
FINANCING ACTIVITIES		
Dividend paid	(30,692)	(26,856)
Interest paid	(428)	(79)
Repayment of bank loans	(48,445)	–
Advance from a minority shareholder of a subsidiary	–	525
New bank loans raised	31,029	–
NET CASH USED IN FINANCING ACTIVITIES	(48,536)	(26,410)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Continued)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

	Six months ended	
	30.6.2008 HK\$'000 (unaudited)	30.6.2007 HK\$'000 (unaudited)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(27,785)	37,266
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	108,440	69,134
Effect of foreign exchange rate changes	3,479	920
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	84,134	107,320
REPRESENTED BY		
Short-term bank deposit	5,001	–
Bank balances and cash	79,133	107,320
	84,134	107,320

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2008

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment property which is measured at fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st January, 2008.

HK(IFRIC) - Int 11	HKFRS 2 : Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) - Int 13	Customer Loyalty Programmes ³
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

¹ Effective for annual periods beginning on or after 1st January, 2009.

² Effective for annual periods beginning on or after 1st July, 2009.

³ Effective for annual periods beginning on or after 1st July, 2008.

⁴ Effective for annual periods beginning on or after 1st October, 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION**Revenue**

Revenue represents the amounts received and receivable for goods sold to outside customers during the period.

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.

3. SEGMENT INFORMATION (Continued)**Geographical segments**

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China (the "PRC"). Segment information of the Group by location of customers is presented as below:

	Six months ended			
	30.6.2008 Revenue HK\$'000	30.6.2008 Results HK\$'000	30.6.2007 Revenue HK\$'000	30.6.2007 Results HK\$'000
Europe	440,426	78,778	377,116	75,918
United States	180,472	31,995	181,451	35,958
Asia	32,102	12,722	36,262	7,366
Other regions	16,473	1,737	14,591	2,245
	<u>669,473</u>	<u>125,232</u>	<u>609,420</u>	121,487
Unallocated income		4,898		4,285
Unallocated corporate expenses		(45,897)		(36,064)
Interest income on bank deposits		178		743
Finance costs		(479)		(124)
Profit before taxation		83,932		90,327
Taxation		(8,580)		(8,706)
Profit for the period		<u>75,352</u>		<u>81,621</u>

4. FINANCE COSTS

	Six months ended	
	30.6.2008 HK\$'000	30.6.2007 HK\$'000
Interest on bank borrowings wholly repayable within five years	428	79
Imputed interest on loan from a minority shareholder of a subsidiary	51	45
	<u>479</u>	<u>124</u>

5. TAXATION

	Six months ended	
	30.6.2008 HK\$'000	30.6.2007 HK\$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	8,580	9,846
Deferred taxation		
Current year	-	(1,140)
	8,580	8,706

Hong Kong Profits Tax is recognised based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profits tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the current tax for the six months ended 30th June, 2008. The estimated average annual tax rate used is 16.5% (2007: 17.5%) for the six months ended 30th June, 2008. The change in tax rate has no material impact on deferred tax balances.

PRC enterprise income tax is calculated at the applicable rates in accordance with the relevant rules and regulations in the PRC.

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 of the Company, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for the period.

6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2008 HK\$'000	30.6.2007 HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	503,709	435,573
Depreciation of property, plant and equipment	38,893	32,735
Gain on disposal of assets classified as held for sale	6,226	–
Gain on disposal of partial interests in a subsidiary	4,442	–
Loss (gain) on disposal of property, plant and equipment	63	(28)
Net foreign exchange loss (gain)	4,435	(3,836)
Release of prepaid lease payments	412	340
	<hr/>	<hr/>

7. DIVIDEND PAID

	Six months ended	
	30.6.2008 HK\$'000	30.6.2007 HK\$'000
Final dividend paid in respect of 2007 of 8 HK cents (2007: 7 HK cents in respect of 2006) per share	<hr/> 30,692	<hr/> 26,856

The interim dividend in respect of 2008 of 7 HK cents (2007: 8 HK cents) per share amounting to a total of HK\$26,856,000 (2007: HK\$30,692,000) has been declared by the board of directors of the Company on 18th September, 2008.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended	
	30.6.2008 HK\$'000	30.6.2007 HK\$'000
Earnings for the purpose of basic earnings per share	<hr/> 74,765	<hr/> 81,893
	<i>Number of shares</i>	
Number of shares for the purpose of basic earnings per share	<hr/> 383,650,000	<hr/> 383,650,000

9. INVESTMENT PROPERTY

The Group's investment property was fair-valued by the directors of the Company at 30th June, 2008. There were no material changes in fair value on the investment property as at 30th June, 2008.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK\$59,102,000 (six months ended 30th June, 2007: HK\$75,370,000).

11. LOAN RECEIVABLE

The amount is secured and carries interest at fixed interest rate at 5% per annum.

12. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30 days to 120 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$371,445,000 (31st December, 2007: HK\$347,158,000), an aging analysis of which at the balance sheet date is as follows:

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Current	288,474	272,264
1 to 90 days overdue	80,356	72,526
More than 90 days overdue	2,615	2,368
	<hr/> 371,445	<hr/> 347,158

13. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$173,428,000 (31st December, 2007: HK\$179,403,000), an aging analysis of which at the balance sheet date is as follows:

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Current	153,739	118,146
1 to 90 days overdue	15,351	52,120
More than 90 days overdue	4,338	9,137
	<hr/> 173,428	<hr/> 179,403

14. BANK BORROWINGS

	30.6.2008	31.12.2007
	HK\$'000	HK\$'000
The bank borrowings, which are due within one year, comprise:		
Unsecured bank loans	19,419	23,223
Discounted bills receivable with full recourse	–	1,199
Trust receipt loan	–	12,413
	19,419	36,835

All of the Group's bank borrowings are variable-rate borrowings which carry interest at LIBOR plus certain basis points and subject to cash flow interest rate risk.

15. CAPITAL COMMITMENTS

	30.6.2008	31.12.2007
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements:		
– buildings under construction	17,971	27,146
– leasehold improvements	1,578	1,125
– plant and machinery	11,727	8,450
– furniture, fixtures and office equipment	1,100	–
	32,376	36,721

16. CONTINGENT LIABILITIES

	30.6.2008	31.12.2007
	HK\$'000	HK\$'000
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	9,750	9,750

The directors of the Company consider that the fair values of the financial guarantee contract at its initial recognition and 31st December, 2007 and 30th June, 2008 are insignificant on the basis of short maturity periods and low applicable default rates. The Group has not recognised any deferred income in the condensed consolidated financial statements in relation to the above mentioned guarantee as its fair value is considered not significant.

17. RELATED PARTY TRANSACTIONS**Compensation of key management personnel**

The remuneration of directors of the Company and other members of key management during the period was as follows:

	Six months ended	
	30.6.2008 HK\$'000	30.6.2007 HK\$'000
Short-term benefits	2,963	3,155
Post-employment benefits	102	112
	<hr/>	<hr/>
	3,065	3,267

The remuneration of executive directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends. The remuneration of independent non-executive directors was approved by the shareholders of the Company at the annual general meetings.

SUPPLEMENTARY INFORMATION

Dividend

The board of directors of the Company (the "Board") has resolved to declare an interim dividend of 7 HK cents per share for the six months ended 30th June, 2008 (2007: 8 HK cents per share). The interim dividend will be payable on 20th October, 2008 to shareholders whose names appear on the register of members of the Company on 13th October, 2008.

Closure of Register of Members

The register of members of the Company will be closed from 10th October, 2008 to 13th October, 2008, 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, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 9th October, 2008 in order to qualify for the interim dividend mentioned above.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code during the six months ended 30th June, 2008.

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, 2008.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30th June, 2008, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Shares in the Company (Long Position)

Name of Director	Number of issued ordinary shares held		Total	Approximate percentage of issued share capital of the Company
	Personal interests	Other interests		
Ng Hoi Ying, Michael	2,856,000	151,000,000 (Note a)	153,856,000	40.10%
Ng Kim Ying	950,000	18,500,000 (Note b)	19,450,000	5.07%
Lee Wai Chung	2,750,000	–	2,750,000	0.72%

Notes:

- (a) These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly-owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Hoi Ying, Michael.
- (b) These shares were held by Universal Honour Developments Limited ("Universal Honour"). The entire issued share capital of Universal Honour was held by Rainbow City Investment Limited which was wholly-owned by HSBC International Trustee Limited as trustee for The Optical 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Kim Ying.

Save as disclosed above, as at 30th June, 2008, none of the Directors and the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Options

At the 2003 Annual General Meeting, the Company's share option scheme adopted on 24th October, 1996 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted in order to comply with the amendments to Chapter 17 of the Listing Rules in relation to share option schemes. All the share options granted under the Old Share Option Scheme have been exercised or have lapsed before 1st January, 2008. No share option under the New Share Option Scheme has been granted since its adoption.

Interests and Short Positions of Substantial Shareholders

As at 30th June, 2008, other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Position)

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of issued share capital of the Company
Allianz SE	Held by controlled corporation	38,353,990 (Note a)	10.00%
Allianz Finanzbeteiligungs GmbH	Held by controlled corporation	38,353,990 (Note a)	10.00%
Dresdner Bank Aktiengesellschaft	Held by controlled corporation	38,353,990 (Note a)	10.00%
Dresdner Bank Luxembourg S.A.	Held by controlled corporation	38,353,990 (Note a)	10.00%
Dresdner VPV N.V.	Beneficial owner	38,353,990 (Note a)	10.00%
David Michael Webb	Beneficial owner	3,224,000	0.84%
	Held by controlled corporation	19,900,000 (Note b)	5.19%
Preferable Situation Assets Limited	Beneficial owner	19,900,000 (Note b)	5.19%
Mondrian Investment Partners Limited	Beneficial owner	19,244,000	5.02%

Notes:

- (a) Dresdner VPV N.V. ("DVPV") (formerly known as Veer Palthe Voûte NV) was a wholly-owned subsidiary of Dresdner Bank Luxembourg S.A. ("DB Lux") which was in turn a wholly-owned subsidiary of Dresdner Bank Aktiengesellschaft ("DBA"). DBA was 81.1% owned by Allianz Finanzbeteiligungs GmbH ("AFG") which was in turn 100% owned by Allianz SE ("Allianz"). Being the controlling corporations of DVPV, DB Lux, DBA, AFG and Allianz were also deemed to be interested in the 38,353,990 shares held by DVPV under Part XV of the SFO.
- (b) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. David Michael Webb was deemed to be interested in the 19,900,000 shares held by PSAL under Part XV of the SFO.

All the interests stated above represent long position. Save as disclosed above, as at 30th June, 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO recorded no other person as having a notifiable interests or short positions in the issued share capital of the Company.

Corporate Governance

The Company has complied with all applicable code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30th June, 2008 except for deviations from code provision A.2.1 of the CG Code only. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and Chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group and the Company. The Board intends to maintain this structure in future as it believes that this structure ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and the management of the Company.

An Audit Committee has been established by the Company since 1998 to act in an advisory capacity and make recommendations to the Board. The Audit Committee currently comprises Messrs. Wong Chi Wai (chairman of the Audit Committee), Chung Hil Lan Eric and Francis George Martin, all of whom are independent non-executive Directors of the Company. The duties of the Audit Committee include review of the interim and annual reports of the Group as well as various auditing, financial reporting and internal control matters with the management and/or external auditors of the Company. The Group's unaudited financial statements for the six months ended 30th June, 2008 have been reviewed by the Audit Committee and the Company's auditor, Messrs. Deloitte Touche Tohmatsu.

A Remuneration Committee has been established by the Company since 2003 and currently comprises Messrs. Francis George Martin (chairman of the Remuneration Committee), Wong Chi Wai and Chung Hil Lan Eric, all of whom are independent non-executive Directors of the Company. The duties of the Remuneration Committee include the determination of remuneration of executive Directors of the Company and review of remuneration policy of the Group.