ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

FINAL RESULTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

FINAL RESULTS

The Board of Directors (the "Board") of Arts Optical International Holdings Limited (the "Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2006 together with last year's comparative figures are as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2006

	NOTES	**2006** *HK$'000*	2005 *HK$'000*
Revenue	2	**1,098,960**	791,624
Cost of sales		**(783,330)**	(569,555)
Gross profit		**315,630**	222,069
Other income	3	**42,688**	11,117
Distribution costs		**(49,300)**	(33,075)
Administrative expenses		**(112,597)**	(91,938)
Other expenses		**(15,327)**	(2,207)
Finance costs	5	**(49)**	(21)
Profit before taxation		**181,045**	105,945
Taxation	6	**(17,676)**	(10,217)
Profit for the year	7	**163,369**	95,728
Attributable to:			
Equity holders of the parent		**166,483**	95,961
Minority interests		**(3,114)**	(233)
		163,369	95,728
Dividends	8		
– Declared		**53,711**	68,650
– Proposed		**26,856**	26,856
		80,567	95,506
Earnings per share	9		
– Basic		**43.4 HK cents**	25.2 HK cents
– Diluted		**N/A**	25.1 HK cents

CONSOLIDATED BALANCE SHEET
AT 31ST DECEMBER, 2006

	2006	2005
	HK$'000	*HK$'000*
Non-current Assets		
Investment property	**4,800**	3,600
Property, plant and equipment	**350,373**	254,745
Prepaid lease payments	**26,145**	40,598
Intangible assets	**4,680**	–
Loan receivable	**15,229**	17,589
Goodwill	**–**	1,274
Available-for-sale investments	**5,858**	13,358
Deferred tax assets	**53**	53
	407,138	331,217
Current Assets		
Inventories	**184,621**	162,300
Debtors, deposits and prepayments	**348,784**	248,385
Loan receivable	**2,247**	2,262
Prepaid lease payments	**652**	972
Tax recoverable	**265**	263
Bank balances and cash	**69,134**	65,006
	605,703	479,188
Current Liabilities		
Creditors and accrued charges	**234,442**	170,206
Tax liabilities	**10,381**	425
	244,823	170,631
Net Current Assets	**360,880**	308,557
Total Assets less Current Liabilities	**768,018**	639,774
Capital and Reserves		
Share capital	**38,365**	38,365
Reserves	**715,843**	584,844
Equity attributable to equity holders of the parent	**754,208**	623,209
Minority interests	**142**	3,256
Total equity	**754,350**	626,465
Non-current Liabilities		
Deferred tax liabilities	**13,054**	13,309
Loan from a minority shareholder of a subsidiary	**614**	–
	13,668	13,309
	768,018	639,774

Notes:

1. **APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")**

   In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("INTs") ("new HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

   The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material financial impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2009.
[3] Effective for annual periods beginning on or after 1st March, 2006.
[4] Effective for annual periods beginning on or after 1st May, 2006.
[5] Effective for annual periods beginning on or after 1st June, 2006.
[6] Effective for annual periods beginning on or after 1st November, 2006.
[7] Effective for annual periods beginning on or after 1st March, 2007.
[8] Effective for annual periods beginning on or after 1st January, 2008.

2. SEGMENT INFORMATION

Revenue

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

Business segments

The Group is principally engaged in the design, manufacture and sales of optical products. No business segment analysis is presented as management considers this as one single business segment.

Geographical segments

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

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

For the year ended 31st December, 2006

	Europe	**United States**	**Asia**	**Other regions**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue					
External sales	**708,957**	**291,866**	**69,925**	**28,212**	**1,098,960**
Result					
Segment result	**149,340**	**63,900**	**18,581**	**4,158**	**235,979**
Unallocated income					**20,956**
Unallocated corporate expenses					**(76,853)**
Interest income on bank deposits					**1,012**
Finance costs					**(49)**
Profit before taxation					**181,045**
Taxation					**(17,676)**
Profit for the year					**163,369**

For the year ended 31st December, 2005

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	464,088	232,167	65,537	29,832	791,624
Result					
Segment result	94,663	44,475	14,364	4,597	158,099
Unallocated income					3,136
Unallocated corporate expenses					(56,463)
Interest income on bank deposits					1,194
Finance costs					(21)
Profit before taxation					105,945
Taxation					(10,217)
Profit for the year					95,728

3. OTHER INCOME

Included in other income are:

	2006	2005
	HK$'000	*HK$'000*
Sales of scrap materials	**12,861**	6,333
Compensation from customers	**5,444**	412
Increase in fair value of investment property	**1,200**	400
Interest income on bank deposits	**1,012**	1,194
Property rental income less negligible outgoings	**290**	286
Dividend income from available-for-sale investments	**940**	416
Net gain on disposal of prepaid lease payments and property, plant and equipment	**18,045**	–
Royalty income on intangible assets	**1,873**	–
Net foreign exchange gains	**–**	1,564

4. INCOME STATEMENT CLASSIFICATION

Included in cost of sales is an amount of HK$15,645,000 (2005: HK$3,342,000) in respect of a write-down of raw materials, work in progress and finished goods to their estimated net realisable values.

5. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank borrowing wholly repayable within five years	**15**	21
Imputed interest on loan from a minority shareholder of a subsidiary	**34**	–
	49	21

6. TAXATION

	2006	2005
	HK$'000	*HK$'000*
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	**16,822**	7,541
– Under (over) provision in respect of prior years	**1,109**	(614)
	17,931	6,927
Deferred taxation		
– Current year	**1,356**	3,290
– Overprovision in respect of prior year	**(1,611)**	–
	(255)	3,290
	17,676	10,217

Hong Kong Profits Tax is calculated at 17.5% on 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 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 both years.

7. PROFIT FOR THE YEAR

	2006	2005
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Auditors' remuneration	**1,408**	1,289
Cost of inventories recognised as an expense	**783,330**	569,555
Depreciation of property, plant and equipment	**56,531**	49,105
Impairment loss on goodwill	**1,274**	–
Impairment loss recognised in respect of available-for-sale investments	**7,500**	–
Loss on disposal of property, plant and equipment	**4,680**	1,400
Net foreign exchange loss	**5,476**	–
Operating lease rentals in respect of rented premises	**6,485**	7,218
Release of prepaid lease payments	**900**	970
Staff costs:		
Directors' emoluments	**2,907**	2,585
Other staff		
– Salaries and other allowances	**206,023**	148,848
– Retirement benefit scheme contributions	**1,118**	1,010
Total staff costs	**210,048**	152,443

8. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year:		
Final dividend paid in respect of 2005 of 7 HK cents (2004: 9 HK cents) per share	**26,856**	34,122
Interim dividend paid in respect of 2006 of 7 HK cents (2005: 9 HK cents) per share	**26,855**	34,528
	53,711	68,650
Final dividend proposed in respect of 2006 of 7 HK cents (2005: 7 HK cents) per share	**26,856**	26,856
	80,567	95,506

The final dividend in respect of 2006 of 7 HK cents (2005: 7 HK cents) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share	**166,483**	95,961
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	**383,650,000**	380,692,192
Effect of dilutive potential shares in respect of share options	**–**	2,015,810
Weighted average number of shares for the purpose of diluted earnings per share	**383,650,000**	382,708,002

DIVIDENDS

The directors of the Company (the "Directors") have resolved to recommend a final dividend of 7 HK cents per share for the year ended 31st December, 2006. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 23rd May, 2007, the final dividend will be payable on 20th June, 2007 to shareholders whose names appear on the register of members of the Company on 23rd May, 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21st May, 2007 to 23rd May, 2007, 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 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 18th May, 2007 in order to qualify for the proposed final dividend mentioned above.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Wednesday, 23rd May, 2007. For details of the annual general meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 27th April, 2007.

BUSINESS REVIEW

Summary of results

The Group's consolidated revenue and profit attributable to the equity holders of the Company increased by 39% and 73% to HK$1,099.0 million and HK$166.5 million respectively (2005: HK$791.6 million and HK$96.0 million respectively) in the year ended 31st December 2006. The Group also recorded a net gain of HK$18.1 million from the disposal of two pieces of vacant land in Shenzhen during the year ended 31st December 2006. The profit attributable to equity holders of the Company would have increased by 55% to HK$148.4 million if this one-off gain of land disposal was excluded. Basic earnings per share increased by 72% to 43.4 HK cents (2005: 25.2 HK cents) in 2006.

The Group's gross margin was still under severe pressure arising from adverse trends in its various cost factors including higher raw material costs, labour wages, record energy prices and gradual appreciation of Renminbi. Despite the above challenges, the trend of declining gross profit margin percentage (ratio of gross profit to revenue) since 2003 was reversed in 2006, primarily due to the positive effects of the economies of scale. The output volume of the Group's products had increased by 28% in 2006. Gross profit margin percentage improved by 0.6% from 28.1% in 2005 to 28.7% in 2006. Net profit margin percentage (ratio of profit attributable to the equity holders of the Company to revenue) also increased by 3.0% from 12.1% in 2005 to 15.1% (or by 1.4% to 13.5% after excluding the above one-off gain of land disposal) in 2006.

Original design manufacturing (ODM) division

To cope with the demand for the Group's products and meet the challenge from an industry which is increasingly fashion-focused, substantial capital expenditure had been incurred by the Group since 2004 for the expansion of the production capacity and upgrading of the product quality. As a result, sales to ODM customers increased by 38% from HK$719.7 million in 2005 to HK$996.6 million in 2006. Sales to Europe and the United States registered a satisfactory growth rates of 51% and 25% and increased to HK$661.8 million and HK$285.7 million respectively (2005: HK$438.0 million and HK$228.0 million respectively) in 2006. On a geographical basis, sales to Europe, United States, Asia and other regions accounted for 66%, 29%, 3% and 2% respectively of the sales of this division in 2006 (2005: 61%, 32%, 5% and 2% respectively). The strong market demand for sunglasses with fashion labels, especially those made of acetate plastic materials with trendy designs, continued in 2006. Sales of sunglasses registered a strong growth rate of 54% in 2006 to HK$444.0 million (2005: HK$287.8 million). Meanwhile, sales of prescription frames also recorded a satisfactory growth rate of 29% to HK$534.9 million (2005: HK$413.9 million). Sales of metal frames, plastic frames and spare parts accounted for 49%, 49% and 2% respectively in 2006 (2005: 52%, 46% and 2% respectively).

Distribution and retailing divisions

The Group's distribution division continued to report encouraging results in 2006. Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) recorded a strong growth of 63% to HK$86.4 million in 2006 (2005: HK$53.1 million). Sales to Europe, Asia, North America and other regions increased by 67%, 131%, 25% and 3% respectively and accounted for 50%, 28%, 11% and 11% respectively of the Group's turnover of distribution division in 2006 (2005: 49%, 20%, 14% and 17% respectively). Leveraging on an extensive global distribution network of over 30 distributors, STEPPER eyewear, the German brand owned by the Group, remained as the best selling brand and key growth engine among the brand portfolio of this division. FIORUCCI eyewear, the licensed Italian fashion brand, also recorded strong business growth in both Europe and Asia. The Group also launched a new house brand, OOPZ eyewear, targeting at the youth market in Asia in the last quarter of 2006.

As a result of the closure of some non-performing shops in both Beijing and Shenzhen and temporary closure of its flagship shop in Shenzhen for renovation works, turnover of the retailing division decreased by 15% to HK$16.0 million in 2006 (2005: HK$18.8 million). As at 31st December, 2006, the Group operated a total of 13 shops (31st December, 2005: 18) including 8 shops in Beijing and 5 shops in Shenzhen (31st December, 2005: 10 and 8 respectively).

Financial position and liquidity

The Group generated HK$162.6 million net cash inflow from its operating activities in 2006 (2005: HK$109.1 million). Capital expenditure which was wholly financed by the Group's internal resources had increased substantially to HK$146.7 million in 2006 (2005: HK$92.5 million). Dividend payments amounted to HK$53.7 million were also made during the year (2005: HK$68.7 million). The net cash position of the Group (bank and cash balance less bank borrowing, if any) increased from HK$65.0 million as at 31st December, 2005 to HK$69.1 million as at 31st December, 2006. The Group did not have any interest bearing borrowings at the end of both years of 2006 and 2005.

The current ratio of the Group as at 31st December, 2006 was 2.5 to 1 (2005: 2.8:1) with HK$605.7 million of current assets (2005: HK$479.2 million) and HK$244.8 million of current liabilities (2005: HK$170.6 million). As a result of the strenuous efforts made by the management including internal streamlining of the operations and installations of more advanced semi-automatic equipment, the inventory turnover period (ratio of inventory balance to cost of sales) decreased from 104 days in 2005 to 86 days in 2006. Such a reduction in delivery lead time was crucial in maintaining the competitive edge of the Group in this industry. Debtors turnover period (ratio of the total of debtor and discounted bills balances, if any, to revenue) increased slightly by 3 days to 111 days in 2006 (2005 : 108 days).

The Group had 383,650,000 shares in issue as at both 31st December, 2006 and 31st December, 2005 with an equity attributable to equity holders of the Company amounting to HK$754.2 million and HK$623.2 million as at 31st December, 2006 and 31st December, 2005 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 31st December, 2006 was HK$1.97 (31st December, 2005: HK$1.62). 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$13.7 million (31st December, 2005: HK$13.3 million) and 1.8% (31st December, 2005: 2.1%) respectively.

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either United States dollars, Hong Kong dollars and Renminbi and the exchange rates movements between these currencies were relatively stable during the year, except to the extent of the gradual continuous appreciation of Renminbi against both the United States dollars and Hong Kong dollars.

Contingent Liabilities

	2006	2005
	HK$'000	*HK$'000*
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	**9,687**	9,750

The Directors considered that the fair values of these financial guarantee contract at its initial recognition is insignificant on the basis of short maturity periods and low applicable default rates. The financial guarantee contract has not been recognised in the consolidated financial statements.

PROSPECTS

ODM Division

The primary challenges that the Group will be facing include:

(a) fluctuating commodity prices and shortage of skilful labour in China which push up the cost structure of the Group's products on a long term basis;

(b) risks of slowdown in the American economy as the United States is the single largest export market of the Group and its key customers; and

(c) changes in the government policies including tax reforms and specific regulations applicable to this industry, particularly in mainland China and Hong Kong.

In view of the above challenges, the key focus of the management for 2007 will be:

(a) identification of opportunities for cost reduction including continual internal operational review and diversification of procurement sources;

(b) pro-active improvement in its product quality, reduction of the delivery lead time and better integration with the customers' supply chain so as to maintain its competitive edge in this industry; and

(c) commencement of commercial production of its new factory in Heyuan for assembling production processes in late 2007 while its factories in Shenzhen and Zhongshan will be focusing on higher value added production processes as well as research and development.

Export performance in the first quarter of 2007 is satisfactory and within the management's expectation. The Group currently has three months sales orders on hand and still needs to make substantial capital investment in 2007 for its expansion plan. Such capital investment will be primarily funded by internal resources and the management will carefully execute the plan with close monitoring of its impact on the cashflow management.

Distribution and retailing divisions

The organic growth of established sales network of distributors and continued expansion of the network provide a platform to further grow the sales of both STEPPER and FIORUCCI eyewear. The Group has also secured the global licensing rights for an American brand, PANTONE UNIVERSE eyewear, and its commercial launch will begin in the middle of 2007. OOPZ eyewear, the house brand launched in 2006, will provide further growth momentum to the distribution division.

The flagship shop in Shenzhen has been recording satisfactory sales performance after the completion of renovation work in late 2006. The Group intends to maintain the current scale of operations in both Beijing and Shenzhen and will open new shops only for strategic purposes.

Summary

It has been 10 years since the shares of the Company were listed in 1996. Both the revenue and profitability of the Group have increased substantially over this period and this has demonstrated the success of its guiding principles of financial prudence when executing the expansion plan with emphasis on balance sheet management and cash earnings. Despite the challenges discussed above, the Directors are still optimistic about the financial performance of the Group in 2007.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2006, the Group employed approximately 11,300 (2005: 9,500) 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.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in effect as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31st December, 2006 except for the deviations from code provision A.2.1 of the Code. Code provision A.2.1 of the 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 the 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 management of the Company.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31st December, 2006 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

The Group's consolidated financial statements for the year ended 31st December, 2006 have been reviewed by the Audit Committee and audited by Messrs. Deloitte Touche Tohmatsu.

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 ended 31st December, 2006.

PUBLICATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

This announcement is published on The Stock Exchange of Hong Kong Limited's website (http://www.hkex.com.hk).

DIRECTORS

As at the date of this announcement, the Board comprises seven Directors, four of which are executive Directors, namely Mr. Ng Hoi Ying, Michael (the "Chairman"), Ms. Hui Pui Woon, Mr. Ng Kim Ying and Mr. Lee Wai Chung, and three are independent non-executive Directors, namely Mr. Francis George Martin, Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric.

By order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 17th April, 2007

* *For identification purpose only*

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