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, 2012

INTERIM RESULTS

The board of directors (the "Board") of Arts Optical International Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30th June, 2012 together with comparative figures for the corresponding period in 2011.

FINANCIAL HIGHLIGHTS

	Six months ended 30th June,	
	2012	2011
Revenue	**HK$729,025,000**	HK$763,038,000
Profit attributable to the owners of the Company	**HK$27,499,000**	HK$63,978,000
Earnings per share	**7.2 HK cents**	16.7 HK cents
Interim dividend per share	**4.0 HK cents**	6.5 HK cents

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2012

		Six months ended	
		30.6.2012	30.6.2011
		HK$'000	*HK$'000*
	Notes	**(unaudited)**	(unaudited)
Revenue	3	**729,025**	763,038
Cost of sales		**(593,196)**	(591,995)
Gross profit		**135,829**	171,043
Other income		**7,538**	9,084
Other gains and losses		**381**	3,676
Distribution and selling expenses		**(10,935)**	(16,911)
Administrative expenses		**(100,293)**	(97,879)
Other expenses		**(557)**	(412)
Finance costs	4	**(301)**	(144)
Profit before tax		**31,662**	68,457
Income tax expense	5	**(3,033)**	(4,109)
Profit for the period	6	**28,629**	64,348
Other comprehensive (expense) income:			
Exchange differences arising on translation of foreign operations		**(10,086)**	9,772
Total comprehensive income for the period		**18,543**	74,120
Profit for the period attributable to:			
Owners of the Company		**27,499**	63,978
Non-controlling interests		**1,130**	370
		28,629	64,348
Total comprehensive income attributable to:			
Owners of the Company		**17,413**	73,746
Non-controlling interests		**1,130**	374
		18,543	74,120
Earnings per share	8		
– Basic		**7.2 HK cents**	16.7 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th June, 2012

	Notes	30.6.2012 HK$'000 (unaudited)	31.12.2011 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment		**712,452**	605,370
Prepaid lease payments		**65,032**	53,927
Deposits paid for acquisition of property, plant and equipment		**18,034**	55,940
Intangible assets		**4,680**	4,680
Loan receivable		**4,500**	5,631
Available-for-sale investments		**5,858**	5,858
Deferred tax assets		**200**	200
		810,756	731,606
Current Assets			
Inventories		**194,436**	197,555
Debtors, deposits and prepayments	9	**397,909**	437,435
Loan receivable		**2,250**	2,253
Prepaid lease payments		**1,550**	1,384
Tax recoverable		**79**	2,226
Short-term bank deposits		**91,433**	93,055
Bank balances and cash		**119,232**	138,501
		806,889	872,409
Current Liabilities			
Creditors and accrued charges	10	**293,228**	315,467
Bank borrowings		**57,900**	15,833
Tax liabilities		**2,455**	38
		353,583	331,338
Net Current Assets		**453,306**	541,071
Total Assets less Current Liabilities		**1,264,062**	1,272,677
Capital and Reserves			
Share capital		**38,365**	38,365
Reserves		**1,213,376**	1,220,900
Equity attributable to owners of the Company		**1,251,741**	1,259,265
Non-controlling interests		**5,006**	4,484
Total Equity		**1,256,747**	1,263,749
Non-current Liabilities			
Deferred tax liabilities		**7,315**	8,928
		1,264,062	1,272,677

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation 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, 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The information reported to the executive directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of performance is focused on geographical markets, based on the location of customers. Thus, the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment for the period under review:

For the six months ended 30th June, 2012

	Europe	**United States**	**Asia**	**Other regions**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenue					
External sales	**477,491**	**187,218**	**40,386**	**23,930**	**729,025**
Result					
Segment profit	**33,078**	**12,778**	**6,043**	**2,211**	**54,110**
Unallocated income					**123**
Unallocated corporate expenses					**(23,211)**
Interest income on bank deposits					**941**
Finance costs					**(301)**
Profit before tax					**31,662**

For the six months ended 30th June, 2011

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	420,463	273,247	48,529	20,799	763,038
Result					
Segment profit	46,268	31,043	7,550	1,887	86,748
Unallocated income					564
Unallocated corporate expenses					(19,387)
Interest income on bank deposits					676
Finance costs					(144)
Profit before tax					68,457

Segment profit represents the profit before tax earned by each segment without allocation of central administration costs, directors' emoluments, investment income, royalty income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. FINANCE COSTS

	Six months ended	
	30.6.2012	30.6.2011
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**91**	144
Interest on bank borrowings wholly repayable after five years	**210**	–
	301	144

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2012	30.6.2011
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**4,582**	7,896
The People's Republic of China (the "PRC") Enterprise Income Tax		
– Current year	**44**	44
– Underprovision in respect of prior year	**20**	30
Deferred taxation		
– Current year	**(1,613)**	(3,861)
	3,033	4,109

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. The estimated average annual tax rate is 16.5% for both periods under review.

PRC Enterprise Income Tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

In relation to 50:50 appointment basis, a portion of the Group's profits is deemed 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 ("Directors"), that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both periods.

6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2012	30.6.2011
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**593,196**	591,995
Depreciation of property, plant and equipment	**47,592**	49,012
(Gain) loss on disposal of property, plant and equipment	**(123)**	23
Net foreign exchange gains (included in other gains and losses)	**(258)**	(3,699)
Release of prepaid lease payments	**736**	640
Allowance for doubtful debts, net (included in distribution and selling expenses)	**1,751**	5,330

7. DIVIDENDS

	Six months ended	
	30.6.2012	30.6.2011
	HK$'000	*HK$'000*
Final dividend paid of 6.5 HK cents in respect of 2011 (2011: 7.0 HK cents in respect of 2010) per share	**24,937**	26,855

An interim dividend of 4.0 HK cents in respect of 2012 (2011: 6.5 HK cents) per share amounting to a total of HK$15,346,000 (2011: HK$24,937,000) has been declared by the board of Directors on 30th August, 2012.

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	
	30.6.2012	30.6.2011
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**27,499**	63,978
	Number of shares	
Number of shares in issue for the purpose of basic earnings per share	**383,650,000**	383,650,000

No diluted earnings per share have been presented as there were no potential ordinary shares in issue for both periods.

9. DEBTORS, DEPOSITS AND PREPAYMENTS

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

Included in the Group's debtors, deposits and prepayments are trade debtors and bills receivable of HK$387,257,000 and HK$3,139,000 respectively (31st December, 2011: HK$427,384,000 and HK$5,288,000 respectively). The following is an aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
0 – 90 days	**307,118**	328,348
91 – 180 days	**78,773**	97,912
More than 180 days	**1,366**	1,124
	387,257	427,384

The following is an aged analysis of bills receivable presented based on the invoice date at the end of the reporting period.

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
0 – 90 days	**2,877**	5,263
91 – 180 days	**262**	25
	3,139	5,288

10. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK$165,067,000 (31st December, 2011: HK$157,092,000). The following is an aged analysis of trade creditors presented based on the invoice date at the end of the reporting period.

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
0 – 60 days	**112,672**	102,830
61 – 120 days	**48,415**	52,540
More than 120 days	**3,980**	1,722
	165,067	157,092

DIVIDEND

The Board has resolved to declare an interim dividend of 4.0 HK cents per share for the six months ended 30th June, 2012 (2011: 6.5 HK cents per share). The interim dividend will be payable on or about 15th October, 2012 to shareholders whose names appear on the register of members of the Company on 5th October, 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4th October, 2012 to 5th October, 2012, both days inclusive, during which period no transfer of shares will be effected. All properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, 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 3rd October, 2012 in order to qualify for the interim dividend mentioned above.

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue decreased by 4% to HK$729.0 million (2011: HK$763.0 million) in the six months ended 30th June, 2012. Both the profit attributable to owners of the Company and basic earnings per share decreased by 57% to HK$27.5 million and 7.2 HK cents respectively in the period under review (2011: HK$64.0 million and 16.7 HK cents respectively).

2012 is the most challenging and difficult year the Group has faced since the listing of the Company in 1996. The Board issued a "Profit Warning" announcement on 30th May, 2012. The significant decline in the profitability of the Group was principally attributable to various factors, including (i) the increase in labour costs after the statutory minimum wage in Shenzhen, where the Group's manufacturing facilities were located, increased by 20% in April 2011 and 14% in February 2012; and (ii) the appreciation of Renminbi against both United States ("US") dollar and Hong Kong dollar by around 3% in the first six months of 2012 as compared with the corresponding period of 2011. Accordingly, the gross profit ratio (being the ratio of gross profit to revenue) of the Group dropped by 3.8% from 22.4% for the first six months in 2011 to 18.6% for the period under review. Although the Group managed to keep the total expenses-to-revenue ratio (being the ratio of the total of distribution and selling expenses, administrative expenses, other expenses and finance costs to revenue) stable at around 15.4% (2011: 15.1%), the net profit ratio (being the ratio of profit attributable to owners of the Company to revenue) still decreased by 4.6% from 8.4% for the first half of 2011 to 3.8% for the period under review.

Original design manufacturing (ODM) division

The market began to slow down in mid-2011 amid concerns over the spread of the European sovereign debt crisis and double-dip recession in the US and remained soft in the first half of 2012. Sales to ODM customers decreased by 5% from HK$693.9 million in the first six months of 2011 to HK$657.9 million in the first six months of 2012. Sales to Europe, the US, Asia and other regions accounted for 67%, 28%, 3% and 2% respectively of the sales of this division in the first half of 2012 (2011: 56%, 39%, 4% and 1% respectively). The higher proportion of sales to European customers reflected the trend of market dominance by the biggest Italian market players that had extensive global distribution or retailing networks.

Sales of prescription frames, sunglasses and spare parts accounted for 49%, 49% and 2% respectively of the revenue of this division during the period under review (2011: 56%, 43% and 1% respectively).

Distribution and retailing divisions

Despite the extremely challenging market sentiment, the distribution division still reported a modest revenue growth of 3% in the period under review. Revenue generated by the distribution division increased from HK$67.0 million in the first half of 2011 to HK$69.0 million in the first half of 2012. The Group discontinued two licensed brands, and introduced two new house brands, CEO·V and BOXX, in 2012. Sales to Europe, Asia and other regions accounted for 54%, 23% and 23% respectively of the revenue of the distribution division in the first six months of 2012 (2011: 51%, 28% and 21% respectively).

Although the Group closed one shop during the period under review, revenue of the retailing division remained relatively flat at HK$2.1 million (2011: HK$2.1 million). The Group operated two shops as at 30th June, 2012 (30th June, 2011: three shops).

Financial position and liquidity

Cash Flows

Despite the significant decline in the profitability of the Group in the period under review, the Group's operating activities continued to generate a healthy net cash inflow of HK$97.8 million (2011: HK$100.8 million). Capital expenditure increased significantly from HK$53.1 million in the first six months of 2011 to HK$136.2 million in the period under review as the Group completed the acquisition of its new office in Hong Kong with a total cost of HK$99.0 million which was financed by the Group's internal resources and a bank loan of HK$47.6 million. A dividend payment of HK$24.9 million was made (2011: HK$26.9 million). Accordingly, the net cash position of the Group (being the total of short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK$215.7 million as at 31st December, 2011 to HK$152.8 million as at 30th June, 2012.

Working Capital Management

The Group had taken appropriate action to scale down its production volume since the softening of the exports market in mid-2011. Inventory balances as at 30th June, 2012 declined by 2% and 6% as compared with the balances as at 31st December, 2011 and 30th June, 2011. Inventory turnover period (being the ratio of inventory balances to cost of sales) decreased accordingly from 64 days in the first half of 2011 to 60 days in the first half of 2012. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) increased from 92 days to 98 days as there was a general slow down in payment by the customers amid the sluggish economy. The current ratio (being the ratio of total current assets to total current liabilities) of the Group decreased from 2.6 to 1.0 as at 31st December, 2011 to 2.3 to 1.0 as at 30th June, 2012, principally as a result of the reduction in net cash position.

Gearing Position

The Group continued to keep a low gearing position throughout the first six months of 2012. The debt-to-equity ratio (expressed as a percentage of total non-current liabilities over equity attributable to owners of the Company) declined slightly from 0.7% as at 31st December, 2011 to 0.6% as at 30th June, 2012. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$7.3 million as at 30th June, 2012 (31st December, 2011: HK$8.9 million).

Net Book Value

The Company had 383,650,000 shares in issue as at both 30th June, 2012 and 31st December, 2011 with equity attributable to owners of the Company amounting to HK$1,251.7 million and HK$1,259.3 million as at 30th June, 2012 and 31st December, 2011 respectively. Net book value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 30th June, 2012 was HK$3.26 (31st December, 2011: HK$3.28).

Foreign Currency Exposure

The Group was exposed to the fluctuation of Renminbi against both US dollar and Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi and exchange rate movements between the US dollar and the Hong Kong dollar were relatively stable during the period under review.

Contingent Liabilities

	30.6.2012	31.12.2011
	HK$'000	*HK$'000*
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	**9,698**	9,709

The Directors consider that the fair value of this financial guarantee contract at its initial recognition and carrying amount at 31st December, 2011 and 30th June, 2012 are insignificant and of low applicable default risk. Accordingly, the Group has not recognised any liability in the condensed consolidated financial statements in relation to the abovementioned guarantee as its fair value is considered not significant.

PROSPECTS

The Group does not expect any significant rebound of market demand for its products in the second half of 2012 as consumer confidence remains fragile. The management continues to put strenuous efforts on exploring exports markets and implementing appropriate measures to enhance the flexibility and productivity of its manufacturing operations. Order book remains stable at about three months of sales orders.

On the cost sides, although there are signs that the pace of appreciation of Renminbi is abating in recent months, the trend of double digit increases in labour wages in mainland China will continue in the next few years, putting the gross margin of the Group under severe pressure. Although the Group has agreed with its customers on price adjustments to its products, the impact will be modest and reflected gradually from the fourth quarter of this year. The factory relocation plans to Pingdi Town, Shenzhen City and Heyuan City are being implemented in phases to minimize any impact on the operations of the Group.

The launching of two house brands, C E O·V and **BOXX**, has generated encouraging results. The Group will continue to invest in its distribution division as sales of house brand products carry higher profit margins and render greater control on the supply chain over the long term to the Group. Contribution from the retailing division is expected to be limited in 2012 as there will not be any significant change in its operating scale.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2012, the Group employed approximately 11,000 (31st December, 2011: 10,500) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, 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 coverage, subsidised educational and training programmes, provident fund schemes as well as a share option scheme.

CORPORATE GOVERNANCE

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange and renamed it the Corporate Governance Code (the "CG Code"). The CG Code took effect on 1st April, 2012.

The Company had complied with all applicable code provisions set out in the Old Code during the period from 1st January, 2012 to 31st March, 2012 and the CG Code during the period from 1st April, 2012 to 30th June, 2012, except for deviation from code provision A.2.1 of both the Old Code and CG Code. Code provision A.2.1 of the Old Code and 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 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.

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 Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, all of whom are independent non-executive Directors. The duties of the Audit Committee include (but are not limited to) review of interim and annual reports of the Group as well as various auditing, financial reporting and internal control matters with the assistance of the management and/or external auditor of the Company. The Group's unaudited condensed consolidated financial statements for the six months ended 30th June, 2012 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 Mr. Chung Hil Lan Eric (chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Lam Yu Lung, all of whom are independent non-executive Directors. The major roles and functions of the Remuneration Committee include the determination of remuneration of executive Directors and review of the remuneration policy of the Group.

A Nomination Committee has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors. The major roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2012.

PUBLICATION OF INTERIM REPORT

The 2012 interim report will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk on or about 10th September, 2012.

DIRECTORS

As at the date of this announcement, the Board comprises six directors, three of whom are executive directors, namely Mr. Ng Hoi Ying, Michael, Mr. Ng Kim Ying and Mr. Lee Wai Chung, and three are independent non-executive directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung.

By Order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 30th August, 2012