INTERIM REPORT 2006

Arts Group

Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 1120

CONTENTS

CORPORATE INFORMATION

Board of directors

Executive directors

NG Hoi Ying, Michael – *Chairman*
HUI Pui Woon
NG Kim Ying
LEE Wai Chung

Independent non-executive directors

Francis George MARTIN
WONG Chi Wai
CHUNG Hil Lan Eric

Company secretary

LEE Wai Chung

Auditors

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

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

Principal bankers

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Summary of results

The consolidated turnover of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") and profit attributable to the equity holders of the Company increased by 36% and 38% to HK$509.2 million and HK$67.4 million respectively (2005: HK$375.6 million and HK$49.0 million) in the six months ended 30th June, 2006. Basic earnings per share increased by 36% to 17.6 HK cents (2005: 12.9 HK cents) in the period under review.

Although the gross margin of the Group was still under severe pressure imposed by higher raw material costs, labour wages, record energy prices and appreciation of Renminbi, the trend of declining gross margin was successfully reversed in the first half of 2006 due to the positive effects of the economies of scale arising from the increase in volume output by 24% as compared with the corresponding period of 2005. Gross margin percentage increased by 1.2% from 29.2% in the first six months of 2005 to 30.4% in the corresponding period of 2006. Net profit margin percentage (ratio of profit attributable to the equity holders of the Company to turnover) also increased slightly by 0.1% from 13.1% to 13.2%.

Original design manufacturing (ODM) division

The Group had been incurring substantial capital expenditure since 2004 to boost its production capacity in order to meet the market demand for its products. Sales to ODM customers increased by 35% from HK$339.4 million in the first 6 months of 2005 to HK$458.3 million in the corresponding period of 2006. Europe and the United States remained as the main export markets of the Group's ODM division. As a result of the relatively robust performance of American economy and gradual transfer of sourcing from European manufacturers to Far East manufacturers, sales to Europe and the United States registered strong growth rates of 51% and 21% and amounted to HK$302.9 million and HK$130.8 million respectively (2005: HK$200.8 million and HK$108.1 million) during the period under review. On a geographical basis, sales to Europe, United States, Asia and other regions accounted for 66%, 29%, 4% and 1%

respectively of the sales of this division during the period under review (2005: 59%, 32%, 7% and 2% respectively). Demand for quality and trendy sunglasses remained high, resulting in greater demand for plastic frames. Sales of sunglasses grew by 51% to HK$198.1 million (2005: HK$131.0 million) whereas sales of prescription frames also grew by 25% to HK$260.2 million (2005: HK$208.4 million). Sales of metal frames, plastic frames and spare parts accounted for 50%, 48% and 2% respectively during the period under review (2005: 53%, 44% and 3% respectively).

Distribution and retailing divisions

Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) increased by 59% to HK$42.1 million in the six months ended 30th June, 2006 (2005: HK$26.5 million). Stepper eyewear, the German brand owned by the Group, remained as the best selling brand among the brand portfolio of this division. Successful commercial launch of Fiorucci eyewear, the licensed Italian fashion brand, in Europe and Asia also boosted the sales of the division in these two regions. Sales to Europe, Asia, North America and other regions increased by 61%, 123%, 13% and 10% and accounted for 48%, 30%, 12% and 10% respectively of the Group's turnover of distribution division in the period under review (2005: 47%, 21%, 17% and 15% respectively).

Turnover of the retailing division decreased by 9% to HK$8.8 million in the first half of 2006 (2005: HK$9.7 million), primarily due to the closure of non-performing shops during the period under review. The Group operated a total of 14 shops (31st December, 2005: 18) including 8 shops in Beijing and 6 shops in Shenzhen as at 30th June, 2006 (31st December, 2005: 10 and 8).

Prospects

ODM division

Despite the Group's success in reversing the downward trend of the gross margin in the first half of 2006, the management maintains its vigilance of potential market upheaval arising from unexpected slowdown in the global economy, volatile interest rates and commodity prices movements. The management will continue to execute its capacity expansion plan after due consideration of latest market development and availability of internal resources. Costs pressure on the Group's products remains high, but the management believes that through the lowering of average fixed costs by output expansion and modest price adjustments on its products since late 2005, the Group can still maintain a satisfactory and stable margin in the second half of 2006. The Group currently has three months sales orders on hand and the management anticipates this to remain stable in the second half of 2006.

Distribution and retailing divisions

The well established global network of over 30 distributors for Stepper eyewear provides an excellent platform for the future growth of the Group's distribution business. The successful launch of the Fiorucci eyewear collections in the Asian and European markets reinforces the Group's determination in further penetrating into untapped markets and strengthening its brand portfolio by additions of more house and licensed brands.

In view of the intensifying competition in the retail business environment in mainland China, the Group intends to maintain its current scale of operations and its current focus on the cities of Beijing and Shenzhen. The management continues to place emphasis on profitability enhancement by internal streamlining and closure or relocation of non-performing shops.

Summary

The management believes that the encouraging financial results reported in the first half of 2006 is attributable to its adherence to its guiding principle of balance sheet management and emphasis on cash earnings. The adjustment on the dividend payout in the first half of 2006 reflects the cautiousness of management in implementing the expansion plan. Despite the challenges discussed above, the directors of the Company (the "Directors") are still optimistic about the financial performance of the Group in the second half of 2006.

Financial review

During the period under review, the Group's operating activities generated a net cash inflow of HK$114.7 million (2005: HK$95.7 million). Capital expenditure incurred during the period amounted to HK$67.8 million (2005: HK$55.9 million) and was wholly financed by the Group's internal resources. 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$81.2 million as at 30th June, 2006. The Group did not have any interest bearing borrowings at 30th June, 2006 and 31st December, 2005.

The current ratio of the Group as at 30th June, 2006 was 2.4 to 1 (31st December, 2005: 2.8:1) with HK$535.4 million of current assets (31st December, 2005: HK$475.1 million) and HK$219.2 million of current liabilities (31st December, 2005: HK$170.6 million). Inventory turnover period (ratio of inventory balance to cost of sales) increased from 83 days in the first six months of 2005 to 87 days in the corresponding period of 2006, but this was still shorter than the inventory turnover period of 104 days for the whole year of 2005. Debtors turnover period (ratio of the total of debtor and discounted bills balances, if any, to sales) increased from 88 days in the first six months of 2005 to 93 days in the corresponding period of 2006 and this was also shorter than the debtors turnover period of 108 days for the whole year of 2005.

The Group had 383,650,000 shares in issue as at both 30th June, 2006 and 31st December, 2005 with equity attributable to equity holders of the Company amounting to HK$669.5 million and HK$623.2 million as at 30th June, 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 30th June, 2006 was HK$1.75 (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$15.3 million (31st December, 2005: HK$13.3 million) and 2.3% (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 period under review, except to the extent of the gradual continuous appreciation of Renminbi against United States dollars and Hong Kong dollars.

Employee and remuneration policies

The Group employed approximately 10,500 full time staff as at 30th June, 2006. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market price while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

Ng Hoi Ying, Michael
Chairman

Hong Kong, 21st September, 2006

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INDEPENDENT REVIEW REPORT

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 been instructed by the Company to review the interim financial report set out on pages 9 to 21.

Directors' responsibilities
The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, 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.

Review work performed
We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion
On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21st September, 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	NOTES	Six months ended 30.6.2006 HK$'000 (unaudited)	30.6.2005 HK$'000 (unaudited)
Turnover	3	**509,242**	375,618
Cost of sales		**(354,682)**	(266,027)
Gross profit		**154,560**	109,591
Other income		**9,671**	5,296
Distribution costs		**(24,183)**	(15,314)
Administrative expenses		**(56,793)**	(43,537)
Other expenses		**(8,168)**	(602)
Finance costs	4	**–**	(15)
Profit before taxation		**75,087**	55,419
Taxation	5	**(9,280)**	(6,482)
Profit for the period	6	**65,807**	48,937
Attributable to:			
Equity holders of the parent		**67,441**	49,037
Minority interests		**(1,634)**	(100)
		65,807	48,937
Dividend paid	7	**26,856**	34,122
Earnings per share	8		
– Basic		**17.6 HK cents**	12.9 HK cents
– Diluted		**N/A**	12.8 HK cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2006

	NOTES	**30.6.2006 HK$'000 (unaudited)**	31.12.2005 HK$'000 (audited) (restated)
Non-current Assets			
Investment property	9	**3,600**	3,600
Property, plant and equipment	10	**299,128**	254,745
Prepaid lease payments		**25,873**	40,598
Deposits paid for property, plant and equipment		**5,962**	4,064
Intangible assets	11	**4,680**	–
Loan receivable	12	**16,352**	17,589
Goodwill		**1,274**	1,274
Available-for-sale investments		**13,358**	13,358
Deferred tax assets		**53**	53
		370,280	335,281
Current Assets			
Inventories		**169,995**	162,300
Debtors, deposits and prepayments	13	**263,496**	244,321
Loan receivable	12	**2,248**	2,262
Prepaid lease payments		**634**	972
Taxation recoverable		**106**	263
Bank balances and cash		**81,154**	65,006
		517,633	475,124
Asset classified as held for sale	14	**17,773**	–
		535,406	475,124

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AT 30TH JUNE, 2006

	NOTES	30.6.2006 HK$'000 (unaudited)	31.12.2005 HK$'000 (audited) (restated)
Current Liabilities			
Creditors and accrued charges	15	**211,293**	170,206
Taxation payable		**7,884**	425
		219,177	170,631
Net Current Assets		**316,229**	304,493
Total Assets less Current Liabilities		**686,509**	639,774
Capital and Reserves			
Share capital		**38,365**	38,365
Reserves		**631,178**	584,844
Equity attributable to equity holders of the parent		**669,543**	623,209
Minority Interests		**1,622**	3,256
Total Equity		**671,165**	626,465
Non-current Liabilities			
Deferred tax liabilities		**14,609**	13,309
Loans from minority shareholders		**735**	–
		15,344	13,309
		686,509	639,774

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	Attributable to shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st January, 2005	37,913	110,425	(3,269)	506	446,692	592,267	3,489	595,756
Exchange differences arising on translation of financial statements of operations outside Hong Kong recognised directly in equity	–	–	–	(351)	–	(351)	–	(351)
Profit for the period	–	–	–	–	49,037	49,037	(100)	48,937
Total recognised income and expense for the period	–	–	–	(351)	49,037	48,686	(100)	48,586
Dividend paid	–	–	–	–	(34,122)	(34,122)	–	(34,122)
At 30th June, 2005	37,913	110,425	(3,269)	155	461,607	606,831	3,389	610,220
At 1st January, 2006	38,365	113,950	(3,269)	160	474,003	623,209	3,256	626,465
Exchange differences arising on translation of financial statements of operations outside Hong Kong recognised directly in equity	–	–	–	5,749	–	5,749	–	5,749
Profit for the period	–	–	–	–	67,441	67,441	(1,634)	65,807
Total recognised income and expense for the period	–	–	–	5,749	67,441	73,190	(1,634)	71,556
Dividend paid	–	–	–	–	(26,856)	(26,856)	–	(26,856)
At 30th June, 2006	38,365	113,950	(3,269)	5,909	514,588	669,543	1,622	671,165

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., the subsidiary which was acquired by the Company pursuant to the group reorganization in 1996.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	Six months ended 30.6.2006 HK$'000 (unaudited)	Six months ended 30.6.2005 HK$'000 (unaudited) (restated)
NET CASH FROM OPERATING ACTIVITIES	**114,726**	95,731
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(66,834)**	(55,865)
Additions to prepaid lease payments	**(962)**	–
Increase in deposits paid for property, plant and equipment	**(1,898)**	(995)
Acquisition of a jointly controlled entity	**(290)**	–
Purchase of trademark	**(4,680)**	–
Decrease in pledged bank deposits	**–**	2,187
Proceeds from disposal of property, plant and equipment	**310**	85
Interest received	**475**	486
Repayment from loan receivable	**1,251**	–
NET CASH USED IN INVESTING ACTIVITIES	**(72,628)**	(54,102)
FINANCING ACTIVITIES		
Dividends paid	**(26,856)**	(34,122)
Interest paid	**–**	(15)
Advanced from minority shareholders	**735**	–
NET CASH USED IN FINANCING ACTIVITIES	**(26,121)**	(34,137)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**15,977**	7,492
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**65,006**	108,309
Effect of foreign exchange rate changes	**171**	–
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	**81,154**	115,801

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

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 and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("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 audited financial statements for the year ended 31st December, 2005 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA that 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 for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Financial guarantee contracts

In the current period, the Group has applied HKAS 39 and HKFRS 4 (Amendments) "Financial Guarantee Contracts" which is effective for annual periods beginning on or after 1st January, 2006.

A financial guarantee contract is defined by HKAS 39 "Financial Instruments: Recognition and Measurement" as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial guarantee contracts (Continued)

The Group acts as the issuer of the financial guarantee contracts

Prior to 1st January, 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

As mentioned in Note 17, the Group provided a guarantee to a financial institution in respect of banking facilities granted to a trade debtor. However, there was no material effect on the results for the current and prior accounting periods.

In addition, the Group has applied the following accounting policy during the current interim period:

Interest in a jointly controlled entity

Joint venture arrangements which involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the condensed consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the condensed consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Interest in a jointly controlled entity (Continued)

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Intangible assets

Intangible assets represent trademarks with indefinite useful lives and are carried at cost less any subsequent accumulated impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Standards issued but not yet effective

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

3. SEGMENT INFORMATION

Geographical segments

The Group's primary format for reporting segment information is geographical segments by location of customer.

	Six months ended			
	30.6.2006 Revenue HK$'000	**30.6.2006 Results HK$'000**	30.6.2005 Revenue HK$'000	30.6.2005 Results HK$'000
Europe	**325,020**	**51,560**	213,235	36,226
United States	**134,185**	**22,966**	110,903	15,351
Asia	**38,437**	**862**	38,304	3,752
Other regions	**11,600**	**1,266**	13,176	1,906
	509,242	**76,654**	375,618	57,235
Unallocated corporate income		**2,249**		486
Unallocated corporate expenses		**(3,816)**		(2,287)
Finance costs		**–**		(15)
Profit before taxation		**75,087**		55,419
Taxation		**(9,280)**		(6,482)
Profit for the period		**65,807**		48,937

4. FINANCE COSTS

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

5. TAXATION

	Six months ended	
	30.6.2006 HK$'000	30.6.2005 HK$'000
Current taxation		
Hong Kong Profits Tax	**7,980**	3,818
Deferred taxation		
Current year	**1,300**	2,664
	9,280	6,482

5. TAXATION (Continued)

The charge represents Hong Kong Profits Tax calculated at 17.5% (six months ended 30th June, 2005: 17.5%) of the estimated assessable profit for the period.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the Directors, that portion of the Group's profit is not at present subject to taxation in any other jurisdiction in which the Group operates.

6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2006	30.6.2005
	HK$'000	HK$'000
Profit for the period has been arrived at after charging:		
Amortisation of prepaid lease payments on land use rights	**431**	468
Depreciation of property, plant and equipment	**26,026**	24,898
Loss on disposal of property, plant and equipment	**1,543**	196
Net foreign exchange loss	**5,472**	–

7. DIVIDEND

	Six months ended	
	30.6.2006	30.6.2005
	HK$'000	HK$'000
Final dividend paid in respect of 2005 of 7 HK cents (2004: 9 HK cents) per share	26,856	34,122

The interim dividend in respect of 2006 of 7 HK cents (2005: 9 HK cents) per share amounting to a total of HK$26,856,000 (2005: HK$34,528,000) has been approved by the board of directors (the "Board") on 21st September, 2006.

8. EARNINGS PER SHARE

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

	Six months ended 30.6.2006 HK$'000	Six months ended 30.6.2005 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share – Profit for the period attributable to equity holders of the parent	**67,441**	49,037
Number of shares		
Number of shares for the purpose of basic earnings per share	**383,650,000**	379,130,000
Effect of dilutive potential shares in respect of share options		3,123,534
Weighted average number of shares for the purpose of diluted earnings per share		382,253,534

9. INVESTMENT PROPERTY

The Group's investment property was fair-valued by the Directors at 30th June, 2006. There were no changes in fair value on the investment property as at 30th June, 2006.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK$66,834,000 (six months ended 30th June, 2005: HK$55,865,000) on property, plant and equipment.

11. INTANGIBLE ASSETS

The trademark purchased in current period is considered by the management of the Group as having an indefinite useful life. It will not be amortised until the useful live is determined to be finite upon reassessment of the useful lives annually by the management. The trademark has been tested for impairment in the current period by comparing its carrying amount with its recoverable amount and no impairment loss was charged for the current period.

12. LOAN RECEIVABLE

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

13. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows 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$258,499,000 (31st December, 2005: HK$233,670,000), an aging analysis by overdue date of which at the balance sheet date is as follows:

	30.6.2006	31.12.2005
	HK$'000	HK$'000
Current	**224,636**	180,277
1 to 90 days overdue	**30,757**	49,082
More than 90 days overdue	**3,106**	4,311
	258,499	233,670

14. ASSET CLASSIFIED AS HELD FOR SALE

On 10th February, 2006, the Group acquired of 80% interest in a jointly controlled entity, 深圳信樂誠投資顧問有限公司 at a consideration of HK$24,870,000. The consideration is partially settled by transferring the prepaid lease payment in respect of land use rights of the Group and partially settled by cash. An unrealised gain of HK$7,097,000 resulted from the transfer of prepaid lease payment is eliminated against the investment. The Group holds 80% of the registered capital of 深圳信樂誠投資顧問有限公司 and is jointly controlled by the Group and other joint venture partner under the joint venture agreement.

On 28th April, 2006 and 8th June, 2006, the Group entered into disposal agreements with a third party. The Directors resolved to dispose of all of the Group's equity interest in 深圳信樂誠投資顧問有限公司, which are expected to be sold within twelve months, have been classified as an asset held for sale and are presented separately in the balance sheet. The proceeds of disposal are expected to exceed the net carrying amount of the relevant investments and, accordingly, no impairment loss has been recognised on the classification of the interest in 深圳信樂誠投資顧問有限公司 as held for sale.

15. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK$146,598,000 (31st December, 2005: HK$133,818,000), an aging analysis by overdue date of which at the balance sheet date is as follows:

	30.6.2006	31.12.2005
	HK$'000	HK$'000
Current	**119,496**	90,089
1 to 90 days overdue	**24,537**	41,121
More than 90 days overdue	**2,565**	2,608
	146,598	133,818

16. NON-CASH TRANSACTION

During the period, the Group acquired a jointly controlled entity with part of the consideration of HK$15,709,000 settled by transferring the prepaid lease payment in respect of land use rights.

17. CONTINGENT LIABILITIES

	30.6.2006 HK$'000	31.12.2005 HK$'000
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	**9,687**	9,750

18. CAPITAL COMMITMENTS

	30.6.2006 HK$'000	31.12.2005 HK$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements		
– buildings under construction	**35,792**	18,081
– leasehold improvements	**585**	961
– plant and machinery	**30,230**	9,597
– furniture, fixtures and office equipment	**377**	317
	66,984	28,956

19. RELATED PARTY TRANSACTION

Compensation of key management personnel

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

	Six months ended 30.6.2006 HK$'000	30.6.2005 HK$'000
Short-term benefits	**2,896**	2,571

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

SUPPLEMENTARY INFORMATION

Dividend

The Board has resolved to declare an interim dividend of 7 HK cents per share for the six months ended 30th June, 2006 (2005: 9 HK cents per share). The interim dividend will be payable on 16th October, 2006 to shareholders whose names appear on the register of members of the Company on 8th October, 2006.

Closure of Register of Members

The register of members of the Company will be closed from 6th October, 2006 to 8th October, 2006, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 5th October, 2006 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 (the "Code"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Code during the six months period ended 30th June, 2006.

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, 2006.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30th June, 2006, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and 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:

1. *Shares in the Company (Long Position)*

Name of director	Number of shares held Personal interests	 Other interests	 Total	Percentage of issued share capital of the Company
Ng Hoi Ying, Michael	2,856,000	151,000,000 *(Note a)*	153,856,000	40.10%
Hui Pui Woon	–	36,682,000 *(Note b)*	36,682,000	9.56%
Ng Kim Ying	950,000	18,500,000 *(Note c)*	19,450,000	5.07%
Lee Wai Chung	1,750,000	–	1,750,000	0.46%

Notes:

(a) These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Trustcorp Limited ("Trustcorp") as trustee for The Arts 1996 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Hoi Ying, Michael and his family members. The parent company of Trustcorp, Newcorp Limited, its ultimate parent company Newcorp Holdings Limited, Mr. David Henry Christopher Hill, Ms. Rebacca Ann Hill and Mr. David William Roberts were also deemed to be interested in the issued share capital of Ratagan by virtue of their interests and deemed interests in Trustcorp.

(b) These shares were held by Forever Up Group Limited ("Forever Up"). The entire issued share capital of Forever Up was owned by Fortune Smiles Limited which was wholly owned by HSBC International Trustee Limited as trustee for The Saying's Trust, a discretionary trust, the beneficiaries of which included Ms. Hui Pui Woon and her family members.

(c) These shares were held by Universal Honour Developments Limited ("Universal Honour"). The entire issued share capital of Universal Honour was held by Trustcorp as trustee for The Optical 2000 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Kim Ying and his family members. The parent company of Trustcorp, Newcorp Limited, its ultimate parent company Newcorp Holdings Limited, Mr. David Henry Christopher Hill, Ms. Rebacca Ann Hill and Mr. David William Roberts were also deemed to be interested in the issued share capital of Universal Honour by virtue of their interests and deemed interests in Trustcorp.

2. *Underlying shares in the Company (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 scheme. All the share options granted under the Old Share Option Scheme have been exercised or lapsed before 1st January, 2006. No share option under the New Share Option Scheme was granted, exercised, cancelled or lapsed since its adoption.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Ratagan in trust for the Group, as at 30th June, 2006, none of the Directors or chief executive had any interests or short positions in the 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.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares

As at 30th June, 2006, the interests and short positions of every person, other than the interests disclosed under the heading "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Shares in the Company (Long Position)

Name of shareholder	Capacity	Number of shares held	Percentage of issued share capital of the Company
Veer Palthe Voûte NV	Beneficial owner	32,901,990 *(Note a)*	8.58%
David Michael Webb	Beneficial owner	1,570,000	0.41%
	Held by controlled corporation	19,192,000 *(Note b)*	5.00%
Perferable Situation Assets Limited	Beneficial owner	19,192,000 *(Note b)*	5.00%

Notes:

(a) Allianz Aktiengesellschaft, Allianz Finanzbeteiligungs GmbH, Dresdner Bank Aktiengesellschaft and Dresdner Bank Luxembourg S.A., being the parent companies of Veer Palthe Voûte NV, were also deemed to be interested in the same parcel of 32,901,990 shares held by Veer Palthe Voûte NV under Part XV of the SFO.

(b) Mr. David Michael Webb was deemed to be interested in the 19,192,000 shares held by Perferable Situation Assets Limited under Part XV of the SFO.

All the interests stated above represent long position. Save as disclosed above, at 30th June, 2006, the register maintained by the Company pursuant to Section 336 of the SFO recorded no other interests or short positions in shares or underlying shares of the Company.

Corporate Governance

The Company has complied with all of the code provisions in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months period ended 30th June, 2006, with 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 can ensure 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 Committee currently comprises Messrs. Wong Chi Wai, 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, 2006 have been reviewed by the Audit Committee and the Company's auditors, Deloitte Touche Tohmatsu.

A Remuneration Committee was established in 2003 and currently comprises Messrs. Francis George Martin, Wong Chi Wai and Chung Hil Lan Eric, all of whom are independent non-executive Directors. The duties of the Remuneration Committee include the determination of remuneration of executive Directors and review of remuneration policy of the Group.