Interim Report 2005

Arts Group

Arts Optical International Holdings Limited
雅視光學集團有限公司
(Incorporated in Bermuda with limited liability)

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
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
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") increased by 13% to HK$375.6 million (2004: HK$331.3 million) whereas its profit attributable to the equity holders of the Company declined by 4% to HK$49.0 million (2004: HK$51.2 million) in the six months ended 30th June, 2005. Basic earnings per share decreased by 5% to 12.9 cents (2004: 13.6 cents) in the first half of 2005.

The positive effects of the economies of scale were fully offset by the increases in production costs arising from higher raw material costs, labour wages and record energy prices. Despite the increase in complexity of the products and the escalating production costs, nominal selling prices of the Group's products remained relatively flat. Gross margin percentage declined by 5.0% to 29.2% (2004: 34.2%) in the first 6 months of 2005. Increase in proportion of sales of sunglasses and handmade plastic frames also resulted in part of the decline in gross margin of the Group.

As a result of the stringent administrative cost control measures implemented by the Group, total expenses to turnover ratio decreased by 2.9% to 15.8% (2004: 18.7%) in the first half of 2005. Net margin percentage (ratio of profit attributable to the equity holders of the Company to turnover) decreased by 2.4% to 13.1% (2004: 15.5%) in the first half of 2005.

Original design manufacturing (ODM) division

Sales to ODM customers increased by 15% from HK$295.9 million in the first 6 months of 2004 to HK$339.4 million in corresponding period of 2005. Europe and the United States remained as the main export markets of the Group's ODM division. As a result of the strengthening of Euro against United States Dollars and the closing down of production facilities by some European manufacturers, sales to Europe registered a strong growth of 34% to HK$200.8 million (2004: HK$149.8 million) during the period under review. Because of the consolidation of the retailing and distribution sectors of the American eyewear market and increasing price consciousness of the American consumers, sales to United States declined by 9% to HK$108.1 million (2004: HK$118.7 million) during the first half of 2005. On a geographical basis, sales to Europe, United States, Asia and other regions accounted for 59%, 32%, 7% and 2% respectively of the sales of this division during the period under review (2004: 51%, 40%, 6% and 3% respectively). Market continued to show strong preference for sunglasses and handmade plastic frames. Sales of sunglasses grew by 32% to HK$131.0 million (2004: HK$99.3 million) whereas sales of prescription frames only grew marginally by 6% to HK$208.4 million (2004: HK$196.6 million). Sales of metal frames, plastic frames and spare parts accounted for 53%, 44% and 3% respectively during the period under review (2004: 60%, 38% and 2% respectively).

Distribution division

Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) increased by 12% to HK$26.5 million in the six months ended 30th June, 2005 (2004: HK$23.6 million). STEPPER, the German brand owned by the Group, continued to be the key driver to the growth of this business division. Sales to Europe, Asia, North America and other regions accounted for 47%, 21%, 17% and 15% respectively of the Group's turnover of distribution division in the period under review (2004: 46%, 14%, 24% and 16% respectively).

Retailing division

Turnover of the retailing division decreased by 18% to HK$9.7 million in the first half of 2005 (2004: HK$11.8 million), primarily due to the closure of the Group's retailing operations in Nanjing and Shanghai in 2004. The Group operated a total of 17 shops including 11 shops in Beijing and 6 shops in Shenzhen as at 30th June, 2005.

Prospects

ODM division

The factors leading to the adverse impact on the production costs of the Group as discussed in the Business Review section will continue to put our gross margin of the ODM division under pressure. The 2% appreciation of Renminbi against other currencies in July and the strengthening of the currency thereafter will also affect our cost structure. The Group plans to reduce the above negative impact by appropriate adjustments to the selling prices of its products and further streamlining of its operations. The Group currently has 3 months sales orders on hands although business visibility remains relatively low.

Distribution division

After establishing a strong foothold in Europe, United States will be the next strategic market for the expansion of sales of STEPPER eyewear. The eyewear collection of the licensed Italian fashion brand FIORUCCI received encouraging response from our European customers during the optical fair in Milan in May and a new collection for Asian customers will be launched in the forthcoming optical fair in Hong Kong this November.

Retailing division

The Group has been focusing on the cities of Beijing and Shenzhen for its expansion of retailing network since the second half of 2004. The recent entry by some foreign eyewear retailing players into some cities of China such as Shanghai and Beijing will both impose threats and create opportunities to the Group. Competition will nevertheless become more intense, but this process will also raise the customers' awareness of and desire for quality products and services.

Summary

Despite the challenges discussed above, the directors of the Company (the "Directors") are still cautiously optimistic about the financial performance of the Group in the second half of 2005 and will carefully monitor the impact of gross margin pressure and increases in working capital requirement on capital expenditure as well as its dividend payment capability.

Financial Review

During the period under review, the Group's operating activities generated a net cash inflow of HK$94.7 million (2004: HK$53.3 million). The Group was able to finance its capital expenditure wholly by internal resources and the net cash position of the Group (bank and cash balance plus pledged bank deposit less bank borrowing, if any) increased from HK$110.5 million as at 31st December, 2004 to HK$115.8 million as at 30th June, 2005.

The current ratio of the Group as at 30th June, 2005 was 3.3 to 1 (31st December, 2004: 3.4:1) with HK$434.5 million of current assets (31st December, 2004: HK$443.2 million) and HK$133.0 million of current liabilities (31st December, 2004: HK$129.8 million). Inventory turnover period (ratio of inventory balance to cost of sales) increased from 76 days in the first six months of 2004 to 83 days in the corresponding period of 2005, but this was still shorter than the inventory turnover period of 95 days for the whole year of 2004. Debtors turnover period (ratio of the total of debtor and discounted bills balances, if any, to turnover) also decreased from 93 days in the first six months of 2004 to 88 days in the corresponding period of 2005. The shortening of debtors turnover period was particularly significant as compared with the debtors turnover period of 105 days for the whole year of 2004.

The Group had 379,130,000 shares in issue as at both 30th June, 2005 and 31st December, 2004 with an equity attributable to equity holders of the Company amounting to HK$606.4 million and HK$591.8 million as at 30th June, 2005 and 31st December, 2004 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, 2005 was HK$1.60 (31st December, 2004: HK$1.56). 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$12.8 million (31st December, 2004: HK$10.1 million) and 2.1% (31st December, 2004: 1.7%) respectively.

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in United States dollars, Hong Kong dollars and Renminbi and the exchange rates movements between these currencies were relatively stable during the period under review.

Employee and Remuneration Policies

The Group employed approximately 8,700 full time staff as at 30th June, 2005. 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, 20th September, 2005

Deloitte.
德勤

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 7 to 22.

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, 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 20th September, 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2005

	NOTES	Six months ended 30.6.2005 HK$'000 (unaudited)	Six months ended 30.6.2004 HK$'000 (unaudited)
Turnover	5	375,618	331,290
Cost of sales		(266,027)	(217,866)
Gross profit		109,591	113,424
Other operating income		5,296	5,182
Distribution costs		(15,314)	(21,387)
Administrative expenses		(43,537)	(39,707)
Other operating expenses		(602)	(783)
Profit from operations	5&6	55,434	56,729
Finance costs	7	(15)	(28)
Profit before taxation		55,419	56,701
Taxation	8	(6,482)	(5,120)
Profit for the period		48,937	51,581
Attributable to:			
Equity holders of the parent		49,037	51,188
Minority interests		(100)	393
		48,937	51,581
Dividend	9	34,439	34,122
Earnings per share			
– Basic	10	12.9 cents	13.6 cents
– Diluted	10	12.8 cents	13.4 cents

CONDENSED CONSOLIDATED BALANCE SHEET
At 30th June, 2005

	NOTES	30.6.2005 HK$'000 (unaudited)	31.12.2004 HK$'000 (audited) (restated)
Non-current Assets			
Investment property	11	3,200	3,200
Property, plant and equipment	11	244,777	214,091
Loan receivable due after one year	12	18,720	19,851
Goodwill	13	1,274	1,274
Investment securities		–	13,653
Available-for-sale investments		13,653	–
Prepaid lease payments on land use rights		39,431	39,899
		321,055	291,968
Current Assets			
Inventories		121,447	119,360
Debtors, deposits and prepayments	14	193,898	209,328
Prepaid lease payments on land use rights		936	936
Loan receivable due within one year		2,262	1,131
Taxation recoverable		118	1,980
Pledged bank deposits		–	2,187
Bank balances and cash		115,801	108,309
		434,462	443,231
Current Liabilities			
Creditors and accrued charges	15	130,770	129,709
Taxation payable		2,214	85
		132,984	129,794
Net Current Assets		301,478	313,437
Total Assets less Current Liabilities		622,533	605,405
Capital and Reserves			
Share capital	16	37,913	37,913
Reserves		568,451	553,887
Equity attributable to equity holders of the parent		606,364	591,800
Minority interests		3,389	3,489
		609,753	595,289
Non-current Liability			
Deferred tax liabilities		12,780	10,116
		622,533	605,405

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2005

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Goodwill reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st January, 2004	37,687	108,662	(3,269)	(1,000)	508	435,430	578,018	3,137	581,155
Net profit for the period	–	–	–	–	–	51,188	51,188	393	51,581
Dividend paid	–	–	–	–	–	(56,531)	(56,531)	–	(56,531)
At 30th June, 2004	37,687	108,662	(3,269)	(1,000)	508	430,087	572,675	3,530	576,205
At 1st January, 2005									
– as originally stated	37,913	110,425	(3,269)	(1,000)	506	447,225	591,800	3,489	595,289
– adjustment on adoption of new accounting standards *(notes 2 and 3)*	–	–	–	(173)	–	173	–	–	–
– as restated	37,913	110,425	(3,269)	(1,173)	506	447,398	591,800	3,489	595,289
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	–	(351)	–	(351)	–	(351)
Net losses recognised directly in equity	–	–	–	–	(351)	–	(351)	–	(351)
Profit for the period	–	–	–	–	–	49,037	49,037	(100)	48,937
Net profit 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)	(1,173)	155	462,313	606,364	3,389	609,753

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30th June, 2005

	Six months ended	
	30.6.2005	**30.6.2004**
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
NET CASH FROM OPERATING ACTIVITIES	94,736	53,320
INVESTING ACTIVITIES		
Deposit paid for purchase of prepaid lease payments on land use rights	–	(6,604)
Deposit paid for purchase of unlisted investment	–	(6,119)
Purchase of property, plant and equipment	(55,865)	(33,024)
Decrease (increase) in pledged bank deposits	2,187	(6)
Proceeds from disposal of property, plant and equipment	85	5,751
Interest received	486	335
NET CASH USED IN INVESTING ACTIVITIES	(53,107)	(39,667)
FINANCING ACTIVITIES		
Dividends paid	(34,122)	(56,531)
Interest paid	(15)	(27)
New bank loan raised	–	1,639
NET CASH USED IN FINANCING ACTIVITIES	(34,137)	(54,919)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,492	(41,266)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	108,309	174,128
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	115,801	132,862
Being:		
Bank balances and cash	115,801	132,862

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2005

1. Basis of preparation

The condensed 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 financial statements have been prepared under the historical cost convention except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves continues to be held in reserves and will be transferred to the retained earnings of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill at 1st January, 2005 of which negative goodwill of HK$173,000 was previously recorded in reserves, with a corresponding increase to retained earnings (see note 3 for the financial impact).

Share-based payment

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In accordance with the relevant transitional provisions, the Group has not applied HKFRS 2 to share options since these share options were granted before 7th November, 2002.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Investments in equity instruments that do not have a quoted market price in an active market and its fair value cannot be reliably measured are measured at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1st January, 2005, the Group reclassified its investment securities of HK$13,653,000 which are unlisted equity securities whose fair value cannot be measured reliably to available-for-sale investments and are stated at cost less impairment losses.

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. This change in accounting policy has had no material effect on the financial statements for the current or prior accounting periods.

Deferred Taxes related to Investment Properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflects the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. However, the adoption of HKAS Interpretation 21 does not have any significant impact on the profit of the prior periods and no prior period adjustment is necessary.

3. Summary of the effects of the changes in accounting policies

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

	Six months ended 30.6.2005	Six months ended 30.6.2004
	HK$'000	*HK$'000*
Decrease in amortisation of goodwill	255	–

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated)	Effect of HKAS 17	As at 31st December, 2004 (restated)	Effect of HKAS 39	Effect of HKFRS 3	As at 1st January, 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items						
Property, plant and equipment	254,926	(40,835)	214,091	–	–	214,091
Investment securities	13,653	–	13,653	(13,653)	–	–
Available-for-sale investments	–	–	–	13,653	–	13,653
Prepaid lease payments on land use rights	–	40,835	40,835	–	–	40,835
Total effects on assets and liabilities	268,579	–	268,579	–	–	268,579
Retained earnings	447,225	–	447,225	–	173	447,398
Goodwill reserve	(1,000)	–	(1,000)	–	(173)	(1,173)
Total effects on equity	446,225	–	446,225	–	–	446,225

4. Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKASs, HKFRSs and HKFRS-Ints in future periods will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

5. Segment information

Geographical segments

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

	Six months ended			
	30.6.2005 Revenue	**30.6.2005 Results**	**30.6.2004 Revenue**	**30.6.2004 Results**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Europe	213,235	36,226	160,591	30,619
United States	110,903	15,351	120,472	22,779
Asia	38,304	3,752	33,266	2,651
Other regions	13,176	1,906	16,961	2,837
	375,618	57,235	331,290	58,886
Unallocated corporate expenses		(2,287)		(2,492)
Interest income		486		335
Profit from operations		55,434		56,729
Finance costs		(15)		(28)
Profit before taxation		55,419		56,701
Taxation		(6,482)		(5,120)
Profit for the period		48,937		51,581

Business segments

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

6. Profit from operations

	Six months ended	
	30.6.2005	**30.6.2004**
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging (crediting):		
Amortisation of goodwill (charged to other operating expenses)	–	255
Amortisation of prepaid lease payments on land use rights	468	408
Depreciation of property, plant and equipment	24,898	22,503
Loss (gain) on disposal of property, plant and equipment	196	(790)

7. Finance costs

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

8. Taxation

	Six months ended	
	30.6.2005	**30.6.2004**
	HK$'000	*HK$'000*
Current taxation		
Hong Kong Profits Tax	3,818	4,120
Deferred taxation		
Current year	2,664	1,000
	6,482	5,120

The charge represents Hong Kong Profits Tax calculated at 17.5% (six months ended 30th June, 2004: 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.

9. Dividend

	Six months ended 30.6.2005 *HK$'000*	30.6.2004 *HK$'000*
Interim dividend declared in respect of 2005 of 9 cents (2004: 9 cents) per share	34,439	34,122

The interim dividend of HK$34,439,000 in respect of 2005 is calculated by reference to 382,650,000 shares in issue on 20th September, 2005.

On 7th June, 2005, final dividends of 9 cents (2003: final dividend of 8 cents and second special dividend of 7 cents) per share were paid to the shareholders of the Company in respect of 2004.

10. Earnings per share

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

	Six months ended 30.6.2005 *HK$'000*	30.6.2004 *HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share – Profit for the period attributable to equity holders of the parent	49,037	51,188
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	379,130,000	376,870,000
Effect of dilutive potential shares in respect of share options	3,123,534	4,777,801
Weighted average number of shares for the purpose of diluted earnings per share	382,253,534	381,647,801

11. Movements in investment property/property, plant and equipment

	Investment property *HK$'000*	Property, plant and equipment *HK$'000*
COST OR VALUATION		
At 1st January, 2005		
– as originally stated	3,200	560,794
– adjustment on adoption of HKAS 17 *(note 3)*	–	(47,078)
– as restated	3,200	513,716
Additions	–	55,865
Disposals	–	(5,544)
At 30th June, 2005	3,200	564,037
DEPRECIATION AND AMORTISATION		
At 1st January, 2005		
– as originally stated	–	305,868
– adjustment on adoption of HKAS 17 *(note 3)*	–	(6,243)
– as restated	–	299,625
Provided for the period	–	24,898
Eliminated on disposals	–	(5,263)
At 30th June, 2005	–	319,260
NET BOOK VALUE		
At 30th June, 2005	3,200	244,777

The Group's investment property was revalued by the directors at 30th June, 2005. There were no surplus or deficit arising on revaluation of the investment property as at 30th June, 2005.

12. Loan receivable

The amount is secured and bears interest at market rate.

13. Goodwill

	30.6.2005	31.12.2004
	HK$'000	*HK$'000*
COST		
At beginning of the period/year	2,549	2,549
Eliminated of amortisation accumulated prior to the adoption of HKFRS 3	(1,275)	–
At end of the period/year	1,274	2,549
AMORTISATION		
At beginning of the period/year	1,275	765
Provided for the period/year	–	510
Elimination of amortisation accumulated prior to the adoption of HKFRS 3	(1,275)	–
At end of the period/year	–	1,275
CARRYING AMOUNT		
At end of the period/year	1,274	1,274

In accordance with HKFRS 3, goodwill has discontinued amortising from 1st January, 2005 and is subject to an annual impairment test.

14. 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$180,256,000 (31.12.2004: HK$193,241,000), an aging analysis of which at the balance sheet date is as follows:

	30.6.2005	31.12.2004
	HK$'000	*HK$'000*
Current	137,263	148,963
1 to 90 days overdue	36,313	41,265
More than 90 days overdue	6,680	3,013
	180,256	193,241

15. Creditors and accrued charges

Included in the Group's creditors and accrued charges are trade creditors of HK$97,848,000 (31.12.2004: HK$94,943,000), an aging analysis of which at the balance sheet date is as follows:

	30.6.2005	**31.12.2004**
	HK$'000	*HK$'000*
Current	82,588	67,885
1 to 90 days overdue	12,511	26,911
More than 90 days overdue	2,749	147
	97,848	94,943

16. Share capital

	Number of shares	**Amount**
		HK$'000
Shares of HK$0.10 each		
Authorised:		
At 30th June, 2005 and at 31st December, 2004	1,000,000,000	100,000
Issued and fully paid:		
At 30th June, 2005 and at 31st December, 2004	379,130,000	37,913

17. Pledge of assets

	30.6.2005	**31.12.2004**
	HK$'000	*HK$'000*
Assets pledged to banks in respect of banking facilities granted to the Group – bank deposits	–	2,187

18. Contingent liabilities

At 30th June, 2005, the Group had given a corporate guarantee in favour of a financial institution to the extent of HK$9,750,000 (31.12.2004: HK$9,750,000). Full amount of such facilities was utilised at the balance sheet dates.

19. Capital commitments

	30.6.2005	**31.12.2004**
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	22,789	12,402
– leasehold improvements	1,522	732
– plant and machinery	4,701	11,074
– furniture, fixtures and office equipment	95	–
	29,107	24,208

20. 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	
	30.6.2005	**30.6.2004**
	HK$'000	*HK$'000*
Short-term benefits	2,571	2,782

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 of Directors (the "Board") has resolved to declare an interim dividend of 9 cents per share for the six months ended 30th June, 2005 (2004: 9 cents per share). The interim dividend will be payable on 13th October, 2005 to shareholders whose names appear on the register of members of the Company on 6th October, 2005.

Closure of Register of Members

The register of members of the Company will be closed from 5th October, 2005 to 6th October, 2005, 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 4th October, 2005 in order to qualify for the interim dividend mentioned above.

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

As at 30th June, 2005, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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	1,836,000	151,000,000 *(Note a)*	152,836,000	40.31%
Hui Pui Woon	36,682,000	–	36,682,000	9.68%
Ng Kim Ying	450,000	18,500,000 *(Note b)*	18,950,000	5.00%
Lee Wai Chung	1,380,000	–	1,380,000	0.36%

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.

(b) 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.

2. *Underlying shares in the Company (Share Options)*

Details of the share options held by the Directors are detailed in the "Share Options" section below.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Ratagan in trust for the Group, as at 30th June, 2005, 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.

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.

No share option under the New Share Option Scheme was granted, exercised, cancelled or lapsed since its adoption. A summary of the movements in share options which were granted under the Old Share Option Scheme to certain eligible employees of the Group on 7th July, 2000 is as follows:

	Number of share options outstanding at 1st January, 2005 and 30th June, 2005	**Percentage of issued share capital**
Category: Directors		
Ng Hoi Ying, Michael	1,020,000	0.27%
Ng Kim Ying	300,000	0.08%
Lee Wai Chung	700,000	0.18%
	2,020,000	0.53%
Category: Employees	2,500,000	0.66%
Total all categories	4,520,000	1.19%

The above share options are exercisable pursuant to a vesting scale between 7th July, 2000 and 23rd October, 2006 at an exercise price of HK$0.88 per share. The consideration paid by each employee for the options granted was HK$1.

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

As at 30th June, 2005, 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	**Number of shares held**	**Percentage of issued share capital of the Company**	
Templeton Asset Management Ltd.	29,270,000	7.72%	*(Note)*
Templeton International, Inc.	29,270,000	7.72%	*(Note)*
Templeton Worldwide, Inc.	29,270,000	7.72%	*(Note)*
Franklin Resources, Inc.	29,270,000	7.72%	*(Note)*
David Michael Webb	19,648,000	5.18%	

Note: Templeton Asset Management Ltd. is wholly owned by Templeton International, Inc. which is wholly owned by Templeton Worldwide, Inc.. Templeton Worldwide, Inc. is wholly owned by Franklin Resources, Inc.. Hence, Templeton International, Inc., Templeton Worldwide, Inc. and Franklin Resources, Inc. are deemed to be interested in the same parcel of 29,270,000 shares held by Templeton Asset Management Ltd. under Part XV of the SFO.

All the interests stated above represent long position. Save as disclosed above, at 30th June, 2005, 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") (with the exception of code provision C.2.1 on internal controls which will be applicable to accounting periods commencing on or after 1st July, 2005) as set out in Appendix 14 to the Listing Rules throughout the six months period ended 30th June, 2005, 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.

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.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to 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 compiled with the required standards as set out in the Code during the six months period ended 30th June, 2005.

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, 2005.