Arts Group

Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability) Stock Code:1120

INTERIM REPORT 2007

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 and qualified accountant

LEE Wai Chung

Auditor

Deloitte Touche Tohmatsu

Legal advisers

Allen & Overy
Conyers Dill & Pearman

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong

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

Principal share registrar

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

Hong Kong branch share registrar

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

Principal bankers

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

Website

www.artsgroup.com

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Summary of results

The consolidated revenue 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 20% and 21% to HK$609.4 million and HK$81.9 million respectively (2006: HK$509.2 million and HK$67.4 million respectively) in the six months ended 30th June, 2007. Basic earnings per share increased by 21% to 21.3 HK cents (2006: 17.6 HK cents) in the period under review.

The movement of various cost components of the Group, including higher raw material costs, labour wages, record energy prices and gradual appreciation of Renminbi, continued to have an adverse effect on the gross margin of the Group which declined by 1.9% to 28.5% in the first half of 2007 (2006: 30.4%). Due to the positive effect of economies of scale and the strict cost control measures implemented by the Group, the total expenses to revenue ratio decreased by 1.9% from 17.5% in the first six months of 2006 to 15.6% in the corresponding period of 2007. Net profit margin (ratio of profit attributable to the equity holders of the Company to revenue) increased slightly by 0.2% from 13.2% to 13.4%.

Original design manufacturing (ODM) division

After registering a robust sales growth of 38% in 2006, sales to ODM customers recorded a relatively modest growth rate of 21% from HK$458.3 million in the first six months of 2006 to HK$554.5 million in the period under review. Europe and the United States remained as the main export markets of the Group's ODM division. Sales to Europe and the United States increased by 16% and 36% to HK$350.1 million and HK$177.4 million respectively (2006: HK$302.9 million and HK$130.8 million respectively) in the first half of 2007. On a geographical basis, sales to Europe, the United States, Asia and other regions accounted for 63%, 32%, 3% and 2% respectively of the sales of this division in the first six months of 2007 (2006: 66%, 29%, 4% and 1% respectively). Market demand by fashion labels for quality and trendy sunglasses, particularly those made of acetate plastic materials, continued in 2007. Sales of sunglasses grew by 38% to HK$273.0 million (2006: HK$198.1 million) and surpassed the sales of prescription frames which grew by 8% to HK$271.3 million (2006: HK$250.9 million). This growth pattern was consistent with market trends and changes in sales mixes of the market leaders in this industry. Sales of plastic frames, metal frames and spare parts accounted for 54%, 44% and 2% respectively of the sales of this division during the period under review (2006: 48%, 50% and 2% respectively).

Distribution and retailing divisions

Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) increased by 7% to HK$45.0 million in the six months ended 30th June, 2007 (2006: HK$42.1 million). Sales of the German brand owned by the Group, STEPPER eyewear, continued to perform well especially in the European markets. Sales of other brands including the licensed Italian fashion brand FIORUCCI eyewear and the new house brand OOPZ eyewear, had limited sales contribution to the distribution division. Sales to Europe, Asia, North America and other regions accounted for 60%, 17%, 12% and 11% respectively of the Group's turnover of distribution division in the period under review (2006: 48%, 30%, 12% and 10% respectively).

Turnover of the retailing division increased by 13% to HK$9.9 million in the first half of 2007 (2006: HK$8.8 million) as a result of better sales performance in Shenzhen after the completion of the renovation works of the flagship shop in late 2006. The Group operated a total of 13 shops (Beijing: 8 shops; Shenzhen: 5 shops) as at both 30th June, 2007 and 31st December, 2006.

Financial Position and Liquidity

During the period under review, the Group's operating activities generated a net cash inflow of HK$161.6 million (2006: HK$114.7 million). Capital expenditure incurred during the period amounted to HK$77.4 million (2006: HK$67.8 million) and was wholly financed by the Group's internal resources. Dividend payment amounted to HK$26.9 million was also made during the period under review (2006: HK$26.9 million). The net cash position of the Group (bank and cash balance less bank borrowing, if any) increased from HK$69.1 million as at 31st December, 2006 to HK$107.3 million as at 30th June, 2007. The Group did not have any interest bearing borrowings as at both 30th June, 2007 and 31st December, 2006.

The current ratio of the Group as at 30th June, 2007 was 2.2 to 1 (31st December, 2006: 2.4 to 1) with HK$624.2 million of current assets (31st December, 2006: HK$596.6 million) and HK$282.8 million of current liabilities (31st December, 2006: HK$244.8 million). To maintain the competitive edge of the Group in this fast changing fashion industry, the management continued its efforts of cutting down the delivery lead time for production and inventory turnover period (ratio of inventory balance to cost of sales) decreased from 87 days in the first six months of 2006 (or 86 days for the full year of 2006) to 80 days in the corresponding period of 2007. Debtors turnover period (ratio of the total of debtor and discounted bills balances, if any, to sales) increased slightly from 93 days in the first six months of 2006 to 95 days in the corresponding period of 2007, but this was still substantially shorter than the debtors turnover period of 111 days recorded for the whole year of 2006.

The Group had 383,650,000 shares in issue as at both 30th June, 2007 and 31st December, 2006 with an equity attributable to equity holders of the Company amounting to HK$820.6 million and HK$754.2 million as at 30th June, 2007 and 31st December, 2006 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, 2007 was HK$2.14 (31st December, 2006: HK$1.97). 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, 2006: HK$13.7 million) and 1.6% (31st December, 2006: 1.8%) respectively.

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

Prospects

ODM division

The management is closely monitoring the impact on the business of ODM division of the repercussions on consumer spending in the American and European markets arising from the subprime mortgage crisis in the United States. Although there are no significant adverse changes in the procurement pattern and behaviour exhibited by the major customers and the Group currently has three months sales orders on hand, the management maintains its vigilance of any potential market upheaval.

On the production side, change in government policies in mainland China especially tax and customs regulations is another major concern to the Group. The recent changes in customs regulations on processing trade will create both threats and opportunities to the Group. Although the changes in regulations do not currently have a significant effect on the costs and operations of the Group, they are going to affect the Group in the long run especially the Group will eventually change from contract processing arrangement to import processing arrangement. On the other hand, this can be an opportunity to the Group to gain market share as smaller players may not have the resources to cope with the changes in regulations.

The pace of increase of various cost factors of production appears to have slowed down in recent months, but there are also no signs that they will be moving downward in the foreseeable future. The Group will continue to alleviate the margin pressure by moderate adjustments to the selling price of the products and internal streamlining of operations. Capacity expansion plan will be executed after critical analysis of market trend and availability of funds and capital investment will continue to be primarily funded by internal resources.

Distribution and retailing divisions

The growth momentum of sales of the distribution division had slowed down in the first half of 2007 after achieving a compound annual growth rate of more than 40% in the previous three fiscal years. The management believes that the capability of the Group of producing quality products with innovative designs at competitive prices together with the well established distributor network provide the Group an excellent platform to further develop this business. More resources will be devoted to the identification of other brands acquisition or licensing opportunities, expansion of the distribution network and cross selling of different brands among the distributors. The management is determined to build up this division to become a significant long term recurrent income base of the Group.

Although the reporting of encouraging sales growth in the retailing division during the first half of 2007 demonstrated the success of the consolidation strategy adopted by the Group in recent years, the management expects that its contribution to the sales and profitability of the whole Group will remain relatively limited in view of its small scale of operations. The management will focus on maintaining the growth trend in sales on same-store basis and exploring the earning potential of the existing sales network.

Summary

Despite the increased uncertainty and volatility of the market conditions, the Group still manages to report a modest but satisfactory growth in both revenue and profitability in the first half of 2007. The management will continue to follow the guiding management principles of business diversification and financial prudence and is well prepared to meet the challenges and seize any new business opportunities.

Employee and Remuneration Policies

The Group employed approximately 12,300 full time staff as at 30th June, 2007 (31st December, 2006: 11,300). 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, 14th September, 2007

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF
ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 11 to 21, which comprises the condensed consolidated balance sheet of Arts Optical International Holdings Limited as of 30th June, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
14th September, 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

		Six months ended	
		30.6.2007	30.6.2006
	NOTES	**HK$'000**	HK$'000
		(unaudited)	(unaudited)
Revenue	3	**609,420**	509,242
Cost of sales		**(435,573)**	(354,682)
Gross profit		**173,847**	154,560
Other income		**11,639**	9,671
Distribution costs		**(19,805)**	(24,183)
Administrative expenses		**(74,477)**	(56,793)
Other expenses		**(753)**	(8,168)
Finance costs	4	**(124)**	–
Profit before taxation		**90,327**	75,087
Taxation	5	**(8,706)**	(9,280)
Profit for the period	6	**81,621**	65,807
Attributable to:			
Equity holders of the parent		**81,893**	67,441
Minority interests		**(272)**	(1,634)
		81,621	65,807
Dividend paid	7	**26,856**	26,856
Earnings per share	8		
– Basic		**21.3 HK cents**	17.6 HK cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2007

	NOTES	30.6.2007 HK$'000 (unaudited)	31.12.2006 HK$'000 (audited) (restated)
Non-current Assets			
Investment property	9	**4,800**	4,800
Property, plant and equipment	10	**402,877**	350,373
Prepaid lease payments		**28,197**	26,145
Deposit paid for property, plant and equipment		**31,382**	9,064
Intangible assets		**4,680**	4,680
Loan receivable	11	**14,196**	15,229
Available-for-sale investments		**5,858**	5,858
Deferred tax assets		**53**	53
		492,043	416,202
Current Assets			
Inventories		**190,558**	184,621
Debtors, deposits and prepayments	12	**323,265**	339,720
Loan receivable	11	**2,262**	2,247
Prepaid lease payments		**695**	652
Tax recoverable		**51**	265
Bank balances and cash		**107,320**	69,134
		624,151	596,639
Current Liabilities			
Creditors and accrued charges	13	**262,524**	234,442
Tax liabilities		**20,226**	10,381
		282,750	244,823
Net Current Assets		**341,401**	351,816
Total Assets less Current Liabilities		**833,444**	768,018

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AT 30TH JUNE, 2007

	NOTES	30.6.2007 HK$'000 (unaudited)	31.12.2006 HK$'000 (audited) (restated)
Capital and Reserves			
Share capital		**38,365**	38,365
Reserves		**782,253**	715,843
Equity attributable to equity holders of the parent		**820,618**	754,208
Minority interests		**–**	142
Total Equity		**820,618**	754,350
Non-current Liabilities			
Deferred tax liabilities		**11,914**	13,054
Loan from a minority shareholder of a subsidiary		**912**	614
		12,826	13,668
		833,444	768,018

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

	Attributable to shareholders of the Company								
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
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 foreign operation recognised directly in equity	–	–	–	–	5,749	–	5,749	–	5,749
Profit (loss) 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
At 1st January, 2007	38,365	113,950	(3,269)	645	17,742	586,775	754,208	142	754,350
Exchange differences arising on translation of foreign operation recognised directly in equity	–	–	–	–	11,101	–	11,101	130	11,231
Profit (loss) for the period	–	–	–	–	–	81,893	81,893	(272)	81,621
Total recognised income and expense for the period	–	–	–	–	11,101	81,893	92,994	(142)	92,852
Deemed contribution from a minority shareholder of a subsidiary	–	–	–	272	–	–	272	–	272
Dividend paid	–	–	–	–	–	(26,856)	(26,856)	–	(26,856)
At 30th June, 2007	38,365	113,950	(3,269)	917	28,843	641,812	820,618	–	820,618

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 reorganisation in 1996.

Other reserve represents the effect of fair value adjustment at initial recognition of loan from a minority shareholder of a subsidiary classified under non-current liabilities.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

	Six months ended 30.6.2007 HK$'000 (unaudited)	Six months ended 30.6.2006 HK$'000 (unaudited)
NET CASH FROM OPERATING ACTIVITIES	**161,568**	114,726
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(75,370)**	(66,834)
Additions to prepaid lease payments	**(2,030)**	(962)
Increase in deposits paid for property, plant and equipment	**(22,318)**	(1,898)
Acquisition of a jointly controlled entity	**–**	(290)
Purchase of trademark	**–**	(4,680)
Proceeds from disposal of property, plant and equipment	**65**	310
Interest received	**743**	475
Repayment from loan receivable	**1,018**	1,251
NET CASH USED IN INVESTING ACTIVITIES	**(97,892)**	(72,628)
FINANCING ACTIVITIES		
Dividends paid	**(26,856)**	(26,856)
Interest paid	**(79)**	–
Advanced from minority shareholders	**525**	735
NET CASH USED IN FINANCING ACTIVITIES	**(26,410)**	(26,121)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**37,266**	15,977
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**69,134**	65,006
Effect of foreign exchange rate changes	**920**	171
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	**107,320**	81,154

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2007

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – INT 8	Scope of HKFRS 2[3]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[5]

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC) – INT 12	Service Concession Arrangements[3]

[1] Effective for annual periods beginning on or after 1st January, 2009.
[2] Effective for annual periods beginning on or after 1st March, 2007.
[3] Effective for annual periods beginning on or after 1st January, 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and financial position of the Group.

3. SEGMENT INFORMATION

Business Segments

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

Geographical Segments

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

	Six months ended			
	30.6.2007 Revenue HK$'000	**30.6.2007 Results HK$'000**	30.6.2006 Revenue HK$'000	30.6.2006 Results HK$'000
Europe	**377,116**	**58,794**	325,020	51,560
United States	**181,451**	**29,515**	134,185	22,966
Asia	**36,262**	**2,313**	38,437	862
Other regions	**14,591**	**1,882**	11,600	1,266
	609,420	**92,504**	509,242	76,654
Unallocated corporate income		**744**		2,249
Unallocated corporate expenses		**(2,797)**		(3,816)
Finance costs		**(124)**		–
Profit before taxation		**90,327**		75,087
Taxation		**(8,706)**		(9,280)
Profit for the period		**81,621**		65,807

4. FINANCE COSTS

	Six months ended	
	30.6.2007	30.6.2006
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	**79**	–
Imputed interest on loan from a minority shareholder of a subsidiary	**45**	–
	124	–

5. TAXATION

	Six months ended	
	30.6.2007	30.6.2006
	HK$'000	HK$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	**9,846**	7,980
Deferred taxation		
Current year	**(1,140)**	1,300
	8,706	9,280

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30th June, 2006: 17.5%) on 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 of the Company, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for the period.

6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2007	30.6.2006
	HK$'000	HK$'000
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**435,573**	354,682
Depreciation of property, plant and equipment	**32,735**	26,026
(Gain) loss on disposal of property, plant and equipment	**(28)**	1,543
Net foreign exchange (gain) loss	**(3,836)**	5,472
Release of prepaid lease payments	**340**	431

7. DIVIDENDS

	Six months ended	
	30.6.2007	30.6.2006
	HK$'000	HK$'000
Final dividend paid in respect of 2006 of 7 HK cents (2006: 7 HK cents in respect of 2005) per share	**26,856**	26,856

The interim dividend in respect of 2007 of 8 HK cents (2006: 7 HK cents) per share amounting to a total of HK$30,692,000 (2006: HK$26,856,000) has been declared by the board of directors of the Company (the "Board") on 14th September, 2007.

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	
	30.6.2007	30.6.2006
	HK$'000	HK$'000
Earnings for the purposes of basic earnings per share	**81,893**	67,441
	Number of shares	
Number of shares for the purpose of basic earnings per share	**383,650,000**	383,650,000

9. INVESTMENT PROPERTY

The Group's investment property was fair-valued by the directors of the Company at 30th June, 2007. There were no changes in fair value of the investment property as at 30th June, 2007.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK$75,370,000 (six months ended 30th June, 2006: HK$66,834,000).

11. LOAN RECEIVABLE

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

12. DEBTORS, DEPOSITS AND PREPAYMENTS

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

Included in the Group's debtors, deposits and prepayments are trade debtors of HK$317,486,000 (31st December, 2006: HK$333,632,000), an aging analysis of which at the balance sheet date is as follows:

	30.6.2007	31.12.2006
	HK$'000	HK$'000
Current	**269,221**	259,328
1 to 90 days overdue	**46,358**	74,304
More than 90 days overdue	**1,907**	–
	317,486	333,632

13. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK$168,329,000 (31st December, 2006: HK$163,339,000), an aging analysis of which at the balance sheet date is as follows:

	30.6.2007	31.12.2006
	HK$'000	HK$'000
Current	**146,538**	108,991
1 to 90 days overdue	**17,169**	52,635
More than 90 days overdue	**4,622**	1,713
	168,329	163,339

14. CAPITAL COMMITMENTS

	30.6.2007	31.12.2006
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements:		
– buildings under construction	**46,428**	56,069
– leasehold improvements	**1,956**	1,078
– plant and machinery	**20,422**	36,976
	68,806	94,123

15. CONTINGENT LIABILITIES

	30.6.2007	31.12.2006
	HK$'000	HK$'000
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	**9,750**	9,687

The directors of the Company consider that the fair value of the financial guarantee contract at its initial recognition is insignificant on the basis of short maturity periods and low applicable default rates. The financial guarantee contract has not been recognised in the condensed consolidated financial statements.

16. RELATED PARTY TRANSACTIONS

Compensation of Key Management Personnel

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

	Six months ended	
	30.6.2007	30.6.2006
	HK$'000	HK$'000
Short-term benefits	**3,155**	2,792
Post-employment benefits	**112**	104
	3,267	2,896

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

SUPPLEMENTARY INFORMATION

Dividend

The Board has resolved to declare an interim dividend of 8 HK cents per share for the six months ended 30th June, 2007 (2006: 7 HK cents per share). The interim dividend will be payable on 16th October, 2007 to shareholders whose names appear on the register of members of the Company on 9th October, 2007.

Closure of Register of Members

The register of members of the Company will be closed from 8th October, 2007 to 9th October, 2007, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 5th October, 2007 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 (the "Code") regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Code during the six months ended 30th June, 2007.

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, 2007.

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

As at 30th June, 2007, the interests and short positions of the Directors and chief executives 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)*

	Number of issued ordinary shares held			Approximate percentage of issued share capital of the Company
Name of director	Personal interests	Other interests	Total	
Ng Hoi Ying, Michael	2,856,000	151,000,000 *(Note a)*	153,856,000	40.10%
Ng Kim Ying	950,000	18,500,000 *(Note b)*	19,450,000	5.07%
Hui Pui Woon	–	17,682,000 *(Note c)*	17,682,000	4.61%
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 Maritime Overseas Assets Limited which was wholly owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Hoi Ying, Michael.

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

(c) These shares were held by Fortune Smiles Limited. The entire issued share capital of Fortune Smiles Limited 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.

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 schemes. All the share options granted under the Old Share Option Scheme have been exercised or have lapsed before 1st January, 2007. No share option under the New Share Option Scheme has been granted since its adoption.

Save as disclosed above, as at 30th June, 2007, none of the Directors and the chief executives had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30th June, 2007, the interests and short positions of every person, other than the interests disclosed under the heading "Directors' and Chief Executives' 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 issued ordinary shares held		Approximate percentage of issued share capital of the Company
Veer Palthe Voûte NV	Beneficial owner	38,353,990	*(Note a)*	10.00%
David Michael Webb	Beneficial owner	3,224,000		0.84%
	Held by controlled corporation	19,900,000	*(Note b)*	5.19%
Preferable Situation Assets Limited	Beneficial owner	19,900,000	*(Note b)*	5.19%

Notes:

(a) Allianz SE, Allianz Finanzbeteiligungs GmbH, Dresdner Bank Aktiengesellschaft (81.1% owned by Allianz Finanzbeteiligungs GmbH) 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 38,353,990 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 19,900,000 shares held by Preferable Situation Assets Limited under Part XV of the SFO.

All the interests stated above represent long position. Save as disclosed above, at 30th June, 2007, 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 ended 30th June, 2007, except for deviations from code provision A.2.1 of the CG Code only. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group. Currently, the Company does not 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 the management of the Company.

An Audit Committee has been established by the Company since 1998 to act in an advisory capacity and make recommendations to the Board. The Audit Committee currently comprises Messrs. Wong Chi Wai, 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 Company 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, 2007 have been reviewed by the Audit Committee and the Company's auditor, Deloitte Touche Tohmatsu.

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