Arts Group

# Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock code: 1120

Interim Report

2009

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# CORPORATE INFORMATION

**Board of directors**

*Executive directors*

NG Hoi Ying, Michael – *Chairman*
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

**Auditor**

Deloitte Touche Tohmatsu

**Legal advisers**

Latham & Watkins
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**

ABN AMRO BANK N.V., Hong Kong Branch
Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
China Construction Bank Corporation Hong Kong Branch
Chong Hing Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

**Website**

www.artsgroup.com

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

*Profitability analysis*

The consolidated revenue of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") decreased by 11% to HK$593.4 million (2008: HK$669.5 million) and the profit attributable to the owners of the Company also decreased by the same percentage to HK$66.3 million (2008: HK$74.8 million) in the six months ended 30th June, 2009. Basic earnings per share decreased correspondingly by 11% to 17.3 HK cents (2008: 19.5 HK cents) in the period under review.

The gross profit margin (ratio of gross profit to revenue) of the Group improved by 2.8% from 24.8% in the first half of 2008 to 27.6% in the corresponding period of 2009. This was attributable to the decline in raw material prices and the Group's efforts in streamlining operations so that the adverse effect of dis-economies of scale could be alleviated. Total expenses to revenue ratio increased by 2.2% from 14.8% to 17.0% despite a decline in total dollar amount of the expenses by HK$1.4 million. As some one-off gains reported last year were no longer recorded in the current year, the net profit margin (ratio of profit attributable to the owners of the Company to revenue) remained flat at 11.2%.

*Original design manufacturing (ODM) division*

The de-stocking exercise implemented by retailers, which was triggered by the global financial meltdown in the second half of 2008, continued to affect the performance of the ODM division in 2009. Sales to ODM customers declined by 11% from HK$607.9 million in the first six months of 2008 to HK$539.6 million in the period under review. Sales to the Group's two biggest markets, Europe and the United States (the "US"), fell by 15% and 7% respectively. On the other hand, sales to emerging markets was less affected by the global recession, with sales to Asia and other regions jumping upwards by 16% and 47% respectively. Geographically, sales to Europe, the US, Asia and other regions accounted for 65%, 30%, 3% and 2% respectively of the sales of this division in the first six months of 2009 (2008: 68%, 29%, 2% and 1% respectively).

The Group's prescription frames business continued to exhibit its resilience amid the sluggish economic environment in the first half of 2009 with a modest growth of 5% in sales recorded in the first six months of 2009. Sales of sunglasses, which was more sensitive to the economic cycle, fell by 31% in the same period. Sales of prescription frames, sunglasses and spare parts accounted for 63%, 35% and 2% respectively of the sales of this division during the period under review (2008: 54%, 45% and 1% respectively). The decline in sales of sunglasses also affected the sales mix of the products sold. Sales of metal frames, plastic frames and spare parts accounted for 51%, 47% and 2% respectively of total sales (2008: 47%, 52% and 1% respectively).

*Distribution and retailing divisions*

Sales for the distribution division declined by 9% from HK$55.9 million to HK$51.1 million during the period under review as compared with the corresponding period last year. Sales to Europe increased marginally by 2% due to the solid sales performance of the Group's German brand "STEPPER" whereas sales to Asia, North America and other regions fell by 16%, 24% and 25% respectively. Sales to Europe, Asia, North America and other regions accounted for 58%, 23%, 6% and 13% respectively of the turnover of the distribution division in the first half of 2009 (2008: 52%, 25%, 7% and 16% respectively).

Revenue of the retailing division decreased by 53% to HK$2.7 million in the first half of 2009 (2008: HK$5.7 million) as the Group had disposed of all of its 3 shops in Beijing in the first half of 2008 and operated only 3 shops in Shenzhen as at 30th June, 2009 (30th June, 2008: 4 shops in Shenzhen).

**Financial Position and Liquidity**

*Working capital management*

We are pleased to report that our efforts in reducing inventory and receivables have started to bear fruit. Inventory turnover period (ratio of inventory balance to cost of sales) decreased from 79 days in the first six months of 2008 to 59 days in the corresponding period of 2009. Debtors turnover period (ratio of the trade debtors balance to sales) also decreased from 101 days to 96 days. The current ratio of the Group as at 30th June, 2009 was 3.1 to 1 (31st December, 2008: 2.3 to 1) with HK$701.8 million of current assets (31st December, 2008: HK$727.3 million) and HK$223.4 million of current liabilities (31st December, 2008: HK$313.8 million).

*Cash flows*

During the period under review, the Group's operating activities generated a strong net cash inflow of HK$185.1 million (2008: HK$70.2 million), principally as a result of the cutting down of working capital requirements during the period. Capital expenditure was closely monitored by the management and amounted to HK$25.8 million, significantly down from HK$64.8 million of the corresponding period of last year. A dividend payment of HK$24.9 million was made (2008: HK$30.7 million). The net cash position of the Group (bank and cash balance less bank borrowings) increased from HK$56.6 million as at 31st December, 2008 to HK$192.9 million as at 30th June, 2009.

*Gearing position*
As at 30th June, 2009, total non-current liabilities and debt to equity ratio (expressed as a percentage of total non-current liabilities over equity attributable to the owners of the Company) were HK$48.7 million (31st December, 2008: HK$53.3 million) and 4.7% (31st December, 2008: 5.3%) respectively. As at 30th June, 2009, the Group has repaid all bank borrowings except the outstanding principal of the Hong Kong dollars five years term loan raised in 2008.

*Net asset value*
The Group had 383,650,000 shares in issue as at both 30th June, 2009 and 31st December, 2008 with equity attributable to the owners of the Company amounting to HK$1,034.9 million and HK$997.1 million as at 30th June, 2009 and 31st December, 2008 respectively. Net asset value per share (equity attributable to the owners of the Company divided by the total number of shares in issue) as at 30th June, 2009 was HK$2.70 (31st December, 2008: HK$2.60).

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

**Prospects**

*ODM division*
The market was extremely challenging and volatile in the first quarter of 2009 and began to show signs of stabilization in the second quarter. The management has adjusted the operating scale of the Group and rescheduled its capital expenditure plan accordingly. This helps us to improve our service to our customers and maintain our pricing power. Although business visibility remains low and most market participants do not expect to see a solid recovery this year, this division currently has three months sales orders on hand. We believe that our strategy of improving operational efficiency and focusing on profitability will help us weather any further volatility of the market.

*Distribution and retailing divisions*
The Group expects that its distribution division will continue to render solid results in the second half of the year. The first global distributors' conference held in April provided an excellent platform for maximization of cross-selling opportunities. Encouraging sales figures were recorded in the months of July and August and the Group will explore further sales opportunities in various emerging markets.

The Group continues to adopt a defensive strategy in its retailing division. Same-store sales growth and improvement of profitability will be the primary focus whereas the number of shops will remain at the current level.

*Liquidity and financial management*

Although certain positive results have been generated after the management's strenuous efforts in cutting down the working capital cycle of the Group in the first half of 2009, we cannot be complacent and must remain vigilant. We shall keep on closely monitoring the utilization of our inventory, the recoverability of our trade debts and the overall cash flow situation. Moreover, capital expenditure on the upgrading of equipment in the existing factories in Shenzhen and Zhongshan and installations of equipment in the newly constructed factory in Heyuan will continue to be put under close scrutiny of the management.

*Summary*

The Group will continue to adhere strictly to its well-established operational and financial disciplines amid the current economic environment. Our core competitiveness will be improved by continuous investments in key strategic areas. We are well prepared to capture any market opportunities once there is sustainable economic recovery.

**Employee and Remuneration Policies**

The Group employed approximately 9,900 full time staff in mainland China, Hong Kong and Europe as at 30th June, 2009 (31st December, 2008: 11,600). The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, provident fund schemes as well as a share option scheme.

**Ng Hoi Ying, Michael**
*Chairman*

Hong Kong, 15th September, 2009

Deloitte.
德勤

# 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 9 to 23, which comprises the condensed consolidated statement of financial position of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30th June, 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows 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 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company 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 inquiries, 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
15th September, 2009

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30th June, 2009*

| | | Six months ended | |
|---|---|---|---|
| | | **30.6.2009** | 30.6.2008 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(unaudited)** | (unaudited) |
| Revenue | 3 | **593,350** | 669,473 |
| Cost of sales | | **(429,743)** | (503,709) |
| Gross profit | | **163,607** | 165,764 |
| Other income | | **11,885** | 11,229 |
| Other gains and losses | | **1,098** | 6,170 |
| Distribution and selling expenses | | **(25,568)** | (22,743) |
| Administrative expenses | | **(74,031)** | (75,540) |
| Other expenses | | **(431)** | (469) |
| Finance costs | 4 | **(565)** | (479) |
| Profit before tax | | **75,995** | 83,932 |
| Income tax expense | 5 | **(9,268)** | (8,580) |
| Profit for the period | 6 | **66,727** | 75,352 |
| Other comprehensive income: | | | |
| Exchange differences arising on translation of foreign operations | | **(3,486)** | 25,510 |
| Total comprehensive income for the period | | **63,241** | 100,862 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | **66,264** | 74,765 |
| Minority interests | | **463** | 587 |
| | | **66,727** | 75,352 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **62,778** | 100,163 |
| Minority interests | | **463** | 699 |
| | | **63,241** | 100,862 |
| Earnings per share | 8 | | |
| – Basic | | **17.3 HK cents** | 19.5 HK cents |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30th June, 2009*

| | *Notes* | **30.6.2009**<br>***HK$'000***<br>**(unaudited)** | 31.12.2008<br>*HK$'000*<br>(audited) |
|---|---|---|---|
| **Non-current Assets** | | | |
| Investment property | 9 | **–** | 7,300 |
| Property, plant and equipment | 10 | **539,688** | 568,938 |
| Prepaid lease payments | | **34,448** | 34,869 |
| Deposits paid for acquisition of property, plant and equipment | | **13,162** | 6,338 |
| Intangible assets | | **4,680** | 4,680 |
| Loan receivable | 11 | **11,238** | 12,361 |
| Available-for-sale investments | | **5,858** | 5,858 |
| | | **609,074** | 640,344 |
| **Current Assets** | | | |
| Inventories | | **139,332** | 188,317 |
| Debtors, deposits and prepayments | 12 | **318,096** | 394,457 |
| Loan receivable | 11 | **2,248** | 2,248 |
| Prepaid lease payments | | **886** | 886 |
| Tax recoverable | | **146** | 188 |
| Short-term bank deposits | | **87,928** | – |
| Bank balances and cash | | **145,850** | 141,239 |
| | | **694,486** | 727,335 |
| Asset classified as held for sale | 13 | **7,300** | – |
| | | **701,786** | 727,335 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

*At 30th June, 2009*

| | *Notes* | **30.6.2009**<br>***HK$'000***<br>**(unaudited)** | 31.12.2008<br>*HK$'000*<br>(audited) |
|---|---|---|---|
| **Current Liabilities** | | | |
| Creditors and accrued charges | 14 | **207,395** | 264,300 |
| Bank borrowings | 15 | **10,000** | 48,824 |
| Tax liabilities | | **5,967** | 725 |
| | | **223,362** | 313,849 |
| **Net Current Assets** | | **478,424** | 413,486 |
| **Total Assets less Current Liabilities** | | **1,087,498** | 1,053,830 |
| **Capital and Reserves** | | | |
| Share capital | | **38,365** | 38,365 |
| Reserves | | **996,535** | 958,694 |
| Equity attributable to owners of the Company | | **1,034,900** | 997,059 |
| Minority interests | | **3,910** | 3,447 |
| **Total Equity** | | **1,038,810** | 1,000,506 |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | | **17,855** | 17,491 |
| Bank borrowings | 15 | **30,833** | 35,833 |
| | | **48,688** | 53,324 |
| | | **1,087,498** | 1,053,830 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th June, 2009*

| | Share capital | Share premium | Special reserve | Other reserve | Exchange reserve | Retained profits | Attributable to owners of the Company | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st January, 2008 (audited) | 38,365 | 113,950 | (3,269) | 1,023 | 44,563 | 713,284 | 907,916 | 1,552 | 909,468 |
| Profit for the period | – | – | – | – | – | 74,765 | 74,765 | 587 | 75,352 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | 25,398 | – | 25,398 | 112 | 25,510 |
| Total comprehensive income for the period | – | – | – | – | 25,398 | 74,765 | 100,163 | 699 | 100,862 |
| Dividend paid | – | – | – | – | – | (30,692) | (30,692) | – | (30,692) |
| Disposal of partial interests in a subsidiary | – | – | – | – | – | – | – | 1,738 | 1,738 |
| At 30th June, 2008 (unaudited) | 38,365 | 113,950 | (3,269) | 1,023 | 69,961 | 757,357 | 977,387 | 3,989 | 981,376 |
| At 1st January, 2009 (audited) | 38,365 | 113,950 | (3,269) | – | 60,923 | 787,090 | 997,059 | 3,447 | 1,000,506 |
| Profit for the period | – | – | – | – | – | 66,264 | 66,264 | 463 | 66,727 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | (3,486) | – | (3,486) | – | (3,486) |
| Total comprehensive income for the period | – | – | – | – | (3,486) | 66,264 | 62,778 | 463 | 63,241 |
| Dividend paid | – | – | – | – | – | (24,937) | (24,937) | – | (24,937) |
| At 30th June, 2009 (unaudited) | 38,365 | 113,950 | (3,269) | – | 57,437 | 828,417 | 1,034,900 | 3,910 | 1,038,810 |

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. pursuant to the group reorganisation in 1996.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30th June, 2009*

| | Six months ended | |
|---|---|---|
| | **30.6.2009** | 30.6.2008 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **NET CASH FROM OPERATING ACTIVITIES** | **185,083** | 70,220 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | **(12,655)** | (59,102) |
| Additions to prepaid lease payments | **–** | (562) |
| Deposits paid for acquisition of property, plant and equipment | **(13,162)** | (5,177) |
| Proceeds from disposal of partial interests in a subsidiary | **460** | 4,990 |
| Proceeds from disposal of assets classified as held for sale | **–** | 9,253 |
| Proceeds from disposal of property, plant and equipment | **–** | 386 |
| Interest received | **1,021** | 178 |
| Repayment of loan receivable | **1,123** | 565 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(23,213)** | (49,469) |
| **FINANCING ACTIVITIES** | | |
| Dividend paid | **(24,937)** | (30,692) |
| Interest paid | **(565)** | (428) |
| Repayment of bank borrowings | **(47,698)** | (48,445) |
| New bank borrowings raised | **3,874** | 31,029 |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(69,326)** | (48,536) |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Continued)
*For the six months ended 30th June, 2009*

| | Six months ended | |
|---|---|---|
| | **30.6.2009** | 30.6.2008 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **92,544** | (27,785) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | **141,239** | 108,440 |
| Effect of foreign exchange rate changes | **(5)** | 3,479 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD,** represented by | **233,778** | 84,134 |
| Short-term bank deposits | **87,928** | 5,001 |
| Bank balances and cash | **145,850** | 79,133 |
| | **233,778** | 84,134 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2009*

## 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".

## 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 values.

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, 2008.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning on 1st January, 2009.

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) – Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

**2. PRINCIPAL ACCOUNTING POLICIES** (Continued)

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKAS 27 (Revised 2008) | Consolidated and Separate Financial Statements[1] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 3 (Revised 2008) | Business Combinations[1] |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers[4] |

1 Effective for annual periods beginning on or after 1st July, 2009

2 Amendments that are effective for annual periods beginning on or after 1st July, 2009 or 1st January, 2010, as appropriate

3 Effective for annual periods beginning on or after 1st January, 2010

4 Effective for transfers on or after 1st July, 2009

**2. PRINCIPAL ACCOUNTING POLICIES** (Continued)

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1st January, 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

**3. SEGMENT INFORMATION**

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1st January, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The information reported to the Group's chief operating decision maker (i.e. Executive Directors) for the purposes of resource allocation and assessment of performance is focused on the location of customers. Thus, the Group is currently organised into four segments which are sales from customers located in Europe, the United States, Asia and other regions.

3. **SEGMENT INFORMATION** (Continued)

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

| | Six months ended | | | |
|---|---|---|---|---|
| | **30.6.2009** | **30.6.2009** | 30.6.2008 | 30.6.2008 |
| | **Revenue** | **Results** | Revenue | Results |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Europe | **379,656** | **57,415** | 440,426 | 59,965 |
| United States | **166,849** | **24,651** | 180,472 | 23,448 |
| Asia | **28,878** | **6,587** | 32,102 | 12,149 |
| Other regions | **17,967** | **1,603** | 16,473 | 1,402 |
| | **593,350** | **90,256** | 669,473 | 96,964 |
| Unallocated income | | **349** | | 5,366 |
| Unallocated corporate expenses | | **(15,066)** | | (18,097) |
| Interest income on bank deposits | | **1,021** | | 178 |
| Finance costs | | **(565)** | | (479) |
| Profit before tax | | **75,995** | | 83,932 |
| Income tax expense | | **(9,268)** | | (8,580) |
| Profit for the period | | **66,727** | | 75,352 |

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, interest income, property rental income, royalty income, gain on disposal of partial interests in a subsidiary and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

4. **FINANCE COSTS**

| | Six months ended | |
|---|---|---|
| | **30.6.2009** | 30.6.2008 |
| | ***HK$'000*** | *HK$'000* |
| Interest on bank borrowings wholly repayable within five years | **565** | 428 |
| Imputed interest on loan from a minority shareholder of a subsidiary | **–** | 51 |
| | **565** | 479 |

## 5. INCOME TAX EXPENSE

| | Six months ended | |
|---|---|---|
| | **30.6.2009** | 30.6.2008 |
| | ***HK$'000*** | *HK$'000* |
| The charge comprises: | | |
| Current taxation | | |
| Hong Kong Profits Tax | **8,904** | 8,580 |
| Deferred taxation | | |
| Current year | **364** | – |
| | **9,268** | 8,580 |

Hong Kong Profits Tax is recognised based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 16.5% for both periods under review.

PRC enterprise income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

In relation to 50:50 apportionment basis, 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 | |
|---|---|---|
| | **30.6.2009** | 30.6.2008 |
| | ***HK$'000*** | *HK$'000* |
| Profit for the period has been arrived at after charging (crediting): | | |
| Cost of inventories recognised as an expense | **429,743** | 503,709 |
| Depreciation of property, plant and equipment | **43,573** | 38,893 |
| Gain on disposal of assets classified as held for sale | **–** | (6,226) |
| Gain on disposal of partial interests in a subsidiary | **–** | (4,442) |
| Loss on disposal of property, plant and equipment | **116** | 63 |
| Net foreign exchange (gain) loss | **(1,214)** | 4,435 |
| Release of prepaid lease payments | **421** | 412 |

## 7. DIVIDENDS

| | Six months ended | |
|---|---|---|
| | **30.6.2009** | 30.6.2008 |
| | ***HK$'000*** | *HK$'000* |
| Final dividend paid in respect of 2008 of 6.5 HK cents (2008: 8.0 HK cents in respect of 2007) per share | **24,937** | 30,692 |

The interim dividend in respect of 2009 of 6.5 HK cents (2008: 7.0 HK cents) per share amounting to a total of HK$24,937,000 (2008: HK$26,856,000) has been declared by the board of directors on 15th September, 2009.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

| | Six months ended | |
|---|---|---|
| | **30.6.2009** | 30.6.2008 |
| | ***HK$'000*** | *HK$'000* |
| Earnings for the purpose of basic earnings per share (Profit for the period attributable to the owners of the Company) | **66,264** | 74,765 |
| | ***Number of shares*** | |
| Number of shares for the purpose of basic earnings per share | **383,650,000** | 383,650,000 |

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

## 9. INVESTMENT PROPERTY

The fair value of the Group's investment property at 31st December, 2008 had been arrived at on the basis of a valuation carried out on that day by Messrs. Vigers Appraisal & Consulting Limited, independent qualified valuers not connected with the Group. This investment property was reclassified as asset held for sale at 30th June, 2009 (note 13).

## 10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK$18,993,000 (six months ended 30th June, 2008: HK$59,102,000).

**11. LOAN RECEIVABLE**

The amount is secured and carries interest at fixed interest rate of 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$312,599,000 (31st December, 2008: HK$388,725,000), an aging analysis of which at the reporting date is as follows:

| | **30.6.2009** | 31.12.2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | **247,615** | 310,351 |
| 1 to 90 days overdue | **64,984** | 78,374 |
| | **312,599** | 388,725 |

**13. ASSET CLASSIFIED AS HELD FOR SALE**

The Group has entered into a sale and purchase agreement in June 2009 with an independent third party to dispose of its investment property. The disposal of the investment property was completed in August 2009 at a consideration of HK$7,380,000.

**14. CREDITORS AND ACCRUED CHARGES**

Included in the Group's creditors and accrued charges are trade creditors of HK$97,501,000 (31st December, 2008: HK$147,455,000), an aging analysis of which at the reporting date is as follows:

| | **30.6.2009** | 31.12.2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | **86,754** | 92,920 |
| 1 to 90 days overdue | **8,790** | 52,010 |
| More than 90 days overdue | **1,957** | 2,525 |
| | **97,501** | 147,455 |

## 15. BANK BORROWINGS

| | **30.6.2009** | 31.12.2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The maturity of the unsecured bank borrowings is as follows: | | |
| On demand or within one year | **10,000** | 48,824 |
| More than one year, but not exceeding two years | **10,000** | 10,000 |
| More than two years, but not exceeding five years | **20,833** | 25,833 |
| | **40,833** | 84,657 |
| Less: Amount due within one year shown under current liabilities | **(10,000)** | (48,824) |
| Amount due after one year | **30,833** | 35,833 |

All of the Group's bank borrowings are variable-rate borrowings which carry interest at LIBOR or HIBOR plus certain basis points and subject to cash flow interest rate risk.

## 16. CAPITAL COMMITMENTS

| | **30.6.2009** | 31.12.2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements: | | |
| – buildings under construction | **6,518** | 11,554 |
| – leasehold improvements | **276** | 767 |
| – plant and machinery | **6,956** | 10,324 |
| – furniture, fixtures and office equipment | **–** | 549 |
| | **13,750** | 23,194 |

**17. CONTINGENT LIABILITIES**

| | **30.6.2009** | 31.12.2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor | **9,688** | 9,688 |

The directors of the Company consider that the fair value of this financial guarantee contract at its initial recognition and the carrying amount at 31st December, 2008 and 30th June, 2009 are insignificant on the basis of its short maturity period and low applicable default risk. The Group has not recognised any deferred income in the condensed consolidated financial statements in relation to the abovementioned guarantee as its fair value is considered not significant.

**18. 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** | |
|---|---|---|
| | **30.6.2009** | 30.6.2008 |
| | ***HK$'000*** | *HK$'000* |
| Short-term benefits | **3,842** | 3,982 |
| Post-employment benefits | **142** | 138 |
| | **3,984** | 4,120 |

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

# SUPPLEMENTARY INFORMATION

## Dividend

The board of directors of the Company (the “Board”) has resolved to declare an interim dividend of 6.5 HK cents per share for the six months ended 30th June, 2009 (2008: 7.0 HK cents per share). The interim dividend will be payable on 12th October, 2009 to shareholders whose names appear on the register of members of the Company on 5th October, 2009.

## Closure of Register of Members

The register of members of the Company will be closed from 2nd October, 2009 to 5th October, 2009, 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 30th September, 2009 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 of the Company (the “Directors”). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code during the six months ended 30th June, 2009.

## 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, 2009.

## Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30th June, 2009, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of 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:

*Shares in the Company (Long Position)*

| Name of Director | Number of issued ordinary shares held: Personal interests | Other interests | Total | Approximate 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% |
| Ng Kim Ying | 1,150,000 | 18,500,000 *(Note b)* | 19,650,000 | 5.12% |
| Lee Wai Chung | 2,750,000 | – | 2,750,000 | 0.72% |

*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 ("HSBCITL") 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 HSBCITL as trustee for The Optical 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Kim Ying.

Save as disclosed above, as at 30th June, 2009, none of the Directors and the chief executive of the Company 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.

**Share Options**

At the annual general meeting of the Company held on 28th May, 2003, 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, 2009. No share options have been granted, exercised, cancelled or lapsed under the New Share Option Scheme since its adoption.

**Interests and Short Positions of Substantial Shareholders**

Other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 30th June, 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

*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 |
|---|---|---|---|---|
| HSBC International Trustee Limited | Trustee | 187,182,000 | *(Note a)* | 48.79% |
| Maritime Overseas Assets Limited | Held by controlled corporation | 151,000,000 | *(Note a)* | 39.36% |
| Ratagan International Company Limited | Beneficial owner | 151,000,000 | *(Note a)* | 39.36% |
| Commerzbank AG | Held by controlled corporation | 25,434,120 | *(Note b)* | 6.63% |
| Dresdner Bank AG | Held by controlled corporation | 25,434,120 | *(Note b)* | 6.63% |
| DreCo Erste Beteiligungs GmbH | Held by controlled corporation | 25,434,120 | *(Note b)* | 6.63% |
| Dresdner Bank Luxembourg S.A. | Held by controlled corporation | 25,434,120 | *(Note b)* | 6.63% |
| Dresdner VPV N.V. | Investment manager | 25,434,120 | *(Note b)* | 6.63% |
| David Michael Webb | Beneficial owner | 3,224,000 | | 0.84% |
| | Held by controlled corporation | 19,178,000 | *(Note c)* | 4.99% |
| Mondrian Investment Partners Limited | Investment manager | 23,042,000 | | 6.01% |

*Notes:*

(a) HSBC International Trustee Limited ("HSBCITL") was the trustee of both The Arts 2007 Trust and The Optical 2007 Trust. The Arts 2007 Trust was a discretionary trust and the beneficiaries of which included Mr. Ng Hoi Ying, Michael. Under The Arts 2007 Trust, 151,000,000 shares of the Company 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 HSBCITL. The Optical 2007 Trust was a discretionary trust and the beneficiaries of which included Mr. Ng Kim Ying. Under The Optical 2007 Trust, 18,500,000 shares of the Company 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 also wholly-owned by HSBCITL.

(b) Dresdner VPV N.V. ("DVNV") was a wholly-owned subsidiary of Dresdner Bank Luxembourg S.A. ("DB Lux") which was in turn a wholly-owned subsidiary of DreCo Erste Beteiligungs GmbH ("DEBG"). DEBG was also wholly-owned by Dresdner Bank AG ("DBA") which was in turn wholly-owned by Commerzbank AG ("CA"). Being the controlling corporations of DVNV, DB Lux, DEBG, DBA and CA were also deemed to be interested in the 25,434,120 shares held by DVNV under Part XV of the SFO.

(c) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. David Michael Webb was deemed to be interested in the 19,178,000 shares held by PSAL under Part XV of the SFO.

## Corporate Governance

The Company has complied with all applicable code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30th June, 2009, except for deviation 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 the future as it believes that this structure ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and management of the Company.

An Audit Committee has been established by the Company since 1998 to act in an advisory capacity and make recommendations to the Board. The Audit Committee currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Francis George Martin, all of whom are independent non-executive Directors. The duties of the Audit Committee include (but is not limited to) the review of interim and annual reports of the Group as well as various auditing, financial reporting and internal control matters with the management and/or external auditor of the Company. The Group's unaudited financial statements for the six months ended 30th June, 2009 have been reviewed by the Audit Committee and the Company's auditor, Messrs. Deloitte Touche Tohmatsu.

A Remuneration Committee has been established by the Company since 2003 and currently comprises Mr. Francis George Martin (chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors. The major roles and functions of the Remuneration Committee include the determination of remuneration of executive Directors and review of the remuneration policy of the Group.