INTERIM REPORT 2010

Arts Group

Arts Optical International Holdings Limited

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

CONTENTS

Corporate Information

Board of directors

Executive directors

NG Hoi Ying, Michael
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

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Website

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Head office and principal place of business in Hong Kong

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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

Australia and New Zealand Banking Group Limited
Hong Kong Branch
Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Chong Hing Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

Management Discussion and Analysis

Business Review

Profitability analysis

The Group's consolidated revenue increased by 5% to HK$617.9 million (2009: HK$586.8 million) whereas the profit attributable to owners of the Company decreased by 11% to HK$59.0 million (2009: HK$66.3 million) in the six months ended 30th June, 2010. Basic earnings per share decreased correspondingly by 11% to 15.4 HK cents (2009: 17.3 HK cents) in the period under review.

In order to maintain its competitiveness in the increasingly tight labour market in China, the Group had raised the wages of its workers in China in April, before another round of increase in July this year. The increase in labour costs and the relatively higher inflationary environment in China dragged down the gross profit ratio (ratio of gross profit to revenue) of the Group from 26.8% in the first half of 2009 to 25.5% in the corresponding period of 2010. Although the total expenses-to-revenue ratio (ratio of the total of distribution and selling expenses, administrative expenses, other expenses and finance costs to revenue) remained fairly constant at 15.9% for the first half of this year as compared to 16.0% for the same period in 2009, the net profit ratio (ratio of profit attributable to owners of the Company to revenue) decreased from 11.3% in the first half of 2009 to 9.5% in the first half of 2010 because of the decline in gross profit ratio.

Original design manufacturing (ODM) division

Although the markets for the Group's ODM division started to show signs of stabilization and gradual recovery since the middle of 2009, concerns over of a double-dip recession in the United States (the "US") and the spread of the sovereign debt crisis in Europe plagued the momentum of recovery in these two principal markets of the Group. Sales to ODM customers increased modestly by 6% from HK$533.5 million in the first six months of 2009 to HK$564.0 million in the period under review. Sales to Europe, the US, Asia and other regions increased by 2%, 11%, 30% and 16% respectively and accounted for 63%, 32%, 3% and 2% respectively of the sales of this division in the first six months of 2010 (2009: 65%, 30%, 3% and 2% respectively).

The Group adjusted its product mix amid the tepid economic recovery. Sales of prescription frames remained relatively flat whereas sales of sunglasses, which are discretionary spending items, was up by 19% in the period under review as compared with the corresponding period last year. Sales of prescription frames, sunglasses and spare parts accounted for 59%, 39% and 2% respectively of the revenue of this division in the first half of 2010 (2009: 63%, 35% and 2% respectively).

Management Discussion and Analysis

Distribution and retailing divisions

Revenue generated by the distribution division increased marginally by 2% from HK$50.6 million in the first half of 2009 to HK$51.7 million in the first half of 2010. Sales to Europe, the biggest market of the distribution division, was down slightly by 2% amid consumers concerns over the spread of the sovereign debt crisis. Asia, the second biggest market of this division, registered a robust growth of sales of 33%. Sales to Europe, Asia, North America and other regions accounted for 56%, 29%, 6% and 9% respectively of the turnover of the distribution division in the first half of 2010 (2009: 58%, 23%, 6% and 13% respectively). The Group-owned German brand "STEPPER" continued to be the best-selling brand of the Group's distribution division.

The Group operated 3 shops in Shenzhen in both the period under review and the corresponding period in 2009. Revenue of the retailing division decreased by 19% to HK$2.2 million in the first half of 2010 (2009: HK$2.7 million), the primary reason being that the main entrance of one of the shops was blocked by the construction of a Metro station.

Financial position and liquidity

Working capital management

The Group has been carefully raising its production capacity amid the gradual stabilization and recovery of the market since the middle of 2009. Inventory turnover period (ratio of inventory balance to cost of sales) increased from 59 days in the first six months of 2009 to 67 days in the corresponding period of 2010. Debtors turnover period (ratio of trade debtors to revenue) decreased from 97 days to 87 days, reflecting an improvement in the quality of the Group's customer portfolio and market liquidity. The current ratio of the Group as at 30th June, 2010 was 3.1 to 1 (31st December, 2009: 2.9 to 1) with HK$840.3 million of current assets (31st December, 2009: HK$809.3 million) and HK$273.9 million of current liabilities (31st December, 2009: HK$275.4 million).

Cash flows

During the period under review, the Group's operating activities generated a healthy net cash inflow of HK$106.3 million, although it was lower than the HK$185.1 million net cash inflow reported in the corresponding period in 2009. This was because of aggressive action taken by the management to reduce the working capital requirement in the first half of 2009 in view of the financial tsunami, resulting in a relatively high level of net cash inflow from operating activities in such period. Moreover, the management had rescheduled the capital expenditure plan for 2009 and postponed some of its investments to 2010. Capital expenditure therefore increased from HK$25.8 million in the first six months of 2009 to HK$46.5 million in the period under review. A dividend payment of HK$26.9 million was paid during the period under review (2009: HK$24.9 million). The net cash position of the Group (total of short-term bank deposits as well as bank balances and cash less bank borrowings) increased from HK$305.9 million as at 31st December, 2009 to HK$340.5 million as at 30th June, 2010.

Gearing position

The gearing position of the Group remained low throughout the first six months of 2010. As at 30th June, 2010, total non-current liabilities and debt-to-equity ratio (expressed as a percentage of total non-current liabilities over equity attributable to owners of the Company) were HK$33.5 million (31st December, 2009: HK$38.5 million) and 3.0% (31st December, 2009: 3.6%) respectively.

Net book value

The Company had 383,650,000 shares in issue as at both 30th June, 2010 and 31st December, 2009 with equity attributable to owners of the Company amounting to HK$1,110.2 million and HK$1,071.5 million as at 30th June, 2010 and 31st December, 2009 respectively. Net book value per share (equity attributable to owners of the Company divided by the total number of shares in issue) as at 30th June, 2010 was HK$2.89 (31st December, 2009: HK$2.79).

Foreign currency exposure

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

Contingent liabilities

Details of contingent liabilities are set out in note 15 to the condensed consolidated financial statements.

PROSPECTS

The management expects that the demand for the products of its ODM and distribution divisions will remain stable and grow gradually in the second half of the year. A stable order book of three months of sales orders will be maintained. On the cost side, the challenges mentioned in the 2009 Annual Report, namely rising labour costs due to shortage of skilful labour in China, higher raw material prices, accelerating inflation in China and the appreciation of Renminbi continue to put our gross margin under pressure. Although the Group will implement a modest price increase on its products in the second half of 2010, the effect of this will only be reflected in the financial results for the first quarter of 2011. The management will continue to put strenuous efforts on improving the operational efficiency of the Group in order to alleviate the cost pressure.

Management Discussion and Analysis

The Group will maintain the existing operating scale of the retailing division and continue to focus on the improvement of profitability of the existing shops. Overall contribution of this division to the Group will remain relatively limited in the second half of 2010.

In June, the Group received a letter from the Land Preparation and Resettlements Bureau of Tiyuxincheng District, Shenzhen, which requested the Group to prepare for the relocation of our factory in Shenzhen. In July, the Group acquired the land use rights of or the rights to use four parcels of land in Shenzhen and Huiyang and the buildings constructed thereon through a connected transaction with Mr. Ng Hoi Ying, Michael, an executive director and controlling shareholder of the Company. The Group is formulating a plan to relocate its production facilities to new premises in Shenzhen and Huiyang to ensure that its operations will not be disrupted.

The Group will continue its strategy of focusing on its core business, continuous improvement of its competitiveness by investment in strategic areas and maintaining a liquid and solid balance sheet. Capacity expansion will be carefully monitored so that our flexible operating scale can be maintained and our pricing power will be preserved.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2010, the Group employed approximately 11,600 (31st December, 2009: 10,300) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, provident fund schemes as well as a share option scheme.

Ng Hoi Ying, Michael
Chairman

Hong Kong, 31st August, 2010

Report on Review of Interim Financial Information

Deloitte.
德勤

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 8 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, 2010 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

31st August, 2010

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30th June, 2010

	Notes	Six months ended 30.6.2010 HK$'000 (unaudited)	30.6.2009 HK$'000 (unaudited) (restated)
Revenue	3	**617,917**	586,768
Cost of sales		**(460,237)**	(429,743)
Gross profit		**157,680**	157,025
Other income		**5,649**	11,885
Other gains and losses		**1,787**	1,098
Distribution and selling expenses		**(12,009)**	(18,986)
Administrative expenses		**(85,326)**	(74,031)
Other expenses		**(452)**	(431)
Finance costs	4	**(187)**	(565)
Profit before tax		**67,142**	75,995
Income tax expense	5	**(7,681)**	(9,268)
Profit for the period	6	**59,461**	66,727
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**6,674**	(3,486)
Total comprehensive income for the period		**66,135**	63,241
Profit for the period attributable to:			
Owners of the Company		**58,952**	66,264
Non-controlling interests		**509**	463
		59,461	66,727
Total comprehensive income attributable to:			
Owners of the Company		**65,618**	62,778
Non-controlling interests		**517**	463
		66,135	63,241
Earnings per share	8		
– Basic		**15.4 HK cents**	17.3 HK cents

Condensed Consolidated Statement of Financial Position

At 30th June, 2010

	Notes	30.6.2010 HK$'000 (unaudited)	31.12.2009 HK$'000 (audited) (restated)
Non-current Assets			
Property, plant and equipment	9	**530,182**	528,890
Prepaid lease payments		**28,610**	28,848
Deposits paid for acquisition of property, plant and equipment		**3,162**	1,298
Intangible assets		**4,680**	4,680
Loan receivable	10	**8,990**	10,114
Available-for-sale investments		**5,858**	5,858
Deferred tax assets		**181**	181
		581,663	579,869
Current Assets			
Inventories		**168,949**	148,335
Debtors, deposits and prepayments	11	**297,007**	316,127
Loan receivable	10	**2,248**	2,248
Prepaid lease payments		**748**	744
Tax recoverable		**–**	54
Short-term bank deposits		**162,357**	118,906
Bank balances and cash		**208,949**	222,850
		840,258	809,264
Current Liabilities			
Creditors and accrued charges	12	**251,464**	260,579
Bank borrowings	13	**10,000**	10,000
Tax liabilities		**12,464**	4,841
		273,928	275,420
Net Current Assets		**566,330**	533,844
Total Assets less Current Liabilities		**1,147,993**	1,113,713
Capital and Reserves			
Share capital		**38,365**	38,365
Reserves		**1,071,857**	1,033,094
Equity attributable to owners of the Company		**1,110,222**	1,071,459
Non-controlling interests		**4,228**	3,711
Total Equity		**1,114,450**	1,075,170
Non-current Liabilities			
Deferred tax liabilities		**12,710**	12,710
Bank borrowings	13	**20,833**	25,833
		33,543	38,543
		1,147,993	1,113,713

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2010

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Attributable to owners of the Company HK$'000	Non–controlling interests HK$'000	Total HK$'000
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 *(note 7)*	–	–	–	–	(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
At 1st January, 2010 (audited)	38,365	113,950	(3,269)	62,862	859,551	1,071,459	3,711	1,075,170
Profit for the period	–	–	–	–	58,952	58,952	509	59,461
Exchange differences arising on translation of foreign operations	–	–	–	6,666	–	6,666	8	6,674
Total comprehensive income for the period	–	–	–	6,666	58,952	65,618	517	66,135
Dividend paid *(note 7)*	–	–	–	–	(26,855)	(26,855)	–	(26,855)
At 30th June, 2010 (unaudited)	38,365	113,950	(3,269)	69,528	891,648	1,110,222	4,228	1,114,450

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, 2010

	Six months ended	
	30.6.2010	30.6.2009
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**106,343**	185,083
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(43,336)**	(12,655)
Deposits paid for acquisition of property, plant and equipment	**(3,162)**	(13,162)
Proceeds from disposal of partial interests in a subsidiary	**–**	460
Dividend received from available-for-sale investments	**264**	–
Interest received	**637**	1,021
Repayment of loan receivable	**1,124**	1,123
NET CASH USED IN INVESTING ACTIVITIES	**(44,473)**	(23,213)
FINANCING ACTIVITIES		
Dividend paid	**(26,855)**	(24,937)
Interest paid	**(187)**	(565)
Repayment of bank borrowings	**(5,000)**	(47,698)
New bank borrowings raised	**–**	3,874
NET CASH USED IN FINANCING ACTIVITIES	**(32,042)**	(69,326)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**29,828**	92,544
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**341,756**	141,239
Effect of foreign exchange rate changes	**(278)**	(5)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by	**371,306**	233,778
Short-term bank deposits	**162,357**	87,928
Bank balances and cash	**208,949**	145,850
	371,306	233,778

1. Basis Of Preparation

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

2. Principal Accounting Policies

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

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, 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretation ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

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

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1st January, 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1st January, 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs are applicable.

Amendment to HKAS 17 "Leases"

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the condensed consolidated statement of financial position. The amendment has removed such a requirement. Instead, the amendment requires the classification of leasehold land to be based on the general principles set out in HKAS 17 that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provisions of HKAS 17 "Leases", the Group reassessed the classification of land elements of unexpired leases at 1st January, 2010 based on information which existed at the inception of these leases. Leasehold lands which met finance lease classification have been reclassified from prepaid lease payments to property, plant and equipment retrospectively, resulting in a reclassification of prepaid lease payments with previous carrying amount of approximately HK$5,321,000 as at 31st December, 2009 as property, plant and equipment that are measured at cost model.

The effect of changes in accounting policies described above on the financial positions of the Group as at 31st December, 2009 is as follows:

	As at 31.12.2009 (originally stated) *HK$'000*	Adjustments *HK$'000*	As at 31.12.2009 (restated) *HK$'000*
Property, plant and equipment	523,569	5,321	528,890
Prepaid lease payments – non-current	34,027	(5,179)	28,848
Prepaid lease payments – current	886	(142)	744
	558,482	–	558,482

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Except as described above, the adoption of other new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Right Issues[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate
2 Effective for annual periods beginning on or after 1st February, 2010
3 Effective for annual periods beginning on or after 1st July, 2010
4 Effective for annual periods beginning on or after 1st January, 2011
5 Effective for annual periods beginning on or after 1st January, 2013

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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

Segment revenues and results

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

For the six months ended 30th June, 2010

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	**381,102**	**182,930**	**36,321**	**17,564**	**617,917**
Result					
Segment profit	**52,092**	**25,667**	**6,505**	**2,267**	**86,531**
Unallocated income					**845**
Unallocated corporate expenses					**(20,684)**
Interest income on bank deposits					**637**
Finance costs					**(187)**
Profit before tax					**67,142**

3. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the six months ended 30th June, 2009 (restated, see note 17)

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Revenue					
External sales	374,967	165,342	28,648	17,811	586,768
Result					
Segment profit	57,415	24,651	6,587	1,603	90,256
Unallocated income					349
Unallocated corporate expenses					(15,066)
Interest income on bank deposits					1,021
Finance costs					(565)
Profit before tax					75,995

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

4. FINANCE COSTS

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

5. Income Tax Expense

	Six months ended	
	30.6.2010	30.6.2009
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**7,677**	8,904
The People's Republic of China ("PRC") Enterprise Income Tax		
– Current year	**4**	–
Deferred taxation		
– Current year	**–**	364
	7,681	9,268

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 both periods.

6. Profit For The Period

	Six months ended	
	30.6.2010	30.6.2009
	HK$'000	*HK$'000*
		(restated)
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**460,237**	425,583
Depreciation of property, plant and equipment	**49,642**	43,644
Loss on disposal of property, plant and equipment	**6**	116
Net foreign exchange gains	**(1,793)**	(1,214)
Release of prepaid lease payments	**351**	350
Allowance for inventories	**–**	4,160
Allowance for doubtful debts, net	**1,508**	8,161

7. Dividends

	Six months ended	
	30.6.2010	30.6.2009
	HK$'000	*HK$'000*
Final dividend paid in respect of 2009 of 7.0 HK cents (2009: 6.5 HK cents in respect of 2008) per share	**26,855**	24,937

The interim dividend in respect of 2010 of 6.5 HK cents (2009: 6.5 HK cents) per share amounting to a total of HK$24,937,000 (2009: HK$24,937,000) has been declared by the board of directors on 31st August, 2010.

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	
	30.6.2010	30.6.2009
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**58,952**	66,264
	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. Property, Plant And Equipment

During the period, the Group acquired property, plant and equipment of approximately HK$44,634,000 (six months ended 30th June, 2009: HK$18,993,000).

10. Loan Receivable

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

11. 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$293,719,000 (31st December, 2009: HK$312,654,000). The following is an aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	30.6.2010 HK$'000	31.12.2009 HK$'000
0 – 90 days	246,338	254,164
91 – 180 days	45,276	54,697
More than 180 days	2,105	3,793
	293,719	312,654

12. Creditors And Accrued Charges

Included in the Group's creditors and accrued charges are trade creditors of HK$138,805,000 (31st December, 2009: HK$136,485,000). The following is an aged analysis of trade creditors presented based on the invoice date at the end of the reporting period:

	30.6.2010 HK$'000	31.12.2009 HK$'000
0 – 60 days	93,479	96,641
61 – 120 days	43,237	36,917
More than 120 days	2,089	2,927
	138,805	136,485

13. Bank Borrowings

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
The maturity of the unsecured bank borrowings is as follows:		
On demand or within one year	**10,000**	10,000
More than one year, but not exceeding two years	**10,000**	10,000
More than two years, but not exceeding five years	**10,833**	15,833
	30,833	35,833
Less: Amount due within one year shown under current liabilities	**(10,000)**	(10,000)
Amount due after one year	**20,833**	25,833

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

14. Capital Commitments

	30.6.2010	31.12.2009
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the condensed consolidated financial statements:		
– buildings under construction	**720**	1,675
– leasehold improvements	**14,017**	13,825
– plant and machinery	**2,604**	3,404
– furniture, fixtures and office equipment	**182**	306
	17,523	19,210

15. Contingent Liabilities

	30.6.2010 *HK$'000*	31.12.2009 *HK$'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, 2009 and 30th June, 2010 are insignificant and of 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.

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	
	30.6.2010 ***HK$'000***	30.6.2009 *HK$'000*
Short-term benefits	**4,087**	3,842
Post-employment benefits	**145**	142
	4,232	3,984

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.

17. Comparative Figures

In order to conform with current period's presentation, sales rebate of HK$6,582,000 for the period ended 30th June, 2009 which was previously included in distribution and selling expenses has been re-presented as deduction from revenue.

18. Event After The Reporting Period

On 21st June, 2010, the Group received a letter dated 8th June, 2010 from the Land Preparation and Resettlements Bureau of Tiyuxincheng District, Shenzhen (the "Letter") informing it that the location of its existing production facility situated at Longgang District, Shenzhen City was the subject of special planning for redevelopment and the Group was required to prepare for relocation of its existing production facility. Although the Letter does not specify the time frame for the relocation, the directors of the Company expect that the relocation will take approximately five years to complete.

On 2nd July, 2010, Allied Power Inc. ("API"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Mr. Ng Hoi Ying, Michael ("Mr. Ng"), an executive director and controlling shareholder of the Company, pursuant to which Mr. Ng agreed to sell, and API agreed to purchase, the entire issued share capital of Art Talent Industrial Limited ("Art Talent") and take an assignment of the benefit of the shareholder loans owed to Mr. Ng respectively by Art Talent and Hongmao Metal Products (Shenzhen) Co. Ltd. ("Hongmao") for a total cash consideration of HK$55 million. The transaction was completed on 5th July, 2010 and the consideration was funded by the Group's internal resources. Art Talent, through its wholly-owned subsidiary, Hongmao, owns the land use rights of or has the rights to use four parcels of land in Shenzhen and Huiyang and the buildings constructed thereon. The acquisitions were made as the Group would be required to prepare for relocation of its existing production facility and the acquisitions, which did not constitute acquisition of business, were regarded as acquisition of assets and liabilities.

Pursuant to the Letter, the land on which the existing production facility is located (the "Site") has been re-designated as residential and public facilities. The directors of the Company expect that the eventual realisable value of the Site in the form of compensation would exceed the net carrying amounts of the Group's existing production facility as at 30th June, 2010. As a result, no impairment is considered necessary.

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, 2010 (2009: 6.5 HK cents per share). The interim dividend will be payable on 27th September, 2010 to shareholders whose names appear on the register of members of the Company on 20th September, 2010.

Closure of Register of Members

The register of members of the Company will be closed from 17th September, 2010 to 20th September, 2010, 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 Hong Kong branch share registrar, Tricor Secretaries Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 16th September, 2010 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 throughout the six months ended 30th June, 2010.

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, 2010.

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

As at 30th June, 2010, the interests and short positions of the Directors and 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, 2010, none of the Directors and 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.

Supplementary Information

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 was terminated and a new share option scheme (the "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. No share options have been granted, exercised, cancelled or lapsed under the 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, 2010, 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%
Mondrian Investment Partners Limited	Investment manager	26,874,000		7.00%
David Michael Webb	Beneficial owner	3,224,000		0.84%
	Held by controlled corporation	19,178,000	*(Note b)*	4.99%
FMR LLC	Investment manager	19,250,000	*(Note c)*	5.02%

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) 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.

(c) FMR LLC was deemed to be interested in 19,250,000 shares of the Company through its controlled corporations, Fidelity Management & Research Company which was interested in 16,150,000 shares of the Company, and Fidelity Management Trust Company and Pyramis Global Advisors LLC, which were interested in 3,100,000 shares of the Company.

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, 2010 except for deviation from code provision A.2.1 of the CG Code. 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.

Supplementary Information

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 are 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, 2010 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.