Interim Report 2011

Arts Group

Arts Optical International Holdings Limited

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

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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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Hamilton HM 11
Bermuda

Website

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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

HSBC Securities Services (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 23% to HK$763.0 million (2010: HK$617.9 million) whereas the profit attributable to owners of the Company only increased by 8% to HK$64.0 million (2010: HK$59.0 million) in the six months ended 30th June, 2011. Basic earnings per share also increased correspondingly by 8% to 16.7 HK cents (2010: 15.4 HK cents) in the period under review.

The gross margin of the core businesses of the Group continued to be under pressure. The Group raised the wages of its workers in mainland China twice (in January and May) during the period under review. The pace of appreciation of Renminbi and inflation in mainland China also accelerated this year. All these increases in major cost factors dragged down the gross profit ratio (being the ratio of gross profit to revenue) of the Group by 3.1% from 25.5% in the first half of 2010 to 22.4% in the corresponding period of 2011. Although the Group managed to cut down the total expenses-to-revenue ratio (being the ratio of the total of distribution and selling expenses, administrative expenses, other expenses and finance costs to revenue) by 0.8% from 15.9% to 15.1%, the net profit ratio (being the ratio of profit attributable to owners of the Company to revenue) still decreased by 1.1% from 9.5% in the first half of 2010 to 8.4% in the period under review.

Original design manufacturing (ODM) division

The rebound of sales performance in the ODM division began in 2010 amid improved market sentiment and the trend continued in the first half of 2011. Sales to ODM customers increased by 23% from HK$564.0 million in the first six months of 2010 to HK$693.9 million in the first six months of 2011. Sales to Europe, the United States (the "US") and Asia were up by 10%, 51% and 46% respectively. Europe, the US, Asia and other regions accounted for 56%, 39%, 4% and 1% respectively of the sales of this division in the first six months of 2011 (2010: 63%, 32%, 3% and 2% respectively).

Sales of prescription frames grew by 16% whereas sales of sunglasses were up by 35% in the first half of 2011. Sales of prescription frames, sunglasses and spare parts accounted for 56%, 43% and 1% respectively of the revenue of this division during the period under review (2010: 59%, 39% and 2% respectively).

Management Discussion and Analysis

Distribution and retailing divisions

Cross-sales maximization of different brands under the extensive global network of distributors boosted the sales performance of the distribution division in the period under review. Revenue generated by the distribution division increased by 30% from HK$51.7 million in the first half of 2010 to HK$67.0 million in the first half of 2011. Sales were up by 18% in Europe, 24% in Asia and 86% in other regions. Sales to Europe, Asia and other regions accounted for 51%, 28% and 21% respectively of the revenue of the distribution division in the first six months of 2011 (2010: 56%, 29% and 15% respectively).

The Group operated a total of 3 shops in Shenzhen in both the period under review and the corresponding period in 2010. Revenue of the retailing division remained relatively flat at HK$2.1 million in the first half of 2011 (2010: HK$2.2 million).

Financial position and liquidity

Working capital management

The Group maintained a stable current ratio (being the ratio of total current assets to total current liabilities) during the period under review. The current ratio increased slightly from 2.6 to 1 as at 31st December, 2010 to 2.7 to 1 as at 30th June, 2011. As a result of the strenuous efforts made by the management including the streamlining of internal operations and installations of advanced semi-automated equipment, inventory turnover period (being the ratio of inventory balance to cost of sales) decreased from 67 days in the first half of 2010 to 64 days in the first half of 2011. Debtors turnover period (being the ratio of the aggregate balance of trade debtors and bills receivable to revenue) increased from 87 days to 92 days as some key customers rescheduled their payment dates from end of June to early July this year.

Cash flows

The Group's operating activities generated a healthy net cash inflow of HK$122.6 million (2010: HK$100.2 million) before movements in working capital and HK$100.8 million (2010: HK$106.3 million) after movements in working capital during the period under review. Capital expenditure also increased from HK$46.5 million in the first six months of 2010 to HK$53.1 million in the period under review. A dividend payment of HK$26.9 million was made (2010: HK$26.9 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$239.6 million as at 31st December, 2010 to HK$265.3 million as at 30th June, 2011.

Management Discussion and Analysis

Gearing position

The Group continued to keep a low gearing position throughout the first six months of 2011. The debt-to-equity ratio (expressed as a percentage of total non-current liabilities over equity attributable to owners of the Company) declined slightly from 1.1% as at 31st December, 2010 to 0.8% as at 30th June, 2011. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$9.6 million as at 30th June, 2011 (31st December, 2010: HK$13.4 million).

Net book value

The Company had 383,650,000 shares in issue as at both 30th June, 2011 and 31st December, 2010 with equity attributable to owners of the Company amounting to HK$1,219.2 million and HK$1,172.3 million as at 30th June, 2011 and 31st December, 2010 respectively. Net book value per share (being equity attributable to owners of the Company divided by the total number of shares in issue) as at 30th June, 2011 was HK$3.18 (31st December, 2010: HK$3.06).

Foreign currency exposure

The Group was exposed to the continuous appreciation of Renminbi against both the US dollar and Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either the US dollar, Hong Kong dollar 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 relatively satisfactory performance of sales recorded in both the ODM and distribution divisions in the first half of 2011 was mainly attributable to the higher level of sales orders received in the second half of 2010. Amid concerns over the spread of the European sovereign debt crisis and double-dip recession in America, consumer confidence has been fragile since the second quarter of 2011. The Group currently has an order book of around three months of sales orders and the management expects stable sales performances in both the ODM and distribution divisions in the second half of this year. Contribution of the retailing division to the Group will remain relatively limited.

Management Discussion and Analysis

The cost pressure will continue to affect the profitability of the Group. There are no signs of abatement in the upward trend of wages and inflation in mainland China. The pace of appreciation of Renminbi further accelerated in July and August. The Group will continue to minimize the adverse impact on the gross margin by modest price adjustment, continuous improvement in operational efficiency and increase in sales of higher margin house brands and licensed brands products.

The 26th Summer Universiade held in Shenzhen during 12th August and 23rd August had little impact on the operations of the Group as the management had taken appropriate measures such as rescheduling of holidays for the workers to make sure that our production capability as well as delivery services to our customers were not affected. The management also continues to critically review and implement the factory relocation plans to Pingdi Town, Shenzhen City and Heyuan City by taking into account both the short term and long term impact of changes in the external macro-economic environment and local government policies.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2011, the Group employed approximately 12,000 (31st December, 2010: 11,800) 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, 30th August, 2011

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 22, 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, 2011 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

30th August, 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30th June, 2011

	Notes	Six months ended 30.6.2011 HK$'000 (unaudited)	30.6.2010 HK$'000 (unaudited)
Revenue	3	**763,038**	617,917
Cost of sales		**(591,995)**	(460,237)
Gross profit		**171,043**	157,680
Other income		**9,084**	5,649
Other gains and losses		**3,676**	1,787
Distribution and selling expenses		**(16,911)**	(12,009)
Administrative expenses		**(97,879)**	(85,326)
Other expenses		**(412)**	(452)
Finance costs	4	**(144)**	(187)
Profit before tax		**68,457**	67,142
Income tax expense	5	**(4,109)**	(7,681)
Profit for the period	6	**64,348**	59,461
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**9,772**	6,674
Total comprehensive income for the period		**74,120**	66,135
Profit for the period attributable to:			
Owners of the Company		**63,978**	58,952
Non-controlling interests		**370**	509
		64,348	59,461
Total comprehensive income attributable to:			
Owners of the Company		**73,746**	65,618
Non-controlling interests		**374**	517
		74,120	66,135
Earnings per share	8		
– Basic		**16.7 HK cents**	15.4 HK cents

Condensed Consolidated Statement of Financial Position

At 30th June, 2011

	Notes	30.6.2011 HK$'000 (unaudited)	31.12.2010 HK$'000 (audited)
Non-current Assets			
Property, plant and equipment	9	**589,021**	588,187
Prepaid lease payments		**53,205**	53,057
Deposits paid for acquisition of property, plant and equipment		**16,099**	3,348
Intangible assets		**4,680**	4,680
Loan receivable	10	**6,743**	7,900
Available-for-sale investments		**5,858**	5,858
Deferred tax assets		**188**	188
		675,794	663,218
Current Assets			
Inventories		**207,297**	197,181
Debtors, deposits and prepayments	11	**389,450**	378,788
Loan receivable	10	**2,247**	2,257
Prepaid lease payments		**1,347**	1,328
Tax recoverable		**241**	2,999
Short-term bank deposits		**141,073**	145,266
Bank balances and cash		**145,064**	120,184
		886,719	848,003
Current Liabilities			
Creditors and accrued charges	12	**301,062**	293,284
Bank borrowings	13	**20,833**	25,833
Tax liabilities		**7,064**	1,954
		328,959	321,071
Net Current Assets		**557,760**	526,932
Total Assets less Current Liabilities		**1,233,554**	1,190,150
Capital and Reserves			
Share capital		**38,365**	38,365
Reserves		**1,180,820**	1,133,929
Equity attributable to owners of the Company		**1,219,185**	1,172,294
Non-controlling interests		**4,781**	4,407
Total Equity		**1,223,966**	1,176,701
Non-current Liabilities			
Deferred tax liabilities		**9,588**	13,449
		1,233,554	1,190,150

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2011

	Attributable to owners of the Company						Non-	
	Share capital	Share premium	Special reserve	Exchange reserve	Retained profits	Total	controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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
At 1st January, 2011 (audited)	38,365	113,950	(3,269)	90,761	932,487	1,172,294	4,407	1,176,701
Profit for the period	–	–	–	–	63,978	63,978	370	64,348
Exchange differences arising on translation of foreign operations	–	–	–	9,768	–	9,768	4	9,772
Total comprehensive income for the period	–	–	–	9,768	63,978	73,746	374	74,120
Dividend paid *(note 7)*	–	–	–	–	(26,855)	(26,855)	–	(26,855)
At 30th June, 2011 (unaudited)	38,365	113,950	(3,269)	100,529	969,610	1,219,185	4,781	1,223,966

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, 2011

	Six months ended	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**100,795**	106,343
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(36,968)**	(43,336)
Deposits paid for acquisition of property, plant and equipment	**(16,099)**	(3,162)
Dividend received from available-for-sale investments	**371**	264
Interest received	**676**	637
Repayment of loan receivable	**1,167**	1,124
NET CASH USED IN INVESTING ACTIVITIES	**(50,853)**	(44,473)
FINANCING ACTIVITIES		
Dividend paid to owners of the Company	**(26,855)**	(26,855)
Interest paid	**(144)**	(187)
Repayment of bank borrowings	**(5,000)**	(5,000)
CASH USED IN FINANCING ACTIVITIES	**(31,999)**	(32,042)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**17,943**	29,828
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**265,450**	341,756
Effect of foreign exchange rate changes	**2,744**	(278)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**286,137**	371,306
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Short-term bank deposits	**141,073**	162,357
Bank balances and cash	**145,064**	208,949
	286,137	371,306

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2011

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation 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, 2010.

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.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosure
HKAS 32 (Amendment)	Classification of Right Issues
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]

1 Effective for annual periods beginning on or after 1st January, 2012

2 Effective for annual periods beginning on or after 1st January, 2013

3 Effective for annual periods beginning on or after 1st July, 2011

4 Effective for annual periods beginning on or after 1st July, 2012

The directors of the Company (the "Directors") anticipate that the application of these new and revised standards and amendments 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, 2011

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	**420,463**	**273,247**	**48,529**	**20,799**	**763,038**
Result					
Segment profit	**46,268**	**31,043**	**7,550**	**1,887**	**86,748**
Unallocated income					**564**
Unallocated corporate expenses					**(19,387)**
Interest income on bank deposits					**676**
Finance costs					**(144)**
Profit before tax					**68,457**

3. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the six months ended 30th June, 2010

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *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

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, investment income, royalty income and finance costs. This is the measure reported to the chief operating decision maker for the purposes 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	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**7,896**	7,677
The People's Republic of China (the "PRC") Enterprise Income Tax		
– Current year	**44**	4
– Underprovision in respect of prior year	**30**	–
Deferred taxation		
– Current year	**(3,861)**	–
	4,109	7,681

Hong Kong Profits Tax is recognised based on the management's best estimated of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate 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, 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	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**591,995**	460,237
Depreciation of property, plant and equipment	**49,012**	49,642
Loss on disposal of property, plant and equipment	**23**	6
Net foreign exchange gains	**(3,699)**	(1,793)
Release of prepaid lease payments	**640**	351
Allowance for doubtful debts (included in distribution and selling expenses)	**5,330**	1,508

7. DIVIDENDS

	Six months ended	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
Final dividend paid in respect of 2010 of 7.0 HK cents (2010: 7.0 HK cents in respect of 2009) per share	**26,855**	26,855

The interim dividend in respect of 2011 of 6.5 HK cents (2010: 6.5 HK cents) per share amounting to a total of HK$24,937,000 (2010: HK$24,937,000) has been declared by the board of Directors on 30th August, 2011.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2011

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	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**63,978**	58,952
	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$40,316,000 (six months ended 30th June, 2010: HK$44,634,000).

10. LOAN RECEIVABLE

The loan receivable is granted to a corporate customer. The amount is secured by all assets held by the corporate customer and carries fixed interest rate at 5% per annum. The Group is not permitted to sell or repledge the collateral in the absence of default by the borrower. Repayments have been made by this corporate customer in accordance with the loan agreement.

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 and bills receivable of HK$376,809,000 and HK$8,371,000 respectively (31st December, 2010: HK$369,790,000 and HK$4,992,000 respectively). 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.

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
0 – 90 days	**317,252**	319,791
91 – 180 days	**57,163**	44,766
More than 180 days	**2,394**	5,233
	376,809	369,790

The following is an aged analysis of bills receivable presented based on the invoice date at the end of the reporting period.

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
0 – 90 days	**7,162**	4,852
91 – 180 days	**1,209**	140
	8,371	4,992

12. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK$166,658,000 (31st December, 2010: HK$158,709,000). The following is an aged analysis of trade creditors presented based on the invoice date at the end of the reporting period.

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
0 – 60 days	**140,374**	113,423
61 – 120 days	**24,526**	43,150
More than 120 days	**1,758**	2,136
	166,658	158,709

13. BANK BORROWINGS

	30.6.2011	31.12.2010
	HK$'000	*HK$'000*
Carrying amount of the unsecured bank borrowings repayable *(Note)*:		
On demand or within one year, contain a repayment on demand clause	**10,000**	10,000
Carrying amount of unsecured bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**10,833**	15,833
	20,833	25,833

Note: The amounts due are based on scheduled repayment dates set out in the loan agreement.

All of the Group's bank borrowings are variable-rate borrowings which carry interest at Hong Kong Interbank Offered Rate plus certain basis points and subject to cash flow interest rate risk.

14. CAPITAL COMMITMENTS

	30.6.2011 HK$'000	31.12.2010 HK$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements:		
– buildings under construction	**22,378**	22,685
– leasehold improvements	**1,785**	4,375
– plant and machinery	**31,267**	13,660
– furniture, fixtures and office equipment	**722**	534
	56,152	41,254

15. CONTINGENT LIABILITIES

	30.6.2011 HK$'000	31.12.2010 HK$'000
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	**9,688**	9,729

The Directors consider that the fair value of this financial guarantee contract at its initial recognition and the carrying amount at 31st December, 2010 and 30th June, 2011 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	
	30.6.2011	30.6.2010
	HK$'000	*HK$'000*
Short-term benefits	**4,968**	4,087
Post-employment benefits	**177**	145
	5,145	4,232

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, 2011 (2010: 6.5 HK cents per share). The interim dividend will be payable on 27th September, 2011 to shareholders whose names appear on the register of members of the Company on 20th September, 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19th September, 2011 to 20th September, 2011, 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, 2011 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, 2011.

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, 2011.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2011, 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:

Supplementary Information

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	15,500,000 *(Note b)*	16,650,000	4.34%
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, 2011, 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.

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.

Supplementary Information

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, 2011, 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%
FMR LLC	Investment manager	38,365,000	*(Note b)*	10.00%
David Michael Webb	Beneficial owner	3,224,000		0.84%
	Held by controlled corporation	20,364,000	*(Note c)*	5.31%
Preferable Situation Assets Limited	Beneficial owner	20,364,000	*(Note c)*	5.31%

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, 15,500,000 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.

Supplementary Information

(b) FMR LLC was deemed to be interested in 38,365,000 shares of the Company through its controlled corporations, Fidelity Management & Research Company which was interested in 33,970,640 shares of the Company, and Fidelity Management Trust Company and Pyramis Global Advisors LLC, which were interested in 4,394,360 shares of the Company.

(c) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. David Michael Webb was deemed to be interested in the 20,364,000 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, 2011 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.

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 condensed consolidated financial statements for the six months ended 30th June, 2011 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.