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ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1120)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2011**

INTERIM RESULTS

The board of directors (the “Board”) of Arts Optical International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30th June, 2011 together with comparative figures for the corresponding period in 2010.

FINANCIAL HIGHLIGHTS

	Six months ended 30th June,	
	2011	2010
Revenue	HK\$763,038,000	HK\$617,917,000
Profit attributable to the owners of the Company	HK\$63,978,000	HK\$58,952,000
Earnings per share	16.7 HK cents	15.4 HK cents
Interim dividend per share	6.5 HK cents	6.5 HK cents

* For identification purpose only

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th June, 2011

		Six months ended	
		30.6.2011	30.6.2010
		HK\$'000	HK\$'000
	Notes	(unaudited)	(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

		30.6.2011 HK\$'000 (unaudited)	31.12.2010 HK\$'000 (audited)
	Notes		
Non-current Assets			
Property, plant and equipment		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		6,743	7,900
Available-for-sale investments		5,858	5,858
Deferred tax assets		188	188
		<u>675,794</u>	<u>663,218</u>
Current Assets			
Inventories		207,297	197,181
Debtors, deposits and prepayments	9	389,450	378,788
Loan receivable		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
		<u>886,719</u>	<u>848,003</u>
Current Liabilities			
Creditors and accrued charges	10	301,062	293,284
Bank borrowings		20,833	25,833
Tax liabilities		7,064	1,954
		<u>328,959</u>	<u>321,071</u>
Net Current Assets		<u>557,760</u>	<u>526,932</u>
Total Assets less Current Liabilities		<u>1,233,554</u>	<u>1,190,150</u>
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		<u>1,223,966</u>	<u>1,176,701</u>
Non-current Liabilities			
Deferred tax liabilities		9,588	13,449
		<u>1,233,554</u>	<u>1,190,150</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

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
<i>Revenue</i>					
External sales	<u>420,463</u>	<u>273,247</u>	<u>48,529</u>	<u>20,799</u>	<u>763,038</u>
<i>Result</i>					
Segment profit	<u>46,268</u>	<u>31,043</u>	<u>7,550</u>	<u>1,887</u>	86,748
Unallocated income					564
Unallocated corporate expenses					(19,387)
Interest income on bank deposits					676
Finance costs					(144)
Profit before tax					<u>68,457</u>

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
<i>Revenue</i>					
External sales	381,102	182,930	36,321	17,564	617,917
<i>Result</i>					
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
	<u>5,330</u>	<u>1,508</u>

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
	<u>26,855</u>	<u>26,855</u>

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.

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. 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 <i>HK\$'000</i>	31.12.2010 <i>HK\$'000</i>
0 – 90 days	7,162	4,852
91 – 180 days	1,209	140
	<hr/>	<hr/>
	8,371	4,992
	<hr/> <hr/>	<hr/> <hr/>

10. 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 <i>HK\$'000</i>	31.12.2010 <i>HK\$'000</i>
0 – 60 days	140,374	113,423
61 – 120 days	24,526	43,150
More than 120 days	1,758	2,136
	<hr/>	<hr/>
	166,658	158,709
	<hr/> <hr/>	<hr/> <hr/>

DIVIDEND

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.

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).

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.

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

	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.

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.

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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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.

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.

PUBLICATION OF INTERIM REPORT

The 2011 interim report will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk on or about 8th September, 2011.

DIRECTORS

As at the date of this announcement, the Board comprises six directors, three of whom are executive directors, namely Mr. Ng Hoi Ying, Michael, Mr. Ng Kim Ying and Mr. Lee Wai Chung, and three are independent non-executive directors, namely Mr. Francis George Martin, Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric.

By Order of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 30th August, 2011