

# *Notes to the Financial Statements*

*For the year ended 31st December, 2000*

## **1. GENERAL**

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, manufacture and sales of optical products.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention as modified for the revaluation of an investment property.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

### **Goodwill and capital reserve**

Goodwill or capital reserve arising on acquisition of a subsidiary, which represents respectively the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets of the subsidiary at the date of acquisition, is dealt with through reserves in the year of acquisition.

On disposal of a subsidiary, the attributable amount of goodwill or capital reserve previously written off against or credited to reserves at the time of acquisition is included in the determination of the profit or loss on disposal.

### 2. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

#### **Turnover**

Turnover represents the net amounts received and receivable for goods sold to outside customers during the year.

#### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

#### **Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is credited to the income statement.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

Property, plant and equipment, other than buildings under construction, are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment, other than buildings under construction, over their estimated useful lives, using the straight line method, as follows:

Leasehold land	Over the remaining terms of the leases
Buildings	Over the estimated useful lives of 25 years or the terms of the leases, if shorter
Leasehold improvements	Over the estimated useful lives of 3 years or the terms of the leases, if shorter
Furniture, fixtures and office equipment	Over 3 to 5 years
Others	Over 5 years

### Buildings under construction

Buildings under construction are stated at cost, which comprises all direct costs incurred in relation to the construction. Depreciation is not provided until the construction work is completed and the buildings are ready for their intended use.

## 2. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

### **Subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investment in subsidiaries is included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and the estimated costs necessary to make the sale.

### **Taxation**

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### **Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

# *Notes to the Financial Statements*

*For the year ended 31st December, 2000*

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Foreign currencies**

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

### **Retirement benefits cost**

The amounts of contributions payable to the Group's defined contribution retirement benefits schemes are charged to the income statement.

### **Cash equivalents**

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advances.

## *Notes to the Financial Statements*

*For the year ended 31st December, 2000*

### 3. **TURNOVER AND CONTRIBUTION TO PROFIT FROM OPERATIONS**

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

<b>2000</b>	1999
<b>HK\$</b>	<b>HK\$</b>

An analysis of the Group's turnover  
by geographical market is as follows:

United States	<b>263,837,440</b>	237,842,362
Europe	<b>221,714,224</b>	148,391,756
Asia	<b>78,285,793</b>	53,948,248
South America	<b>13,375,555</b>	8,564,952
Others	<b>25,329,455</b>	21,058,793
	<u><b>602,542,467</b></u>	<u>469,806,111</u>

An analysis of contribution to profit from operations by geographical market has not been presented as the ratio of contribution to profit from operations to turnover for each individual market is substantially in line with the overall group ratio.

### 4. **OTHER REVENUE**

Included in other revenue is interest on bank deposits of HK\$6,997,462 (1999: HK\$4,192,763).

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 5. PROFIT FROM OPERATIONS

	2000 HK\$	1999 HK\$
Profit from operations has been arrived at after charging:		
Auditors' remuneration	913,645	777,476
Deficit arising on revaluation of an investment property	900,000	400,000
Depreciation and amortisation	40,798,661	30,834,366
Loss on disposal of property, plant and equipment	1,723,588	1,460,680
Operating lease rentals in respect of rented premises	6,491,677	6,762,051
Staff costs, including directors' emoluments	<u>102,949,515</u>	<u>76,699,981</u>

## 6. FINANCE COSTS

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

## 7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

### Directors' emoluments

The directors' emoluments are analysed as follows:

	2000 HK\$	1999 HK\$
Fees:		
Executive	–	–
Independent non-executive	<u>288,000</u>	<u>288,000</u>
	<u>288,000</u>	<u>288,000</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	2,947,685	2,914,389
Performance related incentive payments	3,048,900	270,000
Retirement benefits scheme contributions	<u>45,050</u>	<u>35,700</u>
	<u>6,041,635</u>	<u>3,220,089</u>
	<u>6,329,635</u>	<u>3,508,089</u>

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (Continued)

#### Directors' emoluments (Continued)

In addition to the above, rent-free accommodation was provided to two directors and the estimated rental values for the accommodation were approximately HK\$307,320 (1999: HK\$330,510).

The emoluments of the directors, including the estimated rental values for the rent-free accommodation, were within the following bands:

	2000 Number of directors	1999 Number of directors
Nil to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	1	–
	<u>5</u>	<u>5</u>

#### Highest paid employees

The five highest paid individuals of the Group included two (1999: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (1999: two) highest paid employees, other than directors of the Company, are as follows:

	2000 HK\$	1999 HK\$
Salaries and other benefits	1,450,400	1,300,900
Performance related incentive payments	3,357,000	155,000
Retirement benefits scheme contributions	71,700	59,100
	<u>4,879,100</u>	<u>1,515,000</u>



# Notes to the Financial Statements

For the year ended 31st December, 2000

## 7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (Continued)

### Highest paid employees (Continued)

The emoluments of the highest paid employees were within the following bands:

	2000 Number of employees	1999 Number of employees
Nil to HK\$1,000,000	–	2
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	2	–
	<hr/>	<hr/>
	3	2
	<hr/>	<hr/>

## 8. TAXATION

The charge represents Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year.

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 at present subject to taxation in any other jurisdiction in which the Group operates.

## 9. NET PROFIT FOR THE YEAR

The Group's net profit for the year includes a profit of HK\$51,289,643 (1999: HK\$39,040,993) which has been dealt with in the financial statements of the Company.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 10. DIVIDENDS

	2000 HK\$	1999 HK\$
Interim dividend paid of 7.0 cents (1999: 2.0 cents) per share	24,079,300	6,760,000
Special dividend paid of nil cent (1999: 5.0 cents) per share	–	16,900,000
Final dividend proposed of 7.0 cents (1999: 3.8 cents) per share	<u>24,544,800</u>	<u>12,844,000</u>
	<u>48,624,100</u>	<u>36,504,000</u>

The final dividend of 7.0 cents (1999: 3.8 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

### 11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2000 HK\$	1999 HK\$
Earnings for the purposes of basic and diluted earnings per share	<u>121,696,062</u>	<u>80,686,372</u>
<b>Number of shares</b>		
Weighted average number of shares for the purpose of basic earnings per share	<u>340,125,519</u>	<u>338,000,000</u>
Effect of dilutive potential shares in respect of share options	<u>4,001,636</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>344,127,155</u>	

No diluted earnings per share for 1999 is presented as the Company did not have any dilutive potential shares outstanding during the year ended 31st December, 1999 or as at 31st December, 1999.

## *Notes to the Financial Statements*

*For the year ended 31st December, 2000*

### 12. INVESTMENT PROPERTY

	<b>THE GROUP</b>
	<i>HK\$</i>
VALUATION	
At 1st January, 2000	3,800,000
Deficit arising on revaluation	<u>(900,000)</u>
<b>At 31st December, 2000</b>	<b><u>2,900,000</u></b>

The investment property was revalued at 31st December, 2000 by Vigers Hong Kong Limited, an independent firm of professional valuers, on an open market value basis. The resulting deficit arising on revaluation of HK\$900,000 has been charged to the income statement.

The investment property is situated in Hong Kong and is held under a medium-term lease.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$	Leasehold improvements HK\$	Plant and machinery HK\$	Furniture, fixtures and office equipment HK\$	Motor vehicles HK\$	Buildings under construction HK\$	Total HK\$
<b>THE GROUP</b>							
<b>COST</b>							
At 1st January, 2000	91,195,857	22,452,261	127,508,972	19,434,170	6,793,567	16,542,056	283,926,883
Additions	19,400,859	9,889,345	45,375,308	10,237,803	2,242,548	20,468,084	107,613,947
Disposals	(1,259,546)	(2,540,538)	(497,827)	(497,381)	-	-	(4,795,292)
Reclassification	28,959,673	-	200,000	-	-	(29,159,673)	-
<b>At 31st December, 2000</b>	<b>138,296,843</b>	<b>29,801,068</b>	<b>172,586,453</b>	<b>29,174,592</b>	<b>9,036,115</b>	<b>7,850,467</b>	<b>386,745,538</b>
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st January, 2000	11,834,425	13,869,245	73,723,361	9,225,941	4,859,441	-	113,512,413
Provided for the year	4,692,402	6,601,707	24,155,922	4,376,187	972,443	-	40,798,661
Eliminated on disposals	(332,724)	(1,872,556)	(431,553)	(420,479)	-	-	(3,057,312)
<b>At 31st December, 2000</b>	<b>16,194,103</b>	<b>18,598,396</b>	<b>97,447,730</b>	<b>13,181,649</b>	<b>5,831,884</b>	<b>-</b>	<b>151,253,762</b>
<b>NET BOOK VALUES</b>							
<b>At 31st December, 2000</b>	<b>122,102,740</b>	<b>11,202,672</b>	<b>75,138,723</b>	<b>15,992,943</b>	<b>3,204,231</b>	<b>7,850,467</b>	<b>235,491,776</b>
At 31st December, 1999	79,361,432	8,583,016	53,785,611	10,208,229	1,934,126	16,542,056	170,414,470

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's property interests shown above comprise:

	Leasehold properties		Buildings under construction	
	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$
Properties situated in Hong Kong held under medium-term leases	15,405,229	15,989,614	-	-
Properties situated in the People's Republic of China other than Hong Kong (the "PRC") held under medium-term leases	106,697,511	63,371,818	7,850,467	16,542,056
	<u>122,102,740</u>	<u>79,361,432</u>	<u>7,850,467</u>	<u>16,542,056</u>

## 14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK\$	HK\$
Unlisted shares (Note)	<u>130,719,000</u>	<u>130,719,000</u>

Note: The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time when they became members of the Group pursuant to the group reorganisation in 1996.

Particulars of the principal subsidiaries at 31st December, 2000 are set out in note 36.

## 15. AMOUNT DUE FROM A SUBSIDIARY

The amount is unsecured, interest free and does not have fixed repayment terms. In the opinion of the directors, the amount will not be repaid within the next twelve months from the balance sheet date and, accordingly, the amount is shown as non-current.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 16. INVENTORIES

	THE GROUP	
	2000	1999
	HK\$	HK\$
Raw materials	35,581,928	29,094,728
Work in progress	47,150,983	51,285,436
Finished goods	13,264,223	12,503,898
	<u>95,997,134</u>	<u>92,884,062</u>

There are inventories of HK\$9,280,757 (1999: HK\$2,791,652) carried at net realisable value.

### 17. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 30 days to 90 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$87,552,411 (1999: HK\$74,408,620), an aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2000	1999
	HK\$	HK\$
Current	62,518,010	53,620,388
1 to 90 days overdue	23,009,359	20,229,181
More than 91 days overdue	2,025,042	559,051
	<u>87,552,411</u>	<u>74,408,620</u>

The Company did not have any trade debtors at the balance sheet date.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 18. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$56,958,287 (1999: HK\$56,737,510), an aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2000	1999
	HK\$	HK\$
Current to 90 days overdue	55,641,506	54,682,347
More than 91 days overdue	<u>1,316,781</u>	<u>2,055,163</u>
	<u>56,958,287</u>	<u>56,737,510</u>

### 19. BANK BORROWINGS

	THE GROUP	
	2000	1999
	HK\$	HK\$
The bank borrowings, which are all due within one year, comprise:		
Bank loans, secured	2,336,449	887,850
Bank loans, unsecured	1,401,869	3,271,028
Trust receipt and import loans, secured	<u>213,925</u>	<u>641,706</u>
	<u>3,952,243</u>	<u>4,800,584</u>

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 20. SHARE CAPITAL

	Number of shares	Amount HK\$
Shares of HK\$0.10 each		
<i>Authorised:</i>		
At beginning and at end of the years 1999 and 2000	<u>1,000,000,000</u>	<u>100,000,000</u>
<i>Issued and fully paid:</i>		
At 1st January, 1999 and at 31st December, 1999	338,000,000	33,800,000
Issue of shares upon the exercise of share options	<u>12,640,000</u>	<u>1,264,000</u>
At 31st December, 2000	<u>350,640,000</u>	<u>35,064,000</u>

### 21. SHARE OPTIONS

Pursuant to the Company's share option scheme which was adopted at a special general meeting of the Company held on 24th October, 1996, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the shares quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme.



# Notes to the Financial Statements

For the year ended 31st December, 2000

## 21. SHARE OPTIONS (Continued)

During the year, share options were granted under the scheme to certain employees, including executive directors, of the Company and its subsidiaries to subscribe for 33,100,000 shares in the Company. These share options are exercisable at any time between 7th July, 2000 and 23rd October, 2006 at an exercise price of HK\$0.88 per share. Certain share options were exercised during the year to subscribe for 12,640,000 shares in the Company at an exercise price of HK\$0.88 per share.

The aggregate consideration received by the Company in respect of the options granted during the year amounted to HK\$12.

## 22. RESERVES

	Share premium HK\$	Special reserve HK\$	Goodwill reserve HK\$	Exchange reserve HK\$	Retained profits HK\$	Total HK\$
<b>THE GROUP</b>						
At 1st January, 1999	63,413,280	(3,269,460)	(1,000,410)	402,699	208,709,819	268,255,928
Exchange differences arising on translation of overseas operations	-	-	-	178,196	-	178,196
Goodwill reserve arising on acquisition of subsidiaries	-	-	(1,081,364)	-	-	(1,081,364)
Net profit for the year	-	-	-	-	80,686,372	80,686,372
Dividends	-	-	-	-	(36,504,000)	(36,504,000)
At 31st December, 1999	63,413,280	(3,269,460)	(2,081,774)	580,895	252,892,191	311,535,132
Exercise of share options	9,859,200	-	-	-	-	9,859,200
Net profit for the year	-	-	-	-	121,696,062	121,696,062
Dividends	-	-	-	-	(48,624,100)	(48,624,100)
At 31st December, 2000	<u>73,272,480</u>	<u>(3,269,460)</u>	<u>(2,081,774)</u>	<u>580,895</u>	<u>325,964,153</u>	<u>394,466,294</u>

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 22. RESERVES (Continued)

	Share premium HK\$	Contributed surplus HK\$	Retained profits HK\$	Total HK\$
<b>THE COMPANY</b>				
At 1st January, 1999	63,413,280	105,369,000	13,518,831	182,301,111
Net profit for the year	-	-	39,040,993	39,040,993
Dividends	-	-	(36,504,000)	(36,504,000)
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At 31st December, 1999	63,413,280	105,369,000	16,055,824	184,838,104
Net profit for the year	-	-	51,289,643	51,289,643
Exercise of share options	9,859,200	-	-	9,859,200
Dividends	-	-	(48,624,100)	(48,624,100)
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<b>At 31st December, 2000</b>	<b><u>73,272,480</u></b>	<b><u>105,369,000</u></b>	<b><u>18,721,367</u></b>	<b><u>197,362,847</u></b>

Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the surplus account of Allied Power Inc., the subsidiary which was acquired by the Company pursuant to the group reorganisation in 1996.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Allied Power Inc. at the date on which the group reorganisation became effective and the nominal amount of the share capital of the Company issued under the group reorganisation.

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 23. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest free and does not have fixed repayment terms. The minority shareholder agreed not to demand repayment of this amount within the next twelve months from the balance sheet date and, accordingly, the amount is shown as non-current.

### 24. DEFERRED TAXATION

At the balance sheet date, the provision for deferred taxation liability was attributable to the excess of depreciation allowances claimed for tax purposes over accounting depreciation charged in the financial statements.

The Group and the Company did not have any significant unprovided deferred taxation at the balance sheet date or during the year.

### 25. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 HK\$	1999 HK\$
Profit before taxation	126,778,139	87,137,079
Deficit arising on revaluation of investment property	900,000	400,000
Depreciation and amortisation	40,798,661	30,834,366
Loss on disposal of property, plant and equipment	1,723,588	1,460,680
Interest income	(6,997,462)	(4,192,763)
Interest expenses	2,298,893	1,897,969
(Increase) decrease in inventories	(2,221,242)	433,714
(Increase) decrease in debtors, deposits and prepayments	(20,563,889)	4,686,476
Increase in creditors and accrued charges	14,546,301	33,801,904
Effect on foreign exchange rate changes	-	178,196
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>157,262,989</u>	<u>156,637,621</u>

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 26. ACQUISITION OF SUBSIDIARIES

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
<b>NET ASSETS ACQUIRED</b>		
Property, plant and equipment	–	3,593,955
Inventories	–	8,200,987
Debtors, deposits and prepayments	–	3,032,977
Taxation recoverable	–	9,521
Bank balances and cash	–	3,737,846
Creditors and accrued charges	–	(4,123,104)
Bank loans	–	(1,869,159)
Minority interests	–	(7,765,289)
	<hr/>	<hr/>
	–	4,817,734
Goodwill on acquisition	–	1,081,364
	<hr/>	<hr/>
	–	5,899,098
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	–	5,454,118
Balance of consideration payable included in creditors and accrued charges	–	444,980
	<hr/>	<hr/>
	–	5,899,098
	<hr/> <hr/>	<hr/> <hr/>
Net cash outflow arising on acquisition:		
	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Cash consideration paid	–	(5,454,118)
Bank balances and cash acquired	–	3,737,846
	<hr/>	<hr/>
Net cash outflow arising on acquisition of subsidiaries	–	(1,716,272)
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries acquired in 1999 did not have any significant impact on the Group's cash flows.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$	Bank loans HK\$
Balance at 1st January, 1999	97,213,280	–
Acquisition of subsidiaries	–	1,869,159
New bank loans raised	–	2,289,719
	<hr/>	<hr/>
Balance at 31st December, 1999	97,213,280	4,158,878
Proceeds from issue of shares upon the exercise of share options	11,123,200	–
Repayment of bank loans	–	(4,158,878)
New bank loans raised	–	3,738,318
	<hr/>	<hr/>
<b>Balance at 31st December, 2000</b>	<b><u>108,336,480</u></b>	<b><u>3,738,318</u></b>

## 28. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2000 HK\$	1999 HK\$
Bank balances and cash	132,595,366	113,016,712
Trust receipts and import loans	(213,925)	(641,706)
	<hr/>	<hr/>
	<b><u>132,381,441</u></b>	<b><u>112,375,006</u></b>

## 29. MAJOR NON-CASH TRANSACTION

During the year, the following assets were acquired from a minority shareholder of a subsidiary (note 35) and the consideration was settled through a loan from the same minority shareholder:

	2000 HK\$	1999 HK\$
Inventories	891,830	–
Property, plant and equipment	5,599,820	–
	<hr/>	<hr/>
	<b><u>6,491,650</u></b>	<b><u>–</u></b>

**30. RETIREMENT BENEFIT SCHEME**

Prior to 1st December, 2000, the Group operated a defined contribution retirement benefit scheme (“Defined Contribution Scheme”) for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effective from 1st December, 2000, the Group has joined a mandatory provident fund scheme (“MPF Scheme”) for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the Defined Contribution Scheme and the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

During the year, the Group made retirement benefits scheme contributions of HK\$1,055,200 (1999: HK\$728,142) after forfeited contributions utilised in the Defined Contribution Scheme of HK\$96,289 (1999: HK\$313,915).

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the Defined Contribution Scheme and which are available to reduce the contributions payable by the Group in the future years was HK\$Nil (1999: HK\$25,639).

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to pay the following amounts in the following year in respect of rented premises under non-cancellable operating leases which expire:

	THE GROUP	
	2000	1999
	HK\$	HK\$
Within one year	665,394	909,960
In the second to fifth year inclusive	5,383,812	2,970,950
Over five years	–	944,673
	<u>6,049,206</u>	<u>4,825,583</u>

The Company did not have any operating lease commitments at the balance sheet date.

### 32. CAPITAL COMMITMENTS

	THE GROUP	
	2000	1999
	HK\$	HK\$
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	15,971,028	10,437,944
– leasehold improvements	742,034	2,741,343
– plant and machinery	3,937,410	2,290,567
– furniture, fixtures and equipment	563,416	961,076
	<u>21,213,888</u>	<u>16,430,930</u>

In addition, the Group had outstanding capital contribution to subsidiaries at 31st December, 2000 of HK\$4,344,645 (1999: HK\$4,344,645).

The Company did not have any capital commitments at the balance sheet date.

## Notes to the Financial Statements

For the year ended 31st December, 2000

### 33. CONTINGENT LIABILITIES

	THE GROUP	
	2000	1999
	HK\$	HK\$
Bills discounted with recourse	<u>12,148,176</u>	<u>21,368,360</u>

At 31st December, 2000, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$97,130,000 (1999: HK\$78,630,000) granted to its subsidiaries. The total amount of facilities utilised by the subsidiaries at 31st December, 2000 amounted to approximately HK\$214,000 (1999: HK\$642,000).

In addition, at 31st December, 2000, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (approximately HK\$953,000) (1999: Nil), in consideration of the guarantee given by this minority shareholder in favour of banks to secure general banking facilities to the extent of RMB2,000,000 (approximately HK\$1,869,000) (1999: Nil) granted to this subsidiary.

### 34. PLEDGE OF ASSETS

At 31st December, 2000, leasehold properties with an aggregate net book value amounting to approximately HK\$15,405,000 (1999: HK\$15,990,000) and bank deposits of approximately HK\$11,293,000 (1999: HK\$5,411,000) were pledged against certain current liabilities to banks to secure general banking facilities granted to the Group.

### 35. RELATED PARTY TRANSACTIONS

	Notes	A minority shareholder of a subsidiary	
		2000	1999
		HK\$	HK\$
Purchase of inventories	1	891,830	–
Purchase of property, plant and equipment	1	5,599,820	–
Loan from related company	2	6,491,650	–



# Notes to the Financial Statements

For the year ended 31st December, 2000

## 35. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (1) The transactions were carried out at prices agreed by the parties concerned.
- (2) The terms of the loan are set in note 23.

In addition to the above, at 31st December, 2000, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (approximately HK\$953,000), details of which are set out in note 33.

## 36. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2000 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Attributable equity interest of the Group		Principal activities
			Directly	Indirectly	
Allied Power Inc.	British Virgin Islands	C\$50,000	100%	–	Investment holding
Able Rich Enterprises Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Argent Optical Manufactory Limited	Hong Kong/ PRC	HK\$100,000	–	100%	Manufacture of optical frames
Artland Technology Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Arts 1000 Optical Company Limited	British Virgin Islands/PRC	US\$1	–	100%	Retailing of optical frames
Arts Optical Manufactory, Limited	Hong Kong	HK\$1,000,000	–	100%	Trading in optical frames

## *Notes to the Financial Statements*

*For the year ended 31st December, 2000*

### 36. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Attributable equity interest of the Group		Principal activities
			Directly	Indirectly	
Atister Enterprises Limited	Hong Kong	HK\$30,000	–	100%	Trading in optical frames and investment holding
Business Executive Investment Limited	Hong Kong	HK\$2	–	100%	Investment holding
Champion Capital Industries Limited	Hong Kong	HK\$10,000	–	100%	Investment holding
Sin Dak Industrial Limited	Hong Kong	HK\$40,000	–	100%	Property holding
Stepper Limited	Hong Kong	HK\$100	–	51%	Trading in optical frames
深圳北方光學實業有限公司 (Shenzhen North Optical Industrial Company Limited)	PRC	HK\$13,425,600	–	51% (Note)	Manufacture and trading in optical lens

*Note:* The registered capital of this company is HK\$17,675,600. According to the latest official capital verification report dated 16th June, 1999, the amount of capital which has been verified amounting to HK\$13,425,600.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries, in the opinion of the directors, would result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at 31st December, 2000 or at any time during the year.