NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1 General

(a) The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

(b) ***Financial restructuring of the Group's indebtedness***

Under the compromise agreement ("Compromise Agreement") signed with the Group's bankers (the "Banks") on 30 April 1999 and approved by the shareholders at the Extraordinary General Meeting held on 31 May 1999, the indebtedness to the Banks of approximately HK$1,102 million ("Bank Debt") were compromised as follows:

(i) $250 million bank loans ("Bank Loans") — $250 million of the Bank Debt was discharged by the Banks and replaced by the $250 million interest bearing loans (note 30);

(ii) $300 million convertible notes ("Convertible Notes") — $300 million of the Bank Debt was discharged by the Banks in consideration of the Company issuing $300 million of Convertible Notes to Optiset Limited (note 32); and

(iii) Issue of ordinary shares — the remaining Bank Debt of $552 million was discharged by the Banks in consideration of the Company issuing to Optiset Limited 373,342,850 new ordinary shares which represent 51% of the enlarged issued share capital of the Company (note 34).

Pursuant to the standstill agreement signed between the Company and the Banks in July 1997, the Group executed several debentures incorporating fixed and floating charges over all of the undertaking, property and assets of certain Group companies (the "Debentures") as security for the outstanding indebtedness. After the completion of the Compromise Agreement, the Debentures were amended to provide all such securities for the Bank Loans and the Convertible Notes.

The trading of the Company's shares was suspended on 18 March 1997 and resumed on 2 June 1999 following the completion of the Compromise Agreement.

Further details on the restructuring of the Group's indebtedness can be found in the 1999 annual report.

2 Significant accounting policies

(a) ***Statement of compliance***

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of land and buildings as explained in the accounting policies set out below.

In preparing the accounts, the directors have considered the liquidity of the Group in light of its net liabilities of $323 million, which mainly comprised the $250 million Bank Loans and the $300 million Convertible Notes. Whilst the Group had been able to make the scheduled quarterly interest payments to the Banks since mid-1999 in accordance with the loan agreement, the Group was unable to make interest payment of $6.5 million which fell due on 1 March 2001 due to cash flow constraint. In the meantime, the Banks have given the Group a waiver on this non-payment of interest as an event of default under the loan agreement, until 13 May 2001. The directors are of the opinion that the Group will be able to meet its financial obligations as they fall due provided the Banks continue to support the Group and provided sufficient external funding can be obtained. Accordingly, the accounts have been prepared on a going concern basis.

(c) Basis of consolidation

(i) The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(ii) Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves in the year in which it arises. The excess of the Group's share of the fair value of the separable net assets of subsidiaries acquired over the cost is credited to capital reserve.

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(d) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year.

The carrying amount of the interest in associates in the Group's balance sheet is reviewed periodically in order to assess whether there is any diminution in value which is other than temporary. Such provisions are determined by the directors for each associate individually and are recognised as an expense in the consolidated profit and loss account.

Goodwill arising on the acquisition of an associate, being the excess of cost over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves in the year in which it arises. The excess of the Group's share of the fair value of the separable net assets of associates acquired over the cost of investments is credited directly to reserves.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

On disposal of an associate during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on group reserves is included in the calculation of profit or loss on disposal.

The results of the associates are included in the Company's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before the accounts of the Company are approved by the directors. In the Company's balance sheet, its investments in associates are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each associate individually. Any such provisions are recognised as an expense in the profit and loss account.

(f) Fixed assets

(i) Fixed assets are carried in the balance sheets on the following bases :

- land and buildings held for own use are stated in the balance sheet at their revalued amount, being their fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date; and

- plant, machinery and other fixed assets are stated in the balance sheet at cost less accumulated depreciation.

(ii) Changes arising on the revaluation of land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows :

- when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

- when a surplus arises on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the profit and loss account.

(iii) The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account except to the extent it relates to land and buildings, in which case it is dealt with in accordance with (ii) above. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account, except to the extent it relates to land and buildings, in which case it is dealt with in accordance with (ii) above. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the property revaluation reserve to accumulated losses.

(g) Depreciation

Depreciation is calculated to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

– leasehold land is depreciated on a straight-line basis over the remaining term of the lease;

– buildings on leasehold land are depreciated on a straight-line basis over the unexpired terms of the leases; and

– other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows :

Plant and machinery	10 to 15 years
Furniture, fixtures and equipment	10 years
Motor vehicles	5 years

(h) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset as set out in note 2 (g) above. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(ii) Operating lease charges
Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

(i) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows :

(i) Sale of goods
Revenue is recognised when goods are delivered from the Group's premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income
Interest income is recognised when the right to receive interest is established.

(iii) Management fee
Management fee is recognised when the services are rendered.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost includes the cost of materials calculated using the standard cost method, which approximates the actual cost and, in the case of work in progress and finished goods, includes direct labour and an appropriate proportion of production overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(l) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of overseas branches and subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are retranslated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(m) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(n) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

3 Turnover

The principal activity of the Group is the manufacture and sale of optical products.

Turnover represents the sales value of goods supplied to customers, less value of goods returned from customers during the year, after eliminating inter-company transactions.

4 Segmental information

The principal activity of the Group is the manufacture and sale of optical products. Therefore, no separate analysis of turnover and results from operations by principal activity is prepared as all the information has been disclosed in the consolidated profit and loss account.

The analysis of the turnover by geographical location of the Group's customers during the financial year is as follows :

Geographical location of the Group's customers

	Group turnover	
	2000	1999
	$	$
United States of America	**133,136,757**	145,257,892
Europe	**76,159,024**	85,826,585
Hong Kong	**16,704,312**	34,196,998
People's Republic of China	**22,272,927**	25,220,865
Australia	**8,478,303**	11,285,008
Canada	**8,773,917**	7,904,954
Others	**2,427,306**	5,397,386
	267,952,546	315,089,688

5 Other revenue

	2000	1999
	$	$
Interest income	**910,754**	1,318,408
Management fee received from an associate	**4,170,801**	4,412,967
Sales of obsolete inventories	**1,609,093**	2,441,623
	6,690,648	8,172,998

6 Other operating expenses

	2000 $	1999 $
Provision for inventories (note a)	**(7,523,767)**	(6,260,139)
Net loss on disposal of fixed assets	**(130,805)**	(1,750,297)
Write-off of fixed assets (note b)	**(370,639)**	(2,220,466)
Provision for doubtful debts (note c)	**–**	(1,861,953)
Others	**(1,679,729)**	(982,164)
	(9,704,940)	(13,075,019)

Notes:

(a) Provision for inventories represents the net provision for slow-moving and obsolete items determined by the directors in re-assessing the net realisable value of inventories within the Group.

(b) Write-off of fixed assets represents fixed assets written off due to wear, tear and obsolescence.

(c) Provision for doubtful debts in 1999 represented specific provision for other debtor.

7 Provision for amounts due from Hanmy

Provision for amounts due from Hanmy represents further provision for the amounts due from Hanmy (note 24).

8 Disposal of Swank China Retail operations

	2000 $	1999 $
Professional fees relating to disposal	**(786,206)**	–
Provision for impairment of fixed assets	**(10,969,522)**	–
Provision for write-down of inventories	**(2,240,972)**	–
	(13,996,700)	–

Disposal of Swank China Retail operations represents the provisions for professional fees and the impairment of the fixed assets and inventories in anticipation of the disposal of Swank China Retail which occurred in March 2001 (note 22 (c) and note 42).

9 Provision for impairment of fixed assets

Provision for impairment of fixed assets represents the provision for fixed assets with no economic value to the Group's business, based on the directors' exercise of re-assessing the economic useful lives of fixed assets.

10 Provision for diminution in value of associates

Provision for diminution in value of associates which is other than temporary, represents the directors' best estimate of diminution in value for the Group's interest in certain associates.

11 Reconstruction cost

Reconstruction cost in 1999 represented professional fees arising from the Group's standstill arrangements, Compromise Agreement, special reviews and financial and legal advice on the restructuring plans.

12 Gain on settlement of obligation to SHK

Pursuant to the shareholders' agreement relating to Global Origin Limited ("Global", a subsidiary of the Group) dated 20 April 1994 with Sun Hung Kai China Development Fund Limited ("SHK"), the Group was required to buy back from SHK its entire shareholding in Global ("relevant shares") for $30 million in the event that the shares of Global did not go public on or before 30 June 1998. On 13 July 1998, SHK gave notice to the Group requesting the Group to buy back the relevant shares. The Group settled its obligation by purchasing the relevant shares on 16 March 1999 for $6 million and realised a gain of $24 million.

13 Exchange gain on notes payable

Exchange gain on notes payable in 1999 arose from the translation of the notes payable from its original denomination in Indonesian rupiah to Hong Kong dollars as at 23 March 1999.

14 Gain on settlement of notes payable

Exchange gain on notes payable in 1999 represented gain arising from the Group's full redemption of its Indonesian rupiah notes payable on 23 March 1999 at a discount.

15 Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging/(crediting) :

(a) Finance cost

	2000	1999
	$	$
Interest on bank advances and other borrowings repayable within five years	**25,474,306**	54,523,690
Finance charges on obligations under mfinance leases	**51,808**	183,658
	25,526,114	54,707,348

(b) Other items

	2000 $	1999 $
Cost of inventories (note i)	**208,230,667**	234,755,075
Staff costs (note i) (including retirement costs of $1,112,966 (1999: $309,395))	**88,015,452**	93,777,347
Auditors' remuneration		
- current year	**1,445,353**	1,027,000
- underprovison/(overprovision) in prior years	**297,245**	(81,500)
Depreciation (note i)		
- owned assets	**20,466,063**	17,306,622
- assets held under finance leases	**149,599**	212,077
Operating lease charges in respect of properties	**10,050,767**	13,032,858

Note :

(i) Cost of inventories includes $62,553,572 (1999: $58,642,220) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses. Included in cost of inventories is a net provision for inventories of $7,523,767 (1999: $6,260,139).

16 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

(a) Executive directors

	2000 $	1999 $
Fees	—	—
Salaries and benefits in kind	**6,540,000**	6,700,483
Discretionary bonuses	**1,046,250**	2,087,249
Retirement scheme contributions	**213,000**	167,250
	7,799,250	8,954,982

(b) Non-executive directors

	2000 $	1999 $
Fees	**720,000**	720,000

The remuneration of the directors is within the following bands:

$	**2000 Number of directors**	1999 Number of directors
Nil to 1,000,000	**3***	2
1,000,001 to 1,500,000	—	1
1,500,001 to 2,000,000	**1**	1
2,000,001 to 2,500,000	—	1
2,500,001 to 3,000,000	**2**	—
3,500,001 to 4,000,000	—	1

* Includes one director who was appointed during the year and such remuneration within the disclosed band is the individual's remuneration after his appointment as a director.

17 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four are directors (including one director who was appointed during the year) (1999: four are directors) whose total emoluments in the capacity as a director are disclosed in note 16. The aggregate of the emoluments in respect of the other two individuals (including the portion of the emoluments of the individual before his appointment as a director) (1999: one individual) are as follows :

	2000 $	**1999 $**
Salaries and benefits in kind	**1,182,000**	729,420
Discretionary bonuses	**97,000**	127,500
Retirement scheme contributions	**59,100**	36,075
	1,338,100	892,995

The emoluments of the two individuals (1999: one individual) with the highest emoluments are within the following bands:

$	**2000 Number of individuals**	1999 Number of individuals
Nil to 1,000,000	**2***	1

* Includes one director who was appointed during the year and such emoluments within the disclosed band are the individual's emoluments before his appointment as a director.

18 Taxation

(a) Taxation in the consolidated profit and loss account represents:

	2000	1999
	$	$
Provision for Hong Kong profits tax for the year	**—**	—
Underprovision/(overprovision) in respect of prior years	**22,093**	(692)
	22,093	(692)
Share of associates' taxation	**153,545**	289,926
	175,638	289,234

No provision has been made for Hong Kong profits tax and overseas taxation in 2000 as the Group's tax losses brought forward from prior years exceed the estimated assessable profits for the year. No provision had been made for Hong Kong profits tax and overseas taxation in 1999 as the Group sustained a loss for taxation purposes during that year.

(b) Taxation in the consolidated balance sheet represents:

	2000	1999
	$	$
Taxation recoverable		
Provision for Hong Kong profits tax for the year	**—**	—
Balance of profits tax relating to prior years	**—**	(2,663,097)
Hong Kong profits tax recoverable	**—**	(2,663,097)
Taxation payable		
Overseas taxation payable	**835,573**	835,682

Details of deferred taxation are set out in note 33.

19 Loss attributable to shareholders

The loss attributable to shareholders includes a loss of $75,496,766 (1999: $64,000, 392) which has been dealt with in the accounts of the Company.

20 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of $102,318,608 (1999: $37,746,211) and the weighted average of 732,044,805 ordinary shares (1999: 577,593,379) in issue during the year.

(b) Diluted loss per share

There were no dilutive potential ordinary shares in existence during the years 2000 and 1999.

21 Fixed assets

(a) The Group

	Land and buildings $	Plant and machinery $	Furniture, fixtures and equipment $	Motor vehicles $	Total $
Cost or valuation :					
At 1 January 2000	81,300,000	175,674,590	76,818,786	4,079,541	337,872,917
Exchange adjustments	—	(30,889)	(10,816)	—	(41,705)
Additions	—	2,689,522	2,576,088	437,794	5,703,404
Write-off	—	(5,178)	(2,106,347)	—	(2,111,525)
Disposals	—	(419,142)	(587,014)	(841,880)	(1,848,036)
At 31 December 2000	81,300,000	177,908,903	76,690,697	3,675,455	339,575,055
Representing :					
Cost	—	177,908,903	76,690,697	3,675,455	258,275,055
Valuation - 1998 (note d)	81,300,000	—	—	—	81,300,000
	81,300,000	177,908,903	76,690,697	3,675,455	339,575,055
Accumulated depreciation:					
At 1 January 2000	3,054,407	101,896,267	28,057,222	3,631,916	136,639,812
Exchange adjustments	—	(24,377)	(6,738)	—	(31,115)
Charge for the year	3,054,406	9,464,213	7,873,385	223,658	20,615,662
Provision for impairment (notes 8 and 9)	—	17,232,568	5,078,965	—	22,311,533
Write-off	—	(4,429)	(1,736,457)	—	(1,740,886)
Disposals	—	(204,878)	(568,520)	(737,318)	(1,510,716)
At 31 December 2000	6,108,813	128,359,364	38,697,857	3,118,256	176,284,290
Net book value :					
At 31 December 2000	75,191,187	49,549,539	37,992,840	557,199	163,290,765
At 31 December 1999	78,245,593	73,778,323	48,761,564	447,625	201,233,105

(b) ***The Company***

	Plant and machinery $	Furniture, fixtures and equipment $	Motor vehicles $	Total $
Cost :				
At 1 January 2000	502,319	14,190,513	1,314,480	16,007,312
Additions	—	376,404	437,794	814,198
Disposals	—	—	(841,880)	(841,880)
At 31 December 2000	502,319	14,566,917	910,394	15,979,630
Accumulated depreciation :				
At 1 January 2000	378,375	7,772,900	908,435	9,059,710
Charge for the year	50,232	1,441,573	182,079	1,673,884
Disposals	—	—	(737,319)	(737,319)
At 31 December 2000	428,607	9,214,473	353,195	9,996,275
Net book value :				
At 31 December 2000	73,712	5,352,444	557,199	5,983,355
At 31 December 1999	123,944	6,417,613	406,045	6,947,602

(c) ***The analysis of net book value of properties is as follows:***

	The Group	
	2000	1999
	$	$
Outside Hong Kong on medium-term leases	**75,191,187**	78,245,593

(d) ***Land and buildings***

Land and buildings of the Group, which are held for own use in Dongguan and Shenzhen in the PRC, were revalued at 31 December 1998 by C.Y. Leung & Company Limited, an independent firm of surveyors, at their open market value on an existing use basis. In the opinion of the directors, there has been no material change in the market value of these properties since 31 December 1998, and thus for 2000, the Group continued to adopt that valuation done in 1998.

The carrying amount of the land and buildings of the Group at 31 December 2000 would have been $88,336,325 (1999: $91,570,294) had the land and buildings been carried at cost less accumulated depreciation.

The Group has not obtained land use right certificates or building ownership certificates for certain land and buildings situated in the PRC with a net book value of approximately $75 million at 31 December 2000 (1999: $78 million).

(e) ***Assets held under finance leases***

The net book value of fixed assets of the Group and the Company includes an amount of $676,638 (1999: $826,237) in respect of assets held under finance leases.

(f) ***Pledge of fixed assets***

As at 31 December 2000, the Group has pledged certain fixed assets having a net book value of approximately $25 million (1999: $26 million) in accordance with the terms of the Debentures to provide security for the Bank Loans and Convertible Notes.

22 Interest in subsidiaries

	2000	1999
	$	$
Unlisted shares, at cost	**74,258,322**	74,258,346
Amounts due from subsidiaries	**394,987,038**	417,545,928
	469,245,360	491,804,274
Less : Provision	**(73,806,911)**	(64,784,980)
	395,438,449	427,019,294

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity interest held by the Company Directly	Percentage of equity interest held by the Company Indirectly	Principal activity
Dongguan De Bao Optical Co., Ltd. ("De Bao")	PRC	HK$58,550,910 (note a)		50%	Manufacturing of multi-coating lenses
Dongguan Hamwell Glasses Co., Ltd. ("Dongguan Hamwell")	PRC	HK$62,504,800 (note b)		83%	Manufacturing of optical products
Global Origin Limited	Hong Kong	75,000,000 shares of HK$1 each		90%	Investment holding
Guangzhou Swank Optical Co., Ltd. ("Guangzhou")	PRC	HK$2,400,000		70% (note c)	Retailing of optical goods
Nicolet America, Inc.	Canada	100 shares of CD$1 each		100%	Trading of optical products
Profit Trend International Limited	Hong Kong	1,000,000 shares of HK$1 each		50%	Investment holding
Prowin Commercial & Industrial Limited	Hong Kong	2 shares of HK$1 each		100%	Property holding in the PRC
Shanghai Pu Tuo Swank Optical Co., Ltd. ("Pu Tuo")	PRC	US$250,000		70% (note c)	Retailing of optical goods
Shanghai Swank Optical Co., Ltd. ("Shanghai")	PRC	US$1,050,000		70% (note c)	Retailing of optical goods

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity interest held by the Company Directly	Indirectly	Principal activity
Shenzhen Henggang Swank Optical Industries Co., Ltd.	PRC	US$30,000,000		81%	Manufacturing of optical products
Swank China Development Company Limited ("Swank China")	Hong Kong	10,000 shares of HK$1 each		70% (note c)	Investment holding
Swank International Management Company Limited	Hong Kong	2 shares of HK$1 each	100%		Provision of accounting and secretarial services
Swank International Optical Company Limited	Hong Kong	10,000 shares of HK$10 each	100%		Trading of optical products
Swank International Optical Industries Limited	Hong Kong	414,048 shares of HK$10 each	100%		Trading of optical products
Swank Optical (Tianjin) Co., Ltd. ("Tianjin")	PRC	US$520,000		70% (note c)	Retailing of optical goods

Notes:

(a) The registered capital of De Bao is HK$118,100,000. At the balance sheet date, plant and machinery amounting to HK$58,550,910 has been contributed by the Group towards meeting the registered capital requirement. The outstanding amount of HK$59,549,090 was due for contribution on 18 March 1999 in accordance with De Bao's Articles of Association. However, as part of the Group's plan to restructure De Bao's operations, the Group has been in discussion with the relevant authorities to modify the original terms of the Articles of Association, including the amount of total registered capital.

(b) The registered capital of Dongguan Hamwell is HK$67,940,000. At the balance sheet date, plant and machinery amounting to HK$62,504,800 has been contributed by the Group to Dongguan Hamwell, towards meeting the registered capital requirement.

(c) Swank China and four of its subsidiaries, Pu Tuo, Shanghai, Guangzhou and Tianjin (collectively as "Swank China Retail") are engaged in the retailing of optical goods in the PRC. Subsequent to the balance sheet date, the Group has disposed its entire interest in Swank China Retail to an independent third party (note 42).

(d) The above list includes the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

23 Interest in associates

	The Group		The Company	
	2000	1999	**2000**	1999
	$	$	**$**	$
Unlisted shares, at cost	**—**	—	**181,119,028**	181,119,028
Share of net assets other than goodwill	**140,181,218**	140,093,739	**—**	—
Amounts due from associates	**1,574,656**	75,914,637	**214,397**	18,338,412
	141,755,874	216,008,376	**181,333,425**	199,457,440
Less : Provision	**(85,923,725)**	(83,493,019)	**(126,037,483)**	(122,413,319)
	55,832,149	132,515,357	**55,295,942**	77,044,121

Details of the principal associates are as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest held by the Company Directly	Proportion of ownership interest held by the Company Indirectly	Principal activity
Dongguan Yueheng Optical Co., Ltd.	PRC	50%		Manufacturing of optical lenses
Dongguan Yueheng Optical (HK) Co Limited	Hong Kong		50%	Trading of optical products
Dongguan Yueheng Optical (BVI) Company Limited	The British Virgin Islands		50%	Financial servicing and marketing of optical products
Framecorp, Inc.	United States of America	23%		Investment holding
Hanson International Optical Industrial Co., Ltd. ("Hanson") (note a)	PRC	49%		Manufacturing of optical products
Po Tai Commercial & Industrial Limited ("Po Tai") (note b)	Hong Kong	49%		Property holding in the PRC

Notes:

(a) The property held by Hanson includes land and buildings in Zhuhai, PRC with a net book value at 31 December 2000 of approximately $15 million (1999: $16 million). Although Hanson has not obtained building ownership certificates for certain buildings with a net book value of approximately $12 million (1999: $13 million), the land use rights of the property are vested in Hanson. The property has been occupied by Hanson for approximately ten years and during this time Hanson has received no notices from any third party alleging that Hanson has no right to carry on their existing operations from the property.

(b) The principal asset of Po Tai is land situated in Dongguan, PRC which was valued at 31 December 1998 by C.Y. Leung & Company Limited, an independent firm of surveyors, on an open market and development basis at approximately $37 million. Such valuation has been taken into account when assessing the Group's net interest in Po Tai in 1998. In the opinion of the directors, there has been no material change in the market value of that principal asset since 31 December 1998, and thus for 2000, the Group continued to adopt that valuation done in 1998 in calculating the Group's net interest in Po Tai.

(c) The above list includes the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net liabilities of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

24 Amounts due from Hanmy

	The Group		**The Company**	
	2000	1999	**2000**	1999
	$	$	**$**	$
Amounts due from Hanmy	**96,338,760**	96,338,760	**68,286,087**	68,286,087
Less : Provision	**(94,578,762)**	(59,620,000)	**(66,526,089)**	(59,620,000)
	1,759,998	36,718,760	**1,759,998**	8,666,087

The Group continues its legal proceedings against Hanmy for recovery of the amounts due. Whilst the Group has not obtained a court judgement yet due to Hanmy's defence, the Group will continue to vigorously pursue its proceedings with the assistance of legal advice. The aggregate written down value represents the directors' best estimate of the amount recoverable from Hanmy based on the assets the Group believes to be owned by Hanmy and believes it will receive following the conclusion of the legal proceedings.

25 Inventories

	The Group	
	2000	1999
	$	$
Raw materials	**26,208,902**	29,505,547
Work in progress	**4,744,798**	4,132,273
Finished goods	**11,458,540**	18,527,180
	42,412,240	52,165,000

The amount of inventories (included above) carried at net realisable value is $nil (1999: $nil). The amount of reversal of a write-down of inventories to estimated net realisable value, recognised in the consolidated profit and loss account as a reduction in the amount of inventories recognised as an expense during the year, is $6,021,003 (1999: $14,176,294). This reversal arose due to an increase in the estimated net realisable value of certain inventories, which had been previously written down to net realisable value, were subsequently used or sold during the year at a higher than the original estimated amount.

As at 31 December 2000, the Group has pledged certain inventories having a net book value of approximately $4 million (1999: $8 million) in accordance with the terms of the Debentures to provide security for the Bank Loans and Convertible Notes.

26 Debtors, deposits and prepayments

The Group's terms on credit sales mainly range from 30 days to 120 days.

Included in debtors, deposits and prepayments are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	The Group		The Company	
	2000	**1999**	**2000**	**1999**
	$	**$**	**$**	**$**
Current to 30 days overdue	**47,444,829**	48,500,079	**—**	—
31 to 60 days overdue	**4,587,461**	3,813,765	**—**	—
61 to 90 days overdue	**900,628**	2,295,487	**—**	—
More than 90 days overdue	**1,815,818**	15,344,772	**—**	—
	54,748,736	69,954,103	**—**	—

Debtors with overdue balances that are more than 90 days are requested to settle all outstanding balances or approval to be obtained from the directors of the Group, before any further credit is granted.

27 Cash and cash equivalents

	The Group		The Company	
	2000	1999	**2000**	1999
	$	$	**$**	$
Deposits with banks	**2,137,907**	2,252,962	**—**	—
Cash at bank and in hand	**7,645,024**	15,431,754	**54,016**	449,121
	9,782,931	17,684,716	**54,016**	449,121

28 Loans to officers

Loans made by the Company to the officers of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows :

Name of borrower	Mr. Claude Jaeck
Position	Executive Director
Terms of the loan	
– duration and repayment terms	Repayable over twelve months from July 1999 to June 2000
– interest rate	Interest free
– security	None
Balance of the loan	
– at 1 January 1999	$Nil
– at 31 December 1999 and 1 January 2000	$174,000
– at 31 December 2000	$Nil
Maximum balance outstanding	
– during 2000	$174,000
– during 1999	$340,000

29 Creditors and accrued charges

All of the creditors and accrued charges are expected to be settled within one year.

Included in creditors and accrued charges are trade creditors with the following ageing analysis:

	The Group		The Company	
	2000	1999	**2000**	1999
	$	$	**$**	$
Current to 30 days overdue	**21,330,440**	21,176,443	**—**	—
31 to 60 days overdue	**3,238,996**	1,718,466	**—**	—
61 to 90 days overdue	**482,241**	785,080	**—**	—
More than 90 days overdue	**1,382,787**	3,047,938	**—**	—
	26,434,464	26,727,927	**—**	—

30 Bank loans and overdrafts

At 31 December 2000, the bank loans and overdrafts were repayable as follows:

	The Group		**The Company**	
	2000	1999	**2000**	1999
	$	$	**$**	$
Within 1 year or on demand	**446,074**	446,334	—	—
After 1 year but within 2 years	**25,000,000**	—	**25,000,000**	—
After 2 years but within 5 years	**150,000,000**	112,500,000	**150,000,000**	112,500,000
After 5 years	**75,000,000**	137,500,000	**75,000,000**	137,500,000
	250,000,000	250,000,000	**250,000,000**	250,000,000
	250,446,074	250,446,334	**250,000,000**	250,000,000

At 31 December 2000, the bank loans and overdrafts were analysed as follows:

	The Group		**The Company**	
	2000	1999	**2000**	1999
	$	$	**$**	$
Unsecured bank overdrafts	**446,074**	446,334	—	—
Secured bank loans	**250,000,000**	250,000,000	**250,000,000**	250,000,000
	250,446,074	250,446,334	**250,000,000**	250,000,000

The bank loans bear interest at a rate per annum equivalent to 1% over prime payable quarterly in arrears. The loans are repayable on the following days:

	$
1 June 2002	25,000,000
1 June 2003	37,500,000
1 June 2004	50,000,000
1 June 2005	62,500,000
1 June 2006	75,000,000
	250,000,000

31 Obligations under finance leases

At 31 December 2000, the Group and the Company had obligations under finance leases repayable as follows:

	The Group and the Company	
	2000	1999
	$	$
Within 1 year	**226,817**	729,924
After 1 year but within 2 years	—	317,333
	226,817	1,047,257

32 Convertible notes

(a) The Convertible Notes bear no interest for the first seven years from 1 June 1999 and thereafter will bear interest at a rate per annum equivalent to 2.5% over prime.

(b) The Convertible Notes were secured by the Debentures and ranked after the secured bank loans in priority.

(c) The Convertible Notes may be convertible into ordinary shares of the Company ("Shares") at any time during the first seven years following 1 June 1999, subject to the restrictions of the maintenance of an adequate public shareholding as required by the Listing Rules of The Stock Exchange of Hong Kong Limited. Each HK$100 Convertible Note will convert into such number of Shares as is determined by dividing HK$100 by the greater of:

  (i) The nominal value of a Share from time to time; and

  (ii) The average closing market price of the Shares for the 30 trading days preceding the exercise of the conversion rights, subject to adjustments in certain events.

(d) The Company shall each year, within 20 days of despatch of its annual audited accounts to Shareholders, apply any Surplus Cash it has, as defined in the Compromise Agreement, in redeeming at par such number of the Convertible Notes as is equal to the amount of Surplus Cash on a pro-rata basis amongst the holders of the Convertible Notes. The directors considered that there was no Surplus Cash as at 31 December 2000 and 1999.

(e) The Company is free to redeem part or all of the Convertible Notes at any time.

(f) If any Convertible Notes remain outstanding on 1 June 2006, such Convertible Notes shall be redeemed at par in six equal annual instalments commencing on 1 June 2007. If no Convertible Notes are redeemed or converted during the first seven years, the amount of each annual redemption will be $50 million.

33 Deferred taxation

No provision for deferred taxation is required as there are net deferred tax debits for both the Group and the Company. The largest component of the unrecognised deferred tax assets is in respect of tax losses of the Group and the Company of approximately $130 million (1999: $125 million) and $37 million (1999: $30 million) respectively. The remaining unrecognised deferred tax components are not material.

Such deferred tax asset has not been recognised in the accounts as it is not certain that the tax losses will be utilised in the foreseeable future.

Deferred tax has not been provided on the surpluses arising on revaluation of land and buildings as the directors are of the opinion that these properties are occupied for the purpose of the Group's business, thus the likelihood of a material taxation liability arising in the foreseeable future is remote.

34 Share capital

	2000		1999	
	No. of shares	**$**	No. of shares	$
Authorised:				
Ordinary shares of $0.20 each	**2,500,000,000**	**500,000,000**	2,500,000,000	500,000,000
Issued and fully paid:				
At 1 January	**732,044,805**	**146,408,961**	358,701,955	71,740,391
Shares issued under the Compromise Agreement	—	—	373,342,850	74,668,570
At 31 December	**732,044,805**	**146,408,961**	732,044,805	146,408,961

By an ordinary resolution passed at the Extraordinary General Meeting held on 31 May 1999, the Company's authorised share capital was increased to $500,000,000 by the creation of an additional 1,950,000,000 ordinary shares of $0.20 each, ranking pari passu with the existing shares of the Company.

Pursuant to the Compromise Agreement, the Company issued 373,342,850 shares of $0.20 each, at an issue price of $1.48 per share to Optiset Limited on 1 June 1999.

35 Share option scheme

Pursuant to the Company's share option scheme ("Scheme") adopted on 28 June 1996 for a period of 10 years, the Company may offer to full time employees (including executive directors) of the Company and its subsidiaries options to subscribe for shares in the Company, subject to a maximum limit of 10 percent of the issued share capital of the Company from time to time.

The subscription price (subject to adjustment as provided therein) is the higher of the nominal value of the shares and an amount which is not less than 80 percent of the average of the closing price per share on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date the option is granted.

No share options have been granted under the Scheme as at 31 December 2000.

36 Reserves

(a) The Group

	Share premium $	Property revaluation reserve $	Capital reserve $	Translation reserve $	Accumulated losses $	Total $
At 1 January 1999	237,398,251	32,464,486	5,132,636	13,839,209	(1,094,211,089)	(805,376,507)
Exchange differences on translation of accounts of overseas subsidiaries	—	—	—	579,983	—	579,983
Premium arising from issue of shares	477,733,799	—	—	—	—	477,733,799
Realised upon disposal of property	—	(1,760,846)	—	—	1,760,846	—
Goodwill eliminated on acquisition of subsidiaries	—	—	(751,261)	—	—	(751,261)
Loss for the year	—	—	—	—	(37,746,211)	(37,746,211)
At 31 December 1999	715,132,050	30,703,640	4,381,375	14,419,192	(1,130,196,454)	(365,560,197)
Attributable to:						
Company and subsidiaries	715,132,050	30,703,640	4,381,375	15,225,891	(1,067,063,040)	(301,620,084)
Associates	—	—	—	(806,699)	(63,133,414)	(63,940,113)
At 31 December 1999	715,132,050	30,703,640	4,381,375	14,419,192	(1,130,196,454)	(365,560,197)
At 1 January 2000	715,132,050	30,703,640	4,381,375	14,419,192	(1,130,196,454)	(365,560,197)
Exchange differences on translation of accounts of overseas subsidiaries	—	—	—	(1,457,864)	—	(1,457,864)
Loss for the year	—	—	—	—	(102,318,608)	(102,318,608)
At 31 December 2000	715,132,050	30,703,640	4,381,375	12,961,328	(1,232,515,062)	(469,336,669)
Attributable to:						
Company and subsidiaries	715,132,050	30,703,640	4,381,375	13,768,027	(1,169,469,127)	(405,484,035)
Associates	—	—	—	(806,699)	(63,045,935)	(63,852,634)
At 31 December 2000	715,132,050	30,703,640	4,381,375	12,961,328	(1,232,515,062)	(469,336,669)

(b) ***The Company***

	Share premium $	Accumulated losses $	Total $
At 1 January 1999	237,398,251	(749,504,810)	(512,106,559)
Premium arising from issue of shares	477,733,799	—	477,733,799
Loss for the year	—	(64,000,392)	(64,000,392)
At 31 December 1999	715,132,050	(813,505,202)	(98,373,152)
At 1 January 2000	715,132,050	(813,505,202)	(98,373,152)
Loss for the year	—	(75,496,766)	(75,496,766)
At 31 December 2000	715,132,050	(889,001,968)	(173,869,918)

In the opinion of the directors, the Company has no reserves available for distribution to shareholders at 31 December 2000 (1999: $Nil).

(c) The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

The capital reserve, translation reserve and property revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on subsidiaries and associates, foreign currency translation and the revaluation of land and buildings held for own use respectively (note 2).

37 Notes to the consolidated cash flow statement

(a) ***Reconciliation of loss from operations to net cash inflow from operating activities***

	2000 **$**	1999 $
Loss from operations	**(14,274,789)**	(6,420,586)
Interest income	**(910,754)**	(1,318,408)
Depreciation	**20,615,662**	17,518,699
Loss on disposal of fixed assets	**130,805**	1,750,297
Write-off of fixed assets	**370,639**	2,220,466
Decrease in inventories	**7,511,788**	17,852,529
Decrease/(increase) in debtors, deposits and prepayments	**14,931,623**	(4,739,674)
Decrease in creditors and accrued charges	**(2,472,729)**	(24,411,967)
Decrease in bills payable	**(57,035)**	(150,637)
(Decrease)/increase in net amounts due to associates	**(4,255,946)**	1,956,027
Currency adjustments	**(1,447,383)**	743,002
Net cash inflow from operating activities	**20,141,881**	4,999,748

(b) Analysis of changes in financing

	Share capital (including premium) $	Bank Loans $	Convertible Notes $	Obligations under finance leases $	Notes payable $
At 1 January 1999	309,138,642	—	—	1,967,599	30,445,543
Overdue interest rolled over to principal portion	—	—	—	—	969,430
Repayment of obligations under finance leases	—	—	—	(920,342)	—
Effect of foreign exchange rate (note 13)	—	—	—	—	(3,113,785)
Gain on settlement of notes payable (note 14)	—	—	—	—	(24,830,188)
Settlement of notes payable	—	—	—	—	(3,471,000)
New shares issued	552,402,369	—	—	—	—
New Bank Loans	—	250,000,000	—	—	—
Convertible Notes issued	—	—	300,000,000	—	—
At 31 December 1999	861,541,011	250,000,000	300,000,000	1,047,257	—
At 1 January 2000	861,541,011	250,000,000	300,000,000	1,047,257	—
Repayment of obligations under finance leases	—	—	—	(820,440)	—
At 31 December 2000	861,541,011	250,000,000	300,000,000	226,817	—

38 Lease commitments

At 31 December 2000, the Group and the Company had commitments to make payments in the next year under operating leases in respect of properties as follows:

	The Group		The Company	
	2000	1999	**2000**	1999
	$	$	**$**	$
Leases expiring :				
Within 1 year	**2,347,139**	2,857,401	**1,576,268**	—
After 1 year but within 5 years	**1,430,281**	4,734,755	**—**	2,101,692
After 5 years	**3,265,421**	3,317,760	**—**	—
	7,042,841	10,909,916	**1,576,268**	2,101,692

39 Contingent liabilities

At 31 December 2000, the Group had a number of employees who have completed the required number of years of service under the Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 31 December 2000, the maximum potential exposure of the Group would have been approximately $1 million (1999: $1 million).

40 Retirement benefits scheme

	2000	1999
	$	$
Retirement benefit costs, net of forfeited contributions charged to the profit and loss account	1,112,966	309,395

The Group operates a defined contribution retirement benefits scheme ("Scheme") for all qualified employees. The Scheme is administered by an independent trustee with its assets held separately from those of the Group. Under the terms of the Scheme, the Group and its employees are required to make the same contribution to the Scheme calculated at 5 percent of the employees' basic salaries on a monthly basis. During the year, the benefits forfeited in accordance with the Scheme's rules amounted to $591,995 (1999: $1,456,519) which have been applied towards the contributions payable by the Group.

41 Material related party transactions

(a) The following is a summary of material transactions between the Group and certain associates which were carried out in the normal course of business on commercial terms during the year:

	2000	1999
	$	$
Sales	**2,659,376**	53,538
Purchases of raw materials and optical products	**14,886,929**	16,164,313
Management fee received (rental and utilities income)	**4,170,801**	4,412,967

Amounts due to and from associates are disclosed in the consolidated balance sheet and note 23.

(b) There were no material transactions with directors during the year, except for those relating to remuneration (note 16), shareholdings and options (Directors' Report) and loan to a director (note 28).

42 Post balance sheet event

During 2000, the Group planned to restructure its loss-making Swank China Retail operations. As at 23 February 2001, a sale and purchase agreement was signed to sell off the Group's interest in Swank China Retail to an independent third party. The transaction was completed on 22 March 2001. Provisions have been made in the consolidated accounts for estimated impairment of the underlying fixed assets and inventories of Swank China Retail (see note 8). The total assets, total liabilities and turnover of such operations constitute approximately 5%, 4% and 7% of the consolidated total assets, consolidated total liabilities and turnover respectively in the consolidated accounts for the year ended 31 December 2000.

43 Comparative figures

The presentation and classification of items on the face of consolidated profit and loss account have been changed to give further analysis of items previously shown under "other net income" and "other operating expenses" which the directors consider to be non-recurrent in nature. Comparative figures have been reclassified to conform with the current year's presentation.