

NOTES TO THE INTERIM FINANCIAL REPORT

For the six months ended 30th June, 2001

1. Basis of preparation

The interim financial report has been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that comparative figures are not presented for the first condensed consolidated cash flow statement to be included in the interim financial report relating to accounting periods ended on or after 1st July, 2000. Such departures from SSAP 25 are permitted under the Listing Rules.

2. Principal accounting policies

The interim financial report has been prepared under the historical cost convention as modified for the revaluation of an investment property.

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December, 2000, except as described below.

In the current period, the Group has adopted, for the first time, a number of revised or new SSAPs issued by the Hong Kong Society of Accountants. Adoption of these SSAPs does not have any material effect on the amounts reported in prior period or current period except for SSAP 9 (Revised) “Events after the balance sheet date”, dividends proposed or declared after the balance sheet date are not recognised as a liability in the balance sheet. In previous years, the proposal or declaration of dividends after the balance sheet date was treated as adjusting post balance sheet event. The effect of this change has been to increase shareholders’ funds at 1st January, 2000 by HK\$12,844,000. Comparative information has been restated to reflect this change in accounting policy (See note 14).

In accordance with SSAP 30 “Business combinations”, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions of subsidiaries prior to 1st January, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life, i.e. over periods ranging 5 to 20 years. Negative goodwill arising on acquisitions after 1st January, 2001 is

presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

3. Segment information

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.

An analysis of the Group's revenue and results by geographical segment is as follows:

	Six months ended			
	30.6.2001	30.6.2001	30.6.2000	30.6.2000
	Revenue	Results	Revenue	Results
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
United States	111,141	33,289	136,142	38,015
Europe	109,195	28,891	111,042	28,388
Asia	41,720	2,155	39,731	3,058
Others	12,017	3,410	17,552	4,918
	<u>274,073</u>	67,745	<u>304,467</u>	74,379
Unallocated corporate expenses		(3,397)		(2,471)
Interest income		3,011		3,068
Profit from operations		<u>67,359</u>		<u>74,976</u>

4. Profit from operations

	Six months ended	
	30.6.2001	30.6.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation	22,666	18,399
(Gain) loss on disposal of property, plant and equipment	(227)	238
Interest income	<u>(3,011)</u>	<u>(3,068)</u>

5. Finance costs

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

6. Taxation

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

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.

7. Dividend

	Six months ended	
	30.6.2001	30.6.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared of 8 cents (2000: 7 cents) per share	<u>28,248</u>	<u>24,079</u>

8. Earnings per share

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

	Six months ended	
	30.6.2001	30.6.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Earnings</i>		
Earnings for the purposes of basic and diluted earnings per share	<u>62,680</u>	<u>68,282</u>
<i>Number of shares</i>		
Weighted average number of shares for the purpose of basic earnings per share	350,640,000	<u>338,000,000</u>
Effect of dilutive potential shares in respect of share options	<u>3,268,956</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>353,908,956</u>	

No diluted earnings per share for the six months ended 30th June, 2000 is presented as the Company did not have any dilutive potential shares outstanding during that period or as at 30th June, 2000.

9. Movements in investment property, property, plant and equipment, and goodwill

	Investment property <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>	Goodwill <i>HK\$'000</i>
COST OR VALUATION			
At 1st January, 2001	2,900	386,745	–
Currency realignment	–	156	–
Additions	–	23,598	253
Disposals	–	(1,883)	–
	<u>2,900</u>	<u>408,616</u>	<u>253</u>
At 30th June, 2001	<u>2,900</u>	<u>408,616</u>	<u>253</u>
DEPRECIATION AND AMORTISATION			
At 1st January, 2001	–	151,253	–
Currency realignment	–	44	–
Provided for the period	–	22,666	–
Impairment loss recognised	–	–	(253)
Eliminated on disposals	–	(1,827)	–
	<u>–</u>	<u>172,136</u>	<u>(253)</u>
At 30th June, 2001	<u>–</u>	<u>172,136</u>	<u>(253)</u>
NET BOOK VALUE			
At 30th June, 2001	<u>2,900</u>	<u>236,480</u>	<u>–</u>

10. 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\$83,971,000 (31.12.2000: HK\$87,552,000), an aged analysis of which at the balance sheet date is as follows:

	30.6.2001 <i>HK\$'000</i>	31.12.2000 <i>HK\$'000</i>
Current	60,052	62,518
1 to 90 days overdue	22,862	23,009
More than 91 days overdue	1,057	2,025
	<u>83,971</u>	<u>87,552</u>

11. Creditors and accrued charges

Included in the Group's creditors and accrued charges are trade creditors of HK\$46,977,000 (31.12.2000: HK\$56,958,000), an aged analysis of which at the balance sheet date is as follows:

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 90 days overdue	45,424	55,641
More than 91 days overdue	1,553	1,317
	<u>46,977</u>	<u>56,958</u>

12. Bank borrowings

	30.6.2001	31.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
The bank borrowings, which are all due within one year, comprise:		
Bank loans, secured	–	2,336
Bank loans, unsecured	1,415	1,402
Trust receipt and import loans, secured	–	214
	<u>1,415</u>	<u>3,952</u>

13. Share capital

	Number of shares	Amount
		<i>HK\$'000</i>
Shares of HK\$0.10 each		
<i>Authorised:</i>		
At 30th June, 2001 and 31st December, 2000	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 30th June, 2001 and 31st December, 2000	<u>350,640,000</u>	<u>35,064</u>

14. Reserves

	Share premium HK\$'000	Special reserve HK\$'000	Goodwill reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP						
At 1st January, 2000						
– as originally stated	63,413	(3,269)	(2,082)	581	252,892	311,535
– prior period adjustment (note 2)	–	–	–	–	12,844	12,844
– as restated	63,413	(3,269)	(2,082)	581	265,736	324,379
Exercise of share options	9,859	–	–	–	–	9,859
Net profit for the year	–	–	–	–	121,696	121,696
Dividends paid	–	–	–	–	(36,923)	(36,923)
At 31st December, 2000	73,272	(3,269)	(2,082)	581	350,509	419,011
Exchange differences arising on translation of overseas operations	–	–	–	216	–	216
Net profit for the period	–	–	–	–	62,680	62,680
Dividend paid	–	–	–	–	(24,545)	(24,545)
At 30th June, 2001	<u>73,272</u>	<u>(3,269)</u>	<u>(2,082)</u>	<u>797</u>	<u>388,644</u>	<u>457,362</u>

15. Pledge of assets

At 30th June, 2001, leasehold properties with an aggregate net book value amounting to HK\$15,113,000 (31.12.2000: HK\$15,405,000) and bank deposits of HK\$8,886,000 (31.12.2000: HK\$11,293,000) were pledged to banks to secure general banking facilities granted to the Group.

16. Contingent liabilities

	30.6.2001 HK\$'000	31.12.2000 HK\$'000
Bills discounted with recourse	<u>3,220</u>	<u>12,148</u>

17. Capital commitments

	30.6.2001 HK\$'000	31.12.2000 HK\$'000
Capital expenditure contracted for but not provided in the financial statements:		
– buildings under construction	7,976	15,971
– leasehold improvements	742	742
– plant and machinery	8,593	3,937
– furniture, fixtures and equipment	135	564
	<u>17,446</u>	<u>21,214</u>