

Notes to the Financial Statements

For the year ended 31st December, 2001



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. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31st December, 2000 have been amended so that they are presented on a consistent basis.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively. The effect of this change has been to increase shareholders' funds of the Group and the Company at 1st January, 2000 and 31st December, 2000 by HK\$12,844,000 and HK\$24,544,800, respectively.

As a result of the revision of SSAP 9 (Revised) "Events after the balance sheet date", SSAP 18 "Revenue" has also been revised. Accordingly, the dividends proposed or declared after the balance sheet date by the subsidiaries are not recognised by the Company at the balance sheet date. This change in accounting policy has also been applied retrospectively. The effect of this change has been to decrease shareholders' funds of the Company at 1st January, 2000 and 31st December, 2000 by HK\$15,000,000 and HK\$30,000,000, respectively.

Notes to the Financial Statements

For the year ended 31st December, 2001

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (*Continued*)

Leases

In the current year, the Group has adopted SSAP 14 (Revised) "Leases". Disclosures for the Group's operating lease arrangements as set out in note 33 have been modified so as to meet the requirements of SSAP 14 (Revised). Comparative figures have been restated in order to achieve a consistent presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Property, plant and equipment

Property, plant and equipment, other than buildings under construction, are stated at cost less depreciation, amortisation and accumulated impairment losses.

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.

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.

Notes to the Financial Statements

For the year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition of subsidiaries prior to 1st January, 2001 continues to be 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.

Goodwill arising on acquisition of subsidiaries after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition of subsidiaries prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisition of subsidiaries 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.

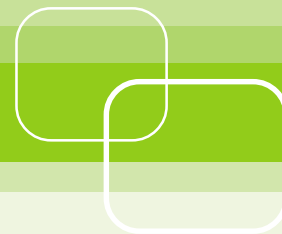
To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Inventories

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



3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase.

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, 2001

3. 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.

4. SEGMENT INFORMATION

Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China.

Segment information of the Group by location of customers is presented as below:

For the year ended 31st December, 2001

	Europe HK\$	United States HK\$	Asia HK\$	Other regions HK\$	Consolidated HK\$
Revenue					
External sales	225,140,844	213,172,575	80,110,221	28,587,961	547,011,601
Result					
Segment result	53,939,465	53,375,184	(1,880,108)	6,003,776	111,438,317
Unallocated corporate expenses					(5,830,323)
Interest income on bank deposits					4,729,084
Profit from operations					110,337,078
Finance costs					(423,288)
Profit before taxation					109,913,790
Taxation					(9,766,265)
Profit before minority interests					100,147,525
Minority interests					(2,304,483)
Net profit for the year					102,452,008

Notes to the Financial Statements

For the year ended 31st December, 2001



4. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

At 31st December, 2001

Balance sheet

	Europe <i>HK\$</i>	United States <i>HK\$</i>	Asia <i>HK\$</i>	Other regions <i>HK\$</i>	Consolidated <i>HK\$</i>
Assets					
Segment assets	64,942,800	53,725,092	17,512,567	6,297,273	142,477,732
Unallocated corporate assets					465,025,122
					607,502,854
Liabilities					
Segment liabilities	-	-	-	-	-
Unallocated corporate liabilities					99,265,605
					99,265,605

Other information

	Europe <i>HK\$</i>	United States <i>HK\$</i>	Asia <i>HK\$</i>	Other regions <i>HK\$</i>	Unallocated <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital expenditure	-	-	-	-	57,555,399	57,555,399
Depreciation and amortisation	-	-	-	-	45,488,940	45,488,940
Other non-cash expenses	-	-	-	-	3,561,783	3,561,783

Notes to the Financial Statements

For the year ended 31st December, 2001

4. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

For the year ended 31st December, 2000

	Europe HK\$	United States HK\$	Asia HK\$	Other regions HK\$	Consolidated HK\$
Revenue					
External sales	221,714,224	263,837,440	78,285,793	38,705,010	602,542,467
Result					
Segment result	52,419,178	68,898,318	(1,358,698)	9,973,268	129,932,066
Unallocated corporate expenses					(7,852,496)
Interest income on bank deposits					6,997,462
Profit from operations					129,077,032
Finance costs					(2,298,893)
Profit before taxation					126,778,139
Taxation					(9,816,372)
Profit before minority interests					116,961,767
Minority interests					(4,734,295)
Net profit for the year					121,696,062

Notes to the Financial Statements

For the year ended 31st December, 2001



4. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

At 31st December, 2000

Balance sheet

	Europe <i>HK\$</i>	United States <i>HK\$</i>	Asia <i>HK\$</i>	Other regions <i>HK\$</i>	Consolidated <i>HK\$</i>
Assets					
Segment assets	51,349,536	54,259,016	18,749,663	10,706,562	135,064,777
Unallocated corporate assets					446,564,613
					581,629,390
Liabilities					
Segment liabilities	-	-	-	-	-
Unallocated corporate liabilities					124,723,388
					124,723,388

Other information

	Europe <i>HK\$</i>	United States <i>HK\$</i>	Asia <i>HK\$</i>	Other regions <i>HK\$</i>	Unallocated <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital expenditure	-	-	-	-	107,613,947	107,613,947
Depreciation and amortisation	-	-	-	-	40,798,661	40,798,661
Other non-cash expenses	-	-	-	-	2,623,588	2,623,588

Business segments

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

Notes to the Financial Statements

For the year ended 31st December, 2001

5. OTHER REVENUE

Included in other revenue are:

	2001 HK\$	2000 HK\$
Interest income on bank deposits	4,729,084	6,997,462
Dividend income from other investment	70,303	–

6. PROFIT FROM OPERATIONS

	2001 HK\$	2000 HK\$
Profit from operations has been arrived at after charging:		
Auditors' remuneration	900,000	913,645
Deficit arising on revaluation of an investment property	–	900,000
Depreciation and amortisation	45,488,940	40,798,661
Impairment loss on goodwill	2,664,604	–
Loss on disposal of property, plant and equipment	809,413	1,723,588
Staff costs		
– Directors' emoluments (note 8)	4,081,099	6,329,635
– Other staff		
– Salaries and other allowances	84,543,432	95,564,680
– Retirement benefit scheme contribution net of forfeited contribution of HK\$462,191 (2000: HK\$96,289)	555,191	1,055,200
	89,179,722	102,949,515
Operating lease rentals in respect of rented premises	9,768,649	6,491,677
and after crediting:		
Property rental income less negligible outgoings	477,623	–

7. FINANCE COSTS

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

Notes to the Financial Statements

For the year ended 31st December, 2001



8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The directors' emoluments are analysed as follows:

	2001 HK\$	2000 HK\$
Fees:		
Executive	–	–
Independent non-executive	266,000	288,000
	266,000	288,000
Other emoluments paid to executive directors:		
Salaries and other benefits	3,016,795	2,947,685
Performance related incentive payments	661,900	3,048,900
Retirement benefits scheme contributions	136,404	45,050
	3,815,099	6,041,635
	4,081,099	6,329,635

In addition to the above, rent-free accommodation was provided to two directors and the estimated rental values for the accommodation was approximately HK\$286,620 (2000: HK\$307,320).

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

	2001 Number of directors	2000 Number of directors
Nil to HK\$1,000,000	3	2
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	–	1
	6	5

Notes to the Financial Statements

For the year ended 31st December, 2001

8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (Continued)

Highest paid employees

The five highest paid individuals of the Group included three (2000: two) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2000: three) highest paid employees, other than directors of the Company, are as follows:

	2001 HK\$	2000 HK\$
Salaries and other benefits	1,347,500	1,450,400
Performance related incentive payments	1,165,800	3,357,000
Retirement benefits scheme contributions	60,900	71,700
	2,574,200	4,879,100

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

	2001 Number of employees	2000 Number of employees
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	-	2
	2	3

9. 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.

Notes to the Financial Statements

For the year ended 31st December, 2001



10. DIVIDENDS

	2001 HK\$	2000 HK\$
Interim dividend paid in respect of 2001 of 8 cents (2000: 7 cents) per share	28,248,000	24,079,300
Final dividend proposed in respect of 2001 of 8 cents (2000: 7 cents) per share	29,756,000	24,544,800
	58,004,000	48,624,100

The final dividend in respect of 2001 of 8 cents (2000: 7 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:

	2001 HK\$	2000 HK\$
Earnings for the purposes of basic and diluted earnings per share – Net profit for the year	102,452,008	121,696,062
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	351,455,425	340,125,519
Effect of dilutive potential shares in respect of share options	4,656,307	4,001,636
Weighted average number of shares for the purpose of diluted earnings per share	356,111,732	344,127,155

12. INVESTMENT PROPERTY

	THE GROUP HK\$
VALUATION	
At 1st January, 2001 and at 31st December, 2001	2,900,000

The investment property was revalued at 31st December, 2001 by Vigers Hong Kong Limited, an independent firm of professional valuers, on an open market value basis. There was no surplus or deficit arising on revaluation of the investment property as at 31st December, 2001.

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

The investment property is leased out under operating leases.

Notes to the Financial Statements

For the year ended 31st December, 2001

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$	Leasehold improve- ments HK\$	Plant and machinery HK\$	Furniture, fixtures and office equipment HK\$	Motor vehicles HK\$	Buildings under construction HK\$	Total HK\$
THE GROUP							
COST							
At 1st January, 2001	138,296,843	29,801,068	172,586,453	29,174,592	9,036,115	7,850,467	386,745,538
Currency realignment	-	44,997	96,812	10,421	4,081	-	156,311
Acquired on acquisition of a subsidiary	-	11,375	-	2,516	26,550	-	40,441
Additions	-	6,563,074	25,487,504	5,047,867	1,022,795	19,393,718	57,514,958
Disposals	(40,818)	(1,209,440)	(975,099)	(954,853)	(1,911,665)	-	(5,091,875)
Reclassification	22,033,342	-	-	-	-	(22,033,342)	-
At 31st December, 2001	160,289,367	35,211,074	197,195,670	33,280,543	8,177,876	5,210,843	439,365,373
DEPRECIATION AND AMORTISATION							
At 1st January, 2001	16,194,103	18,598,396	97,447,730	13,181,649	5,831,884	-	151,253,762
Currency realignment	-	28,429	46,862	3,598	2,982	-	81,871
Provided for the year	5,534,860	6,838,177	26,633,766	5,424,200	1,057,937	-	45,488,940
Eliminated on disposals	(11,525)	(625,327)	(754,206)	(686,047)	(1,889,540)	-	(3,966,645)
At 31st December, 2001	21,717,438	24,839,675	123,374,152	17,923,400	5,003,263	-	192,857,928
NET BOOK VALUES							
At 31st December, 2001	138,571,929	10,371,399	73,821,518	15,357,143	3,174,613	5,210,843	246,507,445
At 31st December, 2000	122,102,740	11,202,672	75,138,723	15,992,943	3,204,231	7,850,467	235,491,776

Notes to the Financial Statements

For the year ended 31st December, 2001



13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's property interests shown above comprise:

	Leasehold properties		Buildings under construction	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Properties situated in the People's Republic of China other than Hong Kong (the "PRC") held under medium-term leases	123,751,085	106,697,511	5,210,843	7,850,467
Properties situated in Hong Kong held under medium-term leases	14,820,844	15,405,229	–	–
	138,571,929	122,102,740	5,210,843	7,850,467

14. GOODWILL

THE GROUP
HK\$

COST

Arising on acquisition of additional interests in subsidiaries and balance at 31st December, 2001

1,588,700

AMORTISATION

Impairment loss recognised and balance at 31st December, 2001

(1,588,700)

NET BOOK VALUE

At 31st December, 2001

–

15. INVESTMENTS IN SUBSIDIARIES

THE COMPANY

	2001	2000
	HK\$	HK\$
Unlisted shares (Note)	130,719,000	130,719,000

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, 2001 are set out in note 39.

Notes to the Financial Statements

For the year ended 31st December, 2001

16. 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.

17. INVENTORIES

	THE GROUP	
	2001 HK\$	2000 HK\$
Raw materials	23,358,341	35,581,928
Work in progress	48,352,339	47,150,983
Finished goods	14,619,193	13,264,223
	86,329,873	95,997,134

There are inventories of HK\$9,552,209 (2000: HK\$9,280,757) carried at net realisable value.

18. 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\$93,692,451 (2000: HK\$87,552,411), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Current	70,215,765	62,518,010
1 to 90 days overdue	22,928,177	23,009,359
More than 90 days overdue	548,509	2,025,042
	93,692,451	87,552,411

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

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19. OTHER INVESTMENT

	THE GROUP	
	2001	2000
	HK\$	HK\$
Equity securities:		
Listed – Hong Kong, at market value	4,580,000	–

20. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$47,186,768 (2000: HK\$56,958,287), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Current to 90 days overdue	46,777,455	55,641,506
More than 90 days overdue	409,313	1,316,781
	47,186,768	56,958,287

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

21. BANK BORROWINGS

	THE GROUP	
	2001	2000
	HK\$	HK\$
The bank borrowings, which are all due within one year, comprise:		
Bank loans, secured	–	2,336,449
Bank loans, unsecured	–	1,401,869
Trust receipt and import loans, secured	–	213,925
	–	3,952,243

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22. SHARE CAPITAL

	Number of shares	Amount HK\$
Shares of HK\$0.10 each		
<i>Authorised:</i>		
At beginning and at end of the years 2000 and 2001	1,000,000,000	100,000,000
<i>Issued and fully paid:</i>		
At 1st January, 2000	338,000,000	33,800,000
Issue of shares upon the exercise of share options	12,640,000	1,264,000
At 31st December, 2000	350,640,000	35,064,000
Issue of shares upon the exercise of share options	2,810,000	281,000
At 31st December, 2001	353,450,000	35,345,000

23. SHARE OPTIONS

No share options were granted by the Company during the year. A summary of the movements in share options which were granted to certain eligible employees of the Group on 7th July, 2000 is as follows:

Date of grant	Number of share options			Outstanding at 31st December, 2001
	Outstanding at 1st January, 2001	Exercised during the year	Lapsed during the year	
7th July, 2000	20,460,000	(2,810,000)	(4,200,000)	13,450,000

Notes to the Financial Statements

For the year ended 31st December, 2001



24. RESERVES

	Share premium HK\$	Special reserve HK\$	Contributed surplus HK\$	Goodwill reserve HK\$	Exchange reserve HK\$	Retained profits HK\$	Total HK\$
THE GROUP							
At 1st January, 2000							
– as originally stated	63,413,280	(3,269,460)	–	(2,081,774)	580,895	252,892,191	311,535,132
– prior year adjustment (note 2)	–	–	–	–	–	12,844,000	12,844,000
– as restated	63,413,280	(3,269,460)	–	(2,081,774)	580,895	265,736,191	324,379,132
Exercise of share options	9,859,200	–	–	–	–	–	9,859,200
Net profit for the year	–	–	–	–	–	121,696,062	121,696,062
Dividends paid	–	–	–	–	–	(36,923,300)	(36,923,300)
At 31st December, 2000	73,272,480	(3,269,460)	–	(2,081,774)	580,895	350,508,953	419,011,094
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	–	162,206	–	162,206
Exercise of share options	2,191,800	–	–	–	–	–	2,191,800
Impairment loss recognised	–	–	–	1,075,904	–	–	1,075,904
Net profit for the year	–	–	–	–	–	102,452,008	102,452,008
Dividends paid	–	–	–	–	–	(52,792,800)	(52,792,800)
At 31st December, 2001	75,464,280	(3,269,460)	–	(1,005,870)	743,101	400,168,161	472,100,212
THE COMPANY							
At 1st January, 2000							
– as originally stated	63,413,280	–	105,369,000	–	–	16,055,824	184,838,104
– prior year adjustments							
– restatement of dividend receivable (note 2)	–	–	–	–	–	(15,000,000)	(15,000,000)
– restatement of dividend payable (note 2)	–	–	–	–	–	12,844,000	12,844,000
– as restated	63,413,280	–	105,369,000	–	–	13,899,824	182,682,104
Exercise of share options	9,859,200	–	–	–	–	–	9,859,200
Net profit for the year (restated)	–	–	–	–	–	36,289,643	36,289,643
Dividends paid	–	–	–	–	–	(36,923,300)	(36,923,300)
At 31st December, 2000	73,272,480	–	105,369,000	–	–	13,266,167	191,907,647
Exercise of share options	2,191,800	–	–	–	–	–	2,191,800
Net profit for the year	–	–	–	–	–	98,235,699	98,235,699
Dividends paid	–	–	–	–	–	(52,792,800)	(52,792,800)
At 31st December, 2001	75,464,280	–	105,369,000	–	–	58,709,066	239,542,346

Notes to the Financial Statements

For the year ended 31st December, 2001

24. RESERVES (Continued)

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.

The goodwill reserve at the balance sheet date comprises HK\$1,178,549 (2000: HK\$2,254,453) and HK\$172,679 (2000: HK\$172,679) in respect of goodwill and negative goodwill respectively.

25. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest free and does not have fixed repayment terms. The minority shareholder has 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.

26. 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.

Notes to the Financial Statements

For the year ended 31st December, 2001



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

	2001 HK\$	2000 HK\$
Profit before taxation	109,913,790	126,778,139
Deficit arising on revaluation of an investment property	–	900,000
Depreciation and amortisation	45,488,940	40,798,661
Loss on disposal of property, plant and equipment	809,413	1,723,588
Impairment loss on goodwill	2,664,604	–
Interest income	(4,729,084)	(6,997,462)
Interest expenses	423,288	2,298,893
Dividend income from other investment	(70,303)	–
Decrease (increase) in inventories	10,376,565	(2,221,242)
Increase in debtors, deposits and prepayments	(6,503,284)	(20,563,889)
(Decrease) increase in creditors and accrued charges	(24,573,626)	14,546,301
Effect on foreign exchange rate changes	87,766	–
Net cash inflow from operating activities	133,888,069	157,262,989

28. ACQUISITION OF A SUBSIDIARY

	2001 HK\$	2000 HK\$
NET ASSETS ACQUIRED		
Property, plant and equipment	40,441	–
Inventories	709,304	–
Debtors, deposits and prepayments	415,094	–
Bank balances and cash	256,979	–
Creditors and accrued charges	(559,421)	–
Minority interests	(363,033)	–
	499,364	–
Satisfied by:		
Cash	499,364	–

Notes to the Financial Statements

For the year ended 31st December, 2001

28. ACQUISITION OF A SUBSIDIARY (Continued)

Net cash outflow arising on acquisition:

	2001 HK\$	2000 HK\$
Cash consideration paid	(499,364)	–
Bank balances and cash acquired	256,979	–
Net cash outflow arising on acquisition of a subsidiary	(242,385)	–

The subsidiary acquired during the year did not have any significant impact on the Group's cash flows or operating results.

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$	Bank loans HK\$
Balance at 1st January, 2000	97,213,280	4,158,878
Proceeds from issue of shares upon the exercise of share options	11,123,200	–
New bank loans raised	–	3,738,318
Repayment of bank loans	–	(4,158,878)
Balance at 31st December, 2000	108,336,480	3,738,318
Proceeds from issue of shares upon the exercise of share options	2,472,800	–
Repayment of bank loans	–	(3,738,318)
Balance at 31st December, 2001	110,809,280	–

30. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001 HK\$	2000 HK\$
Bank balances and cash	147,934,192	132,595,366
Trust receipts and import loans	–	(213,925)
	147,934,192	132,381,441

Notes to the Financial Statements

For the year ended 31st December, 2001



31. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2000, the following assets were acquired from the minority shareholder of a subsidiary (note 37) and the consideration was settled through a loan from the same minority shareholder:

	2001 HK\$	2000 HK\$
Inventories	–	891,830
Property, plant and equipment	–	5,599,820
	–	6,491,650

32. 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 were employees who left 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 its 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 to the MPF Scheme is to make the required contributions under the scheme.

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

At the balance sheet date, there was no forfeited contributions available to reduce future contributions.

Notes to the Financial Statements

For the year ended 31st December, 2001

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Within one year	10,554,392	2,176,893
In the second to fifth year inclusive	20,430,665	4,535,252
After five years	1,419,070	–
	32,404,127	6,712,145

Operating lease payments represent rentals payable by the Group for certain of its office, retail shops and other premises. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

The Company had no operating lease commitments at the balance sheet date.

The Group as lessor:

Property rental income earned during the year was HK\$477,623 (2000: nil). The properties held at the balance sheet date have committed tenants for an average term of two years.

	THE GROUP	
	2001 HK\$	2000 HK\$
Within one year	392,604	308,000
In the second to fifth year inclusive	355,472	616,000
	748,076	924,000

Notes to the Financial Statements

For the year ended 31st December, 2001



34. CAPITAL COMMITMENTS

	THE GROUP	
	2001 HK\$	2000 HK\$
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	7,499,729	15,971,028
– leasehold improvements	1,816,996	742,034
– plant and machinery	3,439,059	3,937,410
– furniture, fixtures and equipment	36,180	563,416
	12,791,964	21,213,888

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

35. CONTINGENT LIABILITIES

	THE GROUP	
	2001 HK\$	2000 HK\$
Bills discounted with recourse	4,781,046	12,148,176

At 31st December, 2001, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$94,130,000 (2000: HK\$97,130,000) granted to its subsidiaries. Other than the bills discounted with recourse as stated above, these facilities were not utilised by the subsidiaries at 31st December, 2001 (2000: HK\$214,000).

Details of a corporate guarantee given by the Group in favour of the minority shareholder of a subsidiary are set out in note 37.

36. PLEDGE OF ASSETS

At 31st December, 2001, leasehold properties with an aggregate net book value amounting to approximately HK\$14,821,000 (2000: HK\$15,405,000) and bank deposits of approximately HK\$8,981,000 (2000: HK\$11,293,000) were pledged to banks to secure short term banking facilities granted to the Group.

Notes to the Financial Statements

For the year ended 31st December, 2001

37. RELATED PARTY TRANSACTIONS

	Notes	A minority shareholder of a subsidiary		A related company (note 3)	
		2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Sales of goods	1	–	–	6,171,117	688,788
Purchase of inventories	1	–	891,830	–	–
Purchase of property, plant and equipment	1	–	5,599,820	–	–
Loan from related party	2	6,491,650	6,491,650	–	–

Notes:

1. These transactions were carried out at prices agreed by the parties concerned.
2. The terms of the loan are set out in note 25.
3. The related company is a wholly owned subsidiary of the minority shareholder of a subsidiary.

In addition to the above, at 31st December, 2001, the Group had given a corporate guarantee in favour of the minority shareholder of a subsidiary to the extent of RMB1,020,000 (2000: RMB1,020,000) (approximately HK\$962,000 (2000: HK\$953,000)) 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 (2000: RMB2,000,000) (approximately HK\$1,887,000 (2000: HK\$1,869,000)) granted to this subsidiary.

38. EVENT AFTER THE BALANCE SHEET DATE

Pursuant to an agreement dated 12th January, 2002 (the "Agreement") entered into among the Company, Universal Honour Developments Limited ("Universal Honour"), a substantial shareholder of the Company, and Templeton Strategic Emerging Markets Fund LDC ("Templeton"), Universal Honour has agreed to sell 28,500,000 shares of HK\$0.10 each in the Company at the price of HK\$1.70 per share to Templeton (the "Sale of Shares") and Universal Honour has conditionally agreed to subscribe for 18,500,000 new shares of HK\$0.10 each to be issued by the Company at the price of HK\$1.70 per share (the "Subscription of Shares").

The Sale of Shares and the Subscription of Shares were completed on 15th January, 2002 and 26th January, 2002 respectively.

The Company intends to use the net proceeds from the issue of new shares, which amounted to approximately HK\$31,000,000, for further expansion of the Group's distribution and retail network in the PRC.

Details of the above transactions have been disclosed in an announcement of the Company dated 14th January, 2002.

Notes to the Financial Statements

For the year ended 31st December, 2001



39. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2001 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
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\$17,675,600	–	51% (Note)	Manufacture of and trading in optical lenses

Note: The registered capital of this company is HK\$17,675,600. According to the latest official capital verification report dated 7th August, 2001, the amount of capital which has been verified amounting to HK\$17,675,600.

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, 2001 or at any time during the year.