(Expressed in Hong Kong dollars)

1 General

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

2 Significant accounting policies

(a) Statement of compliance

These financial statements 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 financial statements 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 financial statements

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

The financial statements have been prepared on a going concern basis, notwithstanding the deficit on shareholders' funds at the balance sheet date, since the ultimate holding company following the post balance sheet events (note 41) has given an undertaking to provide such financial assistance to the Group and the Company as is necessary to maintain the Group and the Company as a going concern.

(c) Subsidiaries and controlled enterprises

A subsidiary, in accordance with the Hong Kong Companies Ordinance, 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. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

2 Significant accounting policies (Cont'd)

(d) 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.

An investment in an associate is accounted for in the consolidated financial statements 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, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year.

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 income statement.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition.

For acquisitions before 1 January 2001, positive or negative goodwill was eliminated against reserves and is reduced by impairment losses (see note 2(i)) or was credited to the capital reserve.

The Group has not acquired any subsidiary or associate during the year ended 31 December 2001.

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

2 Significant accounting policies (Cont'd)

(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 open market value at the date of revaluation less any subsequent accumulated depreciation (see note 2(g)). 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 (see note 2(g)) and impairment losses (see note 2(i)).

(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 income statement, 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 income statement, if and to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

(iii) 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.

(iv) 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 income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the property revaluation reserve to accumulated losses.

2 *Significant accounting policies (Cont'd)*

(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 Group or the Company will obtain ownership of the asset, the life of the asset as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Finance charges implicit in the lease payments are charged to the income statement 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 income statement 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 income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

2 Significant accounting policies (Cont'd)

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets;

– investments in subsidiaries and associates; and

– positive goodwill (whether taken initially to reserves or recognised as an asset).

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2 Significant accounting policies *(Cont'd)*

(j) 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 income statement 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 from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(iii) Management fee

Management fee is recognised when the services are rendered.

(k) 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.

(Expressed in Hong Kong dollars)

2 Significant accounting policies *(Cont'd)*

(l) 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.

(m) 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 income statement.

The results and balance sheet items of foreign enterprises are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(n) Related parties

For the purposes of these financial statements, 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.

(o) 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 bank overdafts and advances from banks repayable within three months from the date of the advance.

2 Significant accounting policies (Cont'd)

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(Expressed in Hong Kong dollars)

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 Other revenue

	2001	2000
	$	$
Interest income	**117,356**	910,754
Management fee received from an associate	**4,240,765**	4,170,801
Sales of obsolete inventories	**898,408**	1,609,093
	5,256,529	6,690,648

5 Other operating expenses

	2001	2000
	$	$
Provision for inventories (note a)	**8,659,733**	7,523,767
Loss on disposal of fixed assets	**936,294**	501,444
Others	**3,179,385**	1,679,729
	12,775,412	9,704,940

Note:

(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.

6 Impairment losses on interest in associates

Impairment losses on interest in associates in 2001 relate to the Group's interest in Hanson International Optical Industrial Company Limited and Po Tai Commercial & Industrial Limited. The impairment losses represent the carrying value of the share of net assets of the associates of $29 million net of the corresponding capital reserve of $5 million (note 36(a)) at 31 December 2001. The directors consider that there is no recoverable value in respect of these associates as they had ceased production and could not obtain proper beneficial titles of their properties, which were their major assets.

Impairment losses on interest in associates in 2000 represented the directors' best estimate of impairment on the Group's interest in certain associates.

7 Impairment losses on fixed assets

Impairment losses on fixed assets in 2001 represents the impairment of a plot of land of the Group located in the People's Republic of China ("PRC") with a carrying value of approximately $13 million, net of the related revaluation surplus of approximately $8 million standing on the Group's property revaluation reserve at 31 December 2001 (note 36(a)). The land is not occupied by the Group and no land use right certificate has been obtained. Accordingly, the directors consider that there is no recoverable value in respect of this plot of land and the corresponding carrying value is reduced to $nil at 31 December 2001.

Impairment losses on fixed assets in 2000 represented the impairment of fixed assets with no recoverable value to the Group's business, based on the directors' exercise of re-assessing the economic useful lives of fixed assets.

8 Deficit arising on revaluation of land and buildings

Deficit arising on revaluation of land and buildings represents the deficit of approximately $3 million arising on the revaluation of land and buildings of the Group (note 21(d)) net of the related revaluation surplus of approximately $1 million standing on the Group's property revaluation reserve (note 36(a)).

(Expressed in Hong Kong dollars)

9 Provision for amounts due from Hanmy

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

10 Provision for closure of an overseas subsidiary

	2001	2000
	$	$
Impairment losses on fixed assets	**143,332**	—
Provision for doubtful debts	**393,120**	—
Redundancy cost	**488,885**	—
	1,025,337	—

Provision for closure of an overseas subsidiary represents the estimated impairment losses on the underlying fixed assets and debtors and the accrual for redundancy cost in relation to the closure of business of an overseas subsidiary.

11 Disposal of Swank China Retail operations

Swank China Development Company Limited and four of its subsidiaries (collectively described as "Swank China Retail") which are engaged in the retailing of optical goods in the PRC, were disposed of by the Group in March 2001. Provisions of approximately $14 million have been made at 31 December 2000 for the estimated impairment losses on the underlying fixed assets and inventories and the provision for professional fees. The charge in 2001 represents loss on disposal of Swank China Retail recognised in 2001.

12 Reversal of impairment loss on interest in an associate

Reversal of impairment loss on interest in an associate represents the reversal of impairment loss of an associate based on the directors' reassessment of the estimated recoverable amount of the associate.

(Expressed in Hong Kong dollars)

13 Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging:

(a) Finance cost

	2001	2000
	$	$
Interest on bank advances and other borrowings repayable within five years	**21,450,762**	25,474,306
Finance charges on obligations under finance leases	**1,730**	51,808
	21,452,492	25,526,114

(b) Other items

	2001	2000
	$	$
Cost of inventories (note i)	**189,724,560**	208,230,667
Staff costs (note i) (including retirement costs of $1,245,784 (2000: $1,112,966))	**79,406,511**	88,015,452
Auditors' remuneration		
– current year	**1,542,588**	1,445,353
– underprovision in prior years	**149,645**	297,245
Depreciation (note i)		
– owned assets	**15,292,773**	20,466,063
– assets held under finance leases	**—**	149,599
Operating lease charges in respect of properties	**4,367,866**	10,050,767

Note :

(i) Cost of inventories includes $55,416,487 (2000: $62,553,572) 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 $8,659,733 (2000: $7,523,767).

(Expressed in Hong Kong dollars)

14 Directors' remuneration

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

(a) Executive directors

	2001	2000
	$	$
Fees	**—**	—
Salaries and benefits in kind	**7,285,499**	6,540,000
Discretionary bonuses	**355,000**	1,046,250
Retirement scheme contributions	**238,064**	213,000
	7,878,563	7,799,250

(b) Independent non-executive directors

	2001	2000
	$	$
Fees	**720,000**	720,000

The remuneration of the directors is within the following bands:

$	**2001 Number of directors**	2000 Number of directors
Nil to 1,000,000	**4**	3*
1,500,001 to 2,000,000	**1**	1
2,000,001 to 2,500,000	**2**	—
2,500,001 to 3,000,000	**—**	2

* Includes one director who was appointed in 2000 and such remuneration within the disclosed band was the individual's remuneration after his appointment as a director.

(Expressed in Hong Kong dollars)

15 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three are directors (2000: four are directors including one director who was appointed in 2000) whose total emoluments in the capacity as a director are disclosed in note 14. The aggregate of the emoluments in respect of the other two individuals (2000: two individuals including the portion of the emoluments of the individual before his appointment as a director) are as follows:

	2001	2000
	$	$
Salaries and benefits in kind	**1,656,000**	1,182,000
Discretionary bonuses	**198,720**	97,000
Retirement scheme contributions	**41,400**	59,100
	1,896,120	1,338,100

The emoluments of the two individuals (2000: two individuals) with the highest emoluments are within the following band:

$	**2001 Number of individuals**	2000 Number of individuals
Nil to 1,000,000	**2**	2*

* Includes one director who was appointed in 2000 and such emolument within the disclosed band was the individual's emolument before his appointment as a director.

(Expressed in Hong Kong dollars)

16 Taxation

(a) Taxation in the consolidated income statement represents:

	2001	2000
	$	$
Provision for Hong Kong Profits Tax for the year	—	—
Underprovision in respect of prior years	—	22,093
	—	22,093
Share of associates' taxation	**295,693**	153,545
	295,693	175,638

No provision has been made for Hong Kong Profits Tax and overseas taxation as the Company and its subsidiaries either sustained losses for taxation purposes or have tax losses brought forward from prior years which exceed the estimated assessable profits for the year.

(b) Taxation in the consolidated balance sheet represents:

	2001	2000
	$	$
Overseas taxation payable	**833,531**	835,573

Details of deferred taxation are set out in note 33.

(Expressed in Hong Kong dollars)

17 Loss attributable to shareholders

The loss attributable to shareholders includes a loss of $349,981,194 (2000: $75,496,766) which has been dealt with in the financial statements of the Company.

18 Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of $58,889,443 (2000: $102,318,608) and the 732,044,805 ordinary shares (2000: 732,044,805) in issue during the year.

(b) Diluted loss per share

There were no dilutive potential ordinary shares in existence during the years 2001 and 2000.

19 Change in accounting policies

(a) Goodwill

In prior years, positive or negative goodwill arising on the acquisition of subsidiaries or associates was eliminated against reserves or was credited to the capital reserve respectively. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 30 ("SSAP30") issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for goodwill as set out in note 2(e).

The Group has taken advantage of the transitional provisions set out in paragraph 88 of SSAP 30 and positive goodwill previously eliminated against reserves is not restated. The directors consider that positive goodwill previously eliminated against reserves had been fully impaired as at 1 January 2000. Accordingly, this change in accounting policy does not have any impact on the Group's loss for the current or prior year and net liabilities as at the current or prior year end. Accumulated losses and capital reserve as at 1 January 2000 are increased by $0.8 million and $0.8 million respectively.

(b) Provision for long service payments

In prior years, no provision had been made in respect of long service payments required under the Hong Kong Employment Ordinance. With effect from 1 January 2001, the Group adopted the accounting policy as set out in note 2(p) in order to comply with Statement of Standard Accounting Practice 28 issued by the Hong Kong Society of Accountants. Provision for long service payments at 1 January 2001 is estimated at $1 million and this amount has been adjusted to the opening balance of accumulated losses for the year. No restatement of other comparative information has been made.

(Expressed in Hong Kong dollars)

20 Segment reporting

Segment information is presented in respect of the Group's business and geograghical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group has only one business segment and is the manufacture and sale of optical products. Therefore, no separate analysis of business segment information is prepared as all the information has been disclosed in the consolidated financial statements.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Turnover		**Other revenue**		**Segment revenue**	
	2001	2000	**2001**	2000	**2001**	2000
	$	$	**$**	$	**$**	$
United States	**122,897,459**	133,136,757	**—**	—	**122,897,459**	133,136,757
Europe	**64,639,610**	76,159,024	**—**	—	**64,639,610**	76,159,024
Hong Kong	**13,032,684**	16,704,312	**405,128**	1,318,934	**13,437,812**	18,023,246
PRC	**18,761,206**	22,272,927	**4,734,045**	4,458,677	**23,495,251**	26,731,604
Others	**22,339,985**	19,679,526	**—**	2,283	**22,339,985**	19,681,809
	241,670,944	267,952,546	**5,139,173**	5,779,894	**246,810,117**	273,732,440

	Segment assets		**Capital expenditure incurred during the year**	
	2001	2000	**2001**	2000
	$	$	**$**	$
United States	**30,515,840**	36,980,852	**—**	—
Europe	**16,393,434**	12,695,992	**—**	—
Hong Kong	**15,806,216**	20,330,562	**530,116**	814,198
PRC	**162,617,497**	199,455,906	**2,056,096**	4,832,042
Others	**5,904,700**	7,983,825	**26,737**	57,164

There is no major disparity in the ratios between turnover and profit in relation to the above geographical locations, hence no analysis is given of the profit contributions from the above geographical locations.

(Expressed in Hong Kong dollars)

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 2001	81,300,000	177,908,903	76,690,697	3,675,455	339,575,055
Exchange adjustments	—	(68,562)	—	—	(68,562)
Additions	—	1,411,487	1,201,462	—	2,612,949
Disposals	—	(11,931,640)	(8,949,409)	(785,241)	(21,666,290)
Deficit on revaluation	(10,500,000)	—	—	—	(10,500,000)
At 31 December 2001	70,800,000	167,320,188	68,942,750	2,890,214	309,953,152
Representing :					
Cost	—	167,320,188	68,942,750	2,890,214	239,153,152
Valuation - 1998	14,800,000	—	—	—	14,800,000
Valuation - 2001	56,000,000	—	—	—	56,000,000
	70,800,000	167,320,188	68,942,750	2,890,214	309,953,152
Accumulated depreciation and impairment losses:					
At 1 January 2001	6,108,813	128,359,364	38,697,857	3,118,256	176,284,290
Exchange adjustments	—	(57,393)	—	—	(57,393)
Charge for the year	3,054,407	5,501,495	6,554,791	182,080	15,292,773
Impairment loss (notes 7 & 10)	12,950,000	143,332	—	—	13,093,332
Written back on disposals	—	(11,611,878)	(8,113,742)	(785,241)	(20,510,861)
Written back on revaluation	(7,313,220)	—	—	—	(7,313,220)
At 31 December 2001	14,800,000	122,334,920	37,138,906	2,515,095	176,788,921
Net book value :					
At 31 December 2001	56,000,000	44,985,268	31,803,844	375,119	133,164,231
At 31 December 2000	75,191,187	49,549,539	37,992,840	557,199	163,290,765

(Expressed in Hong Kong dollars)

21 Fixed assets (Cont'd)

(b) The Company

	Plant and machinery $	Furniture, fixtures and equipment $	Motor vehicles $	Total $
Cost :				
At 1 January 2001	502,319	14,566,917	910,394	15,979,630
Additions	—	530,116	—	530,116
At 31 December 2001	502,319	15,097,033	910,394	16,509,746
Accumulated depreciation :				
At 1 January 2001	428,607	9,214,473	353,195	9,996,275
Charge for the year	50,232	1,144,285	182,079	1,376,596
At 31 December 2001	478,839	10,358,758	535,274	11,372,871
Net book value :				
At 31 December 2001	23,480	4,738,275	375,120	5,136,875
At 31 December 2000	73,712	5,352,444	557,199	5,983,355

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

	The Group	
	2001	2000
	$	$
Outside Hong Kong on medium-term leases	**56,000,000**	75,191,187

21 Fixed assets (Cont'd)

(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 January 2002 by an independent firm of surveyors, DTZ Debenham Tie Leung Limited (formerly C.Y. Leung & Company Limited) who have among their staff Fellows of the Hong Kong Institute of Surveyors, at their open market value on an existing use basis. The Group adopted such revaluation for its land and buildings at 31 December 2001. The deficit arising on revaluation has been dealt with in the consolidated income statement (note 8) and the property revaluation reserve of the Group (note 36(a)).

The carrying amount of the land and buildings of the Group at 31 December 2001 would have been $72,555,727 (2000: $88,336,325) had the land and buildings been carried at cost less accumulated depreciation and accumulated impairment losses.

The Group has not obtained land use right certificates or building ownership certificates for land and buildings situated in the PRC with a net book value of approximately $56 million at 31 December 2001 (2000: $75 million).

(e) Pledge of fixed assets

The Group executed several debentures incorporating fixed and floating charges over all of the undertaking, property and assets of certain Group compaines (the "Debentures") as security for the $250 million bank loans ("Bank Loans") (note 30) and the $300 million convertible notes ("Convertible Notes") (note 32).

As at 31 December 2001, the Group has pledged certain fixed assets having a net book value of approximately $21 million (2000: $25 million) in accordance with the terms of the Debentures.

Subsequent to the balance sheet date, the Debentures were released and discharged on 1 March 2002 (note 41).

(Expressed in Hong Kong dollars)

22 Investment in subsidiaries

	2001	2000
	$	$
Unlisted shares, at cost	**74,258,322**	74,258,322
Amounts due from subsidiaries	**113,443,468**	394,987,038
	187,701,790	469,245,360
Less: impairment losses	**(74,258,322)**	(73,806,911)
	113,443,468	395,438,449

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 ownership interest held by the Company**		**Principal activity**
			Directly	**Indirectly**	
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
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
Shenzhen Henggang Swank Optical Industries Co., Ltd.	PRC	US$30,000,000		81%	Manufacturing of optical products
Swank International Optical Company Limited	Hong Kong	10,000 shares of HK$10 each	100%		Trading of optical products

22 *Investment in subsidiaries (Cont'd)*

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) 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. All of these are controlled subsidiaries as defined under note 2(c) and have been consolidated into the group financial statements. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(Expressed in Hong Kong dollars)

23 Interest in associates

	The Group		The Company	
	2001	2000	**2001**	2000
	$	$	**$**	$
Unlisted shares, at cost	**—**	—	**181,119,028**	181,119,028
Share of net assets	**133,590,474**	140,181,218	**—**	—
Amounts due from associates	**10,956,435**	1,574,656	**3,651,111**	214,397
	144,546,909	141,755,874	**184,770,139**	181,333,425
Less: impairment losses	**(113,016,871)**	(85,923,725)	**(158,334,323)**	(126,037,483)
	31,530,038	55,832,149	**26,435,816**	55,295,942

Details of the principal associates are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Proportion of ownership interest held by the Company Directly	Indirectly	Principal activity
Dongguan Yueheng Optical Co., Ltd.	Incorporated	PRC	50%		Manufacturing of optical lenses
Dongguan Yueheng Optical (HK) Co Limited	Incorporated	Hong Kong		50%	Trading of optical products
Dongguan Yueheng Optical (BVI) Company Limited	Incorporated	The British Virgin Islands		50%	Financial servicing and marketing of optical products
Framecorp, Inc.	Incorporated	United States	25%		Investment holding
Hanson International Optical Industrial Company Limited	Incorporated	PRC	49%		Property holding in the PRC
Po Tai Commercial & Industrial Limited	Incorporated	Hong Kong	49%		Property holding in the PRC

Notes:

(a) 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.

(b) Amounts due from and to associates are unsecured, interest free and have no fixed terms of repayment.

(Expressed in Hong Kong dollars)

24 Amounts due from Hanmy

	The Group		The Company	
	2001	2000	**2001**	2000
	$	$	**$**	$
Amounts due from Hanmy	**96,338,760**	96,338,760	**68,286,087**	68,286,087
Less: Provision	**(96,338,760)**	(94,578,762)	**(68,286,087)**	(66,526,089)
	—	1,759,998	**—**	1,759,998

The Group continues its legal proceedings against Hanmy for recovery of the amounts due. The Group has fully provided for these debts as the directors consider it is uncertain whether the debts will be recovered following the conclusion of the legal proceedings.

25 Inventories

	The Group	
	2001	2000
	$	$
Raw materials	**21,000,493**	26,208,902
Work in progress	**3,446,473**	4,744,798
Finished goods	**6,628,815**	11,458,540
	31,075,781	42,412,240

The amount of inventories (included above) carried at net realisable value is $nil (2000: $nil). The amount of reversal of a write-down of inventories to estimated net realisable value, recognised in the consolidated income statement as a reduction in the amount of inventories recognised as an expense during the year, is $3,007,243 (2000: $6,021,003). 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 of $nil, were subsequently used or sold during the year at a higher than the original estimated amount.

As at 31 December 2001, the Group has pledged certain inventories having a net book value of approximately $1 million (2000: $4 million) in accordance with the terms of the Debentures to provide security for the Bank Loans and Convertible Notes.

Subsequent to the balance sheet date, the Debentures were released and discharged on 1 March 2002 (note 41).

(Expressed in Hong Kong dollars)

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	
	2001	2000
	$	$
Current to 30 days overdue	**46,864,276**	47,444,829
31 to 60 days overdue	**3,148,254**	4,587,461
61 to 90 days overdue	**1,369,279**	900,628
More than 90 days overdue	**1,282,212**	1,815,818
	52,664,021	54,748,736

Debtors with overdue balances are requested to settle all outstanding balances, unless approval is obtained from the directors of the Group, before any further credit is granted.

27 Cash and cash equivalents

	The Group		The Company	
	2001	2000	**2001**	2000
	$	$	**$**	$
Deposits with banks	**1,016,402**	2,137,907	**—**	—
Cash at bank and in hand	**9,112,397**	7,645,024	**98,135**	54,016
	10,128,799	9,782,931	**98,135**	54,016

(Expressed in Hong Kong dollars)

28 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	
	2001	2000
	$	$
Current to 30 days overdue	**14,480,395**	21,330,440
31 to 60 days overdue	**692,941**	3,238,996
61 to 90 days overdue	**438,970**	482,241
More than 90 days overdue	**2,010,958**	1,382,787
	17,623,264	26,434,464

29 Provision for long service payments

	The Group
	$
At 1 January 2001	
– as previously reported	—
– opening balance adjustment (note 19(b))	**1,000,000**
At 1 January 2001 (as restated) and 31 December 2001	**1,000,000**

The Group had a number of employees who had 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. Provision is made for the Group's maximum liability under long service payments had the employment of all eligible employees been terminated at the balance sheet date, after offsetting their entitlements in the mandatory provident fund.

(Expressed in Hong Kong dollars)

30 Bank loans and overdrafts

At 31 December 2001, the bank loans and overdrafts were repayable as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	$	$	**$**	$
Within 1 year or on demand	**25,440,506**	446,074	**25,000,000**	—
After 1 year but within 2 years	**37,500,000**	25,000,000	**37,500,000**	25,000,000
After 2 years but within 5 years	**187,500,000**	150,000,000	**187,500,000**	150,000,000
After 5 years	—	75,000,000	—	75,000,000
	225,000,000	250,000,000	**225,000,000**	250,000,000
	250,440,506	250,446,074	**250,000,000**	250,000,000

At 31 December 2001, the bank loans and overdrafts were analysed as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	$	$	**$**	$
Unsecured bank overdrafts	**440,506**	446,074	—	—
Secured bank loans	**250,000,000**	250,000,000	**250,000,000**	250,000,000
	250,440,506	250,446,074	**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

Subsequent to the balance sheet date, the rights, title to and interest in the above bank loans have been transferred to Probest Holdings Inc. (note 41).

(Expressed in Hong Kong dollars)

31 Obligations under finance leases

At 31 December 2001, the Group and the Company had obligations under finance leases analysed as follows:

	The Group and the Company	
	2001	2000
	$	$
Present value of the minimum lease payments repayable within 1 year	—	226,817
Interest expenses relating to future period repayable within 1 year	—	1,730
Total minimun lease payments	—	228,547

32 Convertible notes

Pursuant to the compromise agreement ("Compromise Agreement") signed with the Group's bankers on 30 April 1999, Convertible Notes were issued to Optiset Limited. The main terms of the Convertible Notes are as follows:

(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 financial statements 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 2001 and 2000.

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

(Expressed in Hong Kong dollars)

32 Convertible notes *(Cont'd)*

(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.

Subsequent to the balance sheet date, Optiset Limited has converted the Convertible Notes into 1,500,000,000 Shares (note 41).

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 $134 million (2000: $130 million) and $44 million (2000: $37 million) respectively. The remaining unrecognised deferred tax components are not material.

Such deferred tax asset has not been recognised in the financial statements 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

	2001		2000	
	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:				
Ordinary shares of $0.20 each	**732,044,805**	**146,408,961**	732,044,805	146,408,961

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.

(Expressed in Hong Kong dollars)

35 Share option scheme *(Cont'd)*

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 2001.

36 Reserves

(a) The Group

	Share premium $	Property revaluation reserve $	Capital reserve $	Translation reserve $	Accumulated losses $	Total $
At 1 January 2000						
— as previously reported	715,132,050	30,703,640	4,381,375	14,419,192	(1,130,196,454)	(365,560,197)
— prior period adjustment in respect of goodwill (note 19(a))	—	—	751,261	—	(751,261)	—
— as restated	715,132,050	30,703,640	5,132,636	14,419,192	(1,130,947,715)	(365,560,197)
Exchange differences on translation of financial statements 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	5,132,636	12,961,328	(1,233,266,323)	(469,336,669)
Attributable to:						
Company and subsidiaries	715,132,050	30,703,640	5,132,636	13,768,027	(1,170,220,388)	(405,484,035)
Associates	—	—	—	(806,699)	(63,045,935)	(63,852,634)
At 31 December 2000	715,132,050	30,703,640	5,132,636	12,961,328	(1,233,266,323)	(469,336,669)

(Expressed in Hong Kong dollars)

36 Reserves (Cont'd)

(a) The Group (Cont'd)

	Share premium $	Property revaluation reserve $	Capital reserve $	Translation reserve $	Accumulated losses $	Total $
At 1 January 2001						
— as previously reported	715,132,050	30,703,640	4,381,375	12,961,328	(1,232,515,062)	(469,336,669)
— prior period adjustment in respect of goodwill (note 19(a))	—	—	751,261	—	(751,261)	—
— opening balance adjustment in respect of long service payments (note 19(b))	—	—	—	—	(1,000,000)	(1,000,000)
— as restated	715,132,050	30,703,640	5,132,636	12,961,328	(1,234,266,323)	(470,336,669)
Exchange differences on translation of financial statements of overseas subsidiaries	—	—	—	(673,714)	—	(673,714)
Transfer to income statement on disposal of Swank China Retail	—	—	—	(518,634)	—	(518,634)
Impairment losses on fixed assets (note 7)	—	(8,172,911)	—	—	—	(8,172,911)
Deficit on revaluation (note 8)	—	(1,300,000)	—	—	—	(1,300,000)
Impairment losses on interest in associates (note 6)	—	—	(5,124,716)	—	—	(5,124,716)
Loss for the year	—	—	—	—	(58,889,443)	(58,889,443)
At 31 December 2001	715,132,050	21,230,729	7,920	11,768,980	(1,293,155,766)	(545,016,087)
Attributable to:						
Company and subsidiaries	715,132,050	21,230,729	7,920	12,575,679	(1,235,167,100)	(486,220,722)
Associates	—	—	—	(806,699)	(57,988,666)	(58,795,365)
At 31 December 2001	715,132,050	21,230,729	7,920	11,768,980	(1,293,155,766)	(545,016,087)

(Expressed in Hong Kong dollars)

36 Reserves *(Cont'd)*

(b) The Company

	Share premium $	Accumulated losses $	Total $
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)
At 1 January 2001	715,132,050	(889,001,968)	(173,869,918)
Loss for the year	—	(349,981,194)	(349,981,194)
At 31 December 2001	715,132,050	(1,238,983,162)	(523,851,112)

In the opinion of the directors, the Company had no reserves available for distribution to shareholders at 31 December 2001 (2000: $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 are dealt with in accordance with the accounting policies adopted for goodwill arising on the acquisition of subsidiaries and associates, foreign currency translation and the revaluation of land and buildings held for own use respectively (note 2).

(Expressed in Hong Kong dollars)

37 Notes to the consolidated cash flow statement

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

	2001	2000
	$	$
Loss from operations	**(10,995,128)**	(14,274,789)
Interest income	**(117,356)**	(910,754)
Depreciation	**15,292,773**	20,615,662
Loss on disposal of fixed assets	**936,294**	501,444
Decrease in inventories	**9,566,298**	7,511,788
Decrease in debtors, deposits and prepayments	**1,272,032**	14,931,623
Decrease in creditors and accrued charges	**(10,593,691)**	(2,472,729)
Decrease in bills payable	**(48,523)**	(57,035)
Decrease in net amounts due to associates	**(84,528)**	(4,255,946)
Currency adjustments	**(664,587)**	(1,447,383)
Net cash inflow from operating activities	**4,563,584**	20,141,881

(b) Analysis of changes in financing

	Obligations under finance lease
	$
At 1 January 2000	1,047,257
Cash flows from financing	(820,440)
At 31 December 2000	226,817
At 1 January 2001	226,817
Cash flows from financing	(226,817)
At 31 December 2001	—

(Expressed in Hong Kong dollars)

37 Notes to the consolidated cash flow statement (Cont'd)

(c) Disposal of Swank China Retail

	2001 $
Net assets disposed:	
Fixed assets	132,570
Inventories	1,770,161
Debtors, deposits and prepayments	2,085,541
Cash and cash equivalents	639,894
Creditors and accrued charges	(2,992,159)
Amounts due to associates of the Group	(9,702)
	1,626,305
Net consideration for disposal	(804,845)
	821,460
Translation reserve realised	(518,634)
Loss on disposal	302,826
Net consideration for disposal is making up of:	
Consideration for disposal	
Cash received in 2001	1,500,000
Cash receivable in 2002	418,366
	1,918,366
Professional fees paid	(1,113,521)
	804,845

(d) Analysis of net outflow of cash and cash equivalents in respect of disposal of Swank China Retail

	2001 $
Consideration received in 2001	**1,500,000**
Less: professional fees paid	**(1,113,521)**
cash and cash equivalents disposed of	**(639,894)**
Net outflow of cash and cash equivalents in respect of disposal of Swank China Retail	**(253,415)**

(Expressed in Hong Kong dollars)

38 Lease commitments

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	$	$	**$**	$
Within 1 year	**2,628,665**	7,359,838	**2,196,606**	1,576,268
After 1 year but within 5 years	**—**	14,131,684	**—**	—
After 5 years	**—**	25,547,196	**—**	—
	2,628,665	47,038,718	**2,196,606**	1,576,268

39 Retirement benefits scheme

	2001	2000
	$	$
Retirement benefit costs, net of forfeited contributions charged to the consolidated income statement	**1,245,784**	1,112,966

In prior years, the Group operated a defined contribution retirement benefits scheme (the "ORSO Scheme") for all qualified employees. With the introduction of the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "Ordinance"), the Group decided to wind up the ORSO Scheme on 1 December 2000 and set up a Mandatory Provident Fund Scheme (the "MPF Scheme") for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Contributions and accrued benefits under the ORSO Scheme as at 30 November 2000 were transferred to the MPF Scheme.

The MPF Scheme is a defined contribution retirement scheme administered by independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employee's relevant income. Contributions in excess of the maximum mandatory contributions under the Ordinance (i.e. $1,000 each from the employer and the employee) are regarded as voluntary contributions to the MPF Scheme. During the year, the benefits forfeited in accordance with the MPF Scheme's rules amounted to $421,479 (2000: $591,995 under the ORSO Scheme) which have been applied towards the contributions payable by the Group.

(Expressed in Hong Kong dollars)

40 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:

	2001	2000
	$	$
Sales	**14,204,917**	2,659,376
Purchases of raw materials and optical products	**25,144,694**	14,886,929
Management fee received (rental and utilities income)	**4,240,764**	4,170,801

Amounts due from and to 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 14).

41 Post balance sheet events

Pursuant to a sale and purchase agreement dated 31 January 2002 (the "Agreement"), the following significant events have occurred subsequent to the balance sheet date:

(a) Optiset Limited exercised its rights to convert the Convertible Notes into 1,500,000,000 Shares.

(b) Probest Holdings Inc. (a wholly owned subsidiary of Tomorrow International Holdings Limited which is incorporated in Bermuda with limited liability, with its shares listed on The Stock Exchange of Hong Kong Limited) acquired from Optiset Limited a total of 1,605,000,000 Shares and has become the immediate holding company of the Company.

(c) The rights, title to and interest in the Bank Loans have been transferred to Probest Holdings Inc..

(d) Interest accrued up to the completion of the Agreement (i.e. 1 March 2002) in respect of the Bank Loans amounting to approximately $17 million has been released and discharged by the banks.

(e) The Debentures have been released and discharged.

42 Comparative figures

Certain comparative figures have been adjusted as a result of a change in accounting policy for goodwill, details of which are set out in note 19.