

Notes on the Interim Financial Statements

1. Basis of preparation

These interim financial statements are unaudited, but have been reviewed by the Audit Committee.

These unaudited interim financial statements have been prepared on the going concern basis on the assumption that the ultimate holding company has undertaken to provide continuous financial support to the Group.

These interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules governing the listing of security on The Stock Exchange of Hong Kong Limited, and Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

The same accounting policies as adopted in the 2001 annual report have been applied to these interim financial statements. In addition, the Group has adopted the following revised and new SSAPs which are effective for accounting periods commencing on or after 1 January 2002.

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The main revision to SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with this revised SSAP.

In accordance with SSAP 15 (Revised), the cash flow equivalent is presented as revised cash flow statement which classifies cash flows during the period according to operating, investing and financing activities.

Notes on the Interim Financial Statements

Condensed consolidated cash flow statement for the six months ended 30 June 2001 have been restated to accord with the current period's presentation.

Apart from the change in accounting policy for long service payment adjusted against accumulated losses as at 1 January 2001, the adoption of the revised and new SSAPs have had no material effect on the results for the current period or prior financial year.

Certain comparative figures of the interim financial statements have been reclassified to conform with current period's presentation.

2. 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 period, after eliminating inter-company transactions.

3. Segment reporting

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 unaudited consolidated financial statements.

Notes on the Interim Financial Statements

4. Other operating expenses

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Provision for inventories (<i>note a</i>)	(2,035)	(4,143)
Provision for doubtful debts (<i>note b</i>)	(173)	(1,009)
Net gain on disposal of fixed assets	—	77
Write off of fixed assets (<i>note c</i>)	—	(936)
Reconstruction cost (<i>note d</i>)	—	(877)
Others	(802)	(920)
	(3,010)	(7,808)

Notes:

- (a) Provision for inventories represents the net provision for slow-moving and obsolete items determined by the directors in re-assessing the net realisable value of inventories within the Group.
- (b) Provision for doubtful debts represents specific provision for trade debtors.
- (c) Write off of fixed assets in 2001 represented fixed assets written off due to wear, tear and obsolescence.
- (d) Reconstruction cost in 2001 represented professional fees arising from financial and legal advice on the Group's restructuring plans.

5. Write off of accrued interest on bank loan and bank overdraft

Write off of accrued interest on bank loan and bank overdraft represents write off of all interest accrued up to 1 March 2002 on the bank loan and bank overdraft that was due to the banks but was not paid and was released and discharged by the banks upon the completion of the sale and purchase agreement ("Agreement") between the banks and Probest Holdings Inc. ("Probest") on 1 March 2002.

6. Write off of bank overdraft

The bank overdraft formed part of the bank debts that was being released and discharged by the banks in accordance with the Agreement.

Notes on the Interim Financial Statements

7. Restructuring cost

Restructuring cost mainly comprises retrenchment cost and professional fees incurred for financial and legal advice arising from the change of the Company's substantial shareholder on 1 March 2002.

8. Disposal of Swank China Retail operations

Swank China Development Company Limited and four of its subsidiaries (collectively described as "Swank China Retail") which were engaged in the retailing of optical goods in the PRC, were disposed of by the Group in March 2001. The charge in 2001 represented loss on disposal of Swank China Retail operations recognised in 2001.

9. Reversal of impairment loss on interest in an associate

Reversal of impairment loss on interest in an associate in 2001 represented the reversal of impairment loss of an associate based on the directors' reassessment of the estimated recoverable amount of the associate.

10. Profit/(loss) from ordinary activities before tax

Profit/(loss) from ordinary activities before tax is arrived at after charging:

		Six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
(a)	Finance costs		
	Interest on bank advances and other borrowings repayable within five years	8,425	12,392
	Finance charges on obligations under finance leases	—	2
		8,425	12,394
(b)	Other items		
	Depreciation	7,056	7,676

Notes on the Interim Financial Statements

11. Tax

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Provision for Hong Kong profits tax for the period	—	—
Share of associates' taxation	—	377
	—	377

No provision has been made for Hong Kong profits tax and overseas tax as the Group either sustained losses for tax purposes and/or have tax losses brought forward from prior years which exceed the estimated assessable profits during the period.

12. Earning/(loss) per share

(a) *Basic earning/(loss) per share*

The calculation of basic earning/(loss) per share is based on the profit attributable to shareholders for the period of HK\$9,230,000 (2001: loss of HK\$13,279,000) and the weighted average of 1,743,094,529 ordinary shares (2001: 732,044,805) in issue throughout the period.

(b) *Diluted earning/(loss) per share*

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2002 and 30 June 2001.

13. Fixed assets

As at 31 December 2001, the Group had pledged certain fixed assets having a net book value of approximately HK\$21 million to provide security for the bank loans and convertible notes which were released and discharged on 1 March 2002.

Notes on the Interim Financial Statements

14. Inventories

As at 30 June 2002, gross amount of inventories of HK\$69.3 million (31 December 2001: HK\$73.8 million) has been fully provided for. The amount of these inventories carried at net realisable value is Nil (31 December 2001: Nil). The amount of reversal of a write-down of inventories to estimated net realisable value, recognised in the unaudited consolidated income statement as a reduction in the amount of inventories recognised as an expense during the period, is HK\$0.4 million (six months ended 30 June 2001: HK\$3.1 million). 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 and were subsequently used or sold during the period at a higher than the original estimated amount.

As at 31 December 2001, the Group had pledged certain inventories having a net book value of approximately HK\$1 million to provide security for the bank loans and convertible notes which were released and discharged on 1 March 2002.

15. 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 provision for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2002 (Unaudited) HK\$'000	At 31 December 2001 (Audited) HK\$'000
Current to 30 days	59,847	46,865
31 to 60 days	1,855	3,148
61 to 90 days	1,124	1,369
More than 90 days	179	1,282
	63,005	52,664

Notes on the Interim Financial Statements

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.

16. Cash and cash equivalents

	At 30 June 2002 (Unaudited) HK\$'000	At 31 December 2001 (Audited) HK\$'000
Deposits with banks	30	1,017
Cash at bank and on hand	12,110	9,112
	12,140	10,129

17. 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:

	At 30 June 2002 (Unaudited) HK\$'000	At 31 December 2001 (Audited) HK\$'000
Current to 30 days	22,105	14,480
31 to 60 days	1,666	693
61 to 90 days	1,972	439
More than 90 days	2,796	2,011
	28,539	17,623

18. Bank loans

On 1 March 2002, the rights, title to and interest in the bank loans have been transferred to Probest pursuant to the Agreement (note 19).

Notes on the Interim Financial Statements

19. Loan due to immediate holding company

Loan due to immediate holding company represents bank loans transferred to Probest pursuant to the Agreement completed on 1 March 2002. The loan bears an interest rate equivalent to 1% over prime per annum payable quarterly in arrears. Due to the Group's financial constraint, the Group was not able to make interest payment due on 31 May 2002 of approximately HK\$4.4 million and payment of the first principal installment due on 1 June 2002 amounting to HK\$25 million. The request for the payment of overdue interest will depend upon the performance of the Group and may or may not be waived by Probest.

20. Share capital

Ordinary shares of HK\$0.20 each	No. of shares	HK\$'000
<i>Authorised:</i>		
At 1 January 2002	2,500,000,000	500,000
Increased	12,500,000,000	2,500,000
At 30 June 2002	15,000,000,000	3,000,000
<i>Issued and fully paid:</i>		
At 1 January 2002	732,044,805	146,409
Issued upon exercise of convertible rights of convertible notes	1,500,000,000	300,000
At 30 June 2002	2,232,044,805	446,409

By an ordinary resolution passed at the Annual General Meeting held on 28 May 2002, the Company's authorised share capital was increased to HK\$3,000,000,000 by the creation of an additional 12,500,000,000 ordinary shares of HK\$0.20 each, ranking pari passu with the existing shares of the Company.

On 1 March 2002, Optiset Limited exercised its rights to convert the convertible notes into 1,500,000,000 ordinary shares. Optiset Limited was a special purpose company established to hold, on behalf of the banks, the convertible notes and 51% of the issued shares of the Company prior to the Company's change in substantial shareholder on 1 March 2002.

Notes on the Interim Financial Statements

21. Contingent liabilities

At 30 June 2002, guarantees given by the Group to banks and financial institutions in respect of the banking facilities which were utilised by certain associates amounted to Nil (31 December 2001: Nil).

22. Material related party transactions

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 period:

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Sales	10,790	2,425
Purchases of raw materials and optical products	14,147	6,808
Management fee received (rental and utilities income)	1,793	2,098

Amounts due to associates are disclosed in the unaudited consolidated balance sheet. Amounts due from associates at 30 June 2002 amounted to HK\$13,587,788 (31 December 2001: HK\$10,956,435). These balances are non-interest bearing and have no fixed terms of repayment.

23. Immediate and ultimate holding company

The Group considers Probest to be its immediate holding company and Tomorrow International Holdings Limited ("Tomorrow"), a public listed company in Hong Kong which Probest is its wholly owned subsidiary to be its ultimate holding company.