

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 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 adoption of these SSAPs has resulted in a change in the format of presentation of cash flow statement and the inclusion of the statement of changes in equity. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

### Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements denominated in currencies other than Hong Kong dollars at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate.

### Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating/investing/financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

### Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any significant impact on the financial statements.

# Notes to the Financial Statements

*For the year ended 31st December, 2002*

## 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.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 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

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **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.

### **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.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 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.

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.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 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 assets and liabilities of subsidiaries denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. All exchange differences arising on consolidation are classified as equity and transferred to exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### Retirement benefit costs

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. SEGMENT INFORMATION

### 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.

### 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, 2002

	<b>Europe</b> <i>HK\$'000</i>	<b>United States</b> <i>HK\$'000</i>	<b>Asia</b> <i>HK\$'000</i>	<b>Other regions</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Revenue</b>					
External sales	249,420	243,190	76,648	33,260	602,518
<b>Result</b>					
Segment result	60,603	57,398	(6,573)	7,803	119,231
Unallocated corporate expenses					(4,991)
Interest income on bank deposits					2,017
Gain on disposal of subsidiaries					1,647
Profit from operations					117,904
Finance costs					(109)
Profit before taxation					117,795
Taxation					(13,428)
Profit before minority interests					104,367
Minority interests					(1,304)
Net profit for the year					105,671

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. SEGMENT INFORMATION (Continued)

### Geographical segments (Continued)

At 31st December, 2002

#### Balance sheet

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Assets</b>					
Segment assets	68,341	79,625	15,723	8,038	171,727
Unallocated corporate assets					521,946
					<u>693,673</u>
Unallocated corporate liabilities					<u>103,538</u>

#### Other information

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	–	–	–	–	49,012	49,012
Depreciation and amortisation of property, plant and equipment	–	–	–	–	46,147	46,147
Other non-cash expenses	–	–	–	–	1,756	1,756



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. SEGMENT INFORMATION (Continued)

### Geographical segments (Continued)

For the year ended 31st December, 2001

	<b>Europe</b> <i>HK\$'000</i>	<b>United States</b> <i>HK\$'000</i>	<b>Asia</b> <i>HK\$'000</i>	<b>Other regions</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Revenue</b>					
External sales	225,141	213,173	80,110	28,588	547,012
<b>Result</b>					
Segment result	53,939	53,375	(1,880)	6,004	111,438
Unallocated corporate expenses					(5,830)
Interest income on bank deposits					4,729
Profit from operations					110,337
Finance costs					(423)
Profit before taxation					109,914
Taxation					(9,766)
Profit before minority interests					100,148
Minority interests					(2,304)
Net profit for the year					102,452

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. SEGMENT INFORMATION (Continued)

### Geographical segments (Continued)

At 31st December, 2001

#### Balance sheet

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Assets</b>					
Segment assets	64,943	53,725	17,513	6,297	142,478
Unallocated corporate assets					465,025
					<u>607,503</u>
Unallocated corporate liabilities					<u>99,266</u>

#### Other information

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	–	–	–	–	57,555	57,555
Depreciation and amortisation of property, plant and equipment	–	–	–	–	45,489	45,489
Other non-cash expenses	–	–	–	–	3,562	<u>3,562</u>

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 5. OTHER OPERATING INCOME

Included in other operating income are:

	2002 HK\$'000	2001 HK\$'000
Dividend income from other investment	66	70
Gain on disposal of other investment	200	–
Property rental income less negligible outgoings	398	478
Gain on disposal of subsidiaries	1,647	–
Interest income on bank deposits	2,017	4,729
Sales of scrap materials	3,654	225

## 6. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,200	900
Amortisation of goodwill (charged to other operating expenses)	255	–
Depreciation and amortisation of property, plant and equipment	46,147	45,489
Impairment loss on goodwill (charged to other operating expenses)	–	2,665
Loss on disposal of property, plant and equipment	1,121	809
Operating lease rentals in respect of rented premises	13,324	9,769
Unrealised holding loss on other investment	380	–
Staff costs		
– Directors' emoluments (note 8)		
– Current year	2,438	4,081
– Amount waived in respect of 2001	(662)	–
	1,776	4,081
– Other staff		
– Salaries and other allowances	94,776	84,543
– Retirement benefit scheme contributions net of forfeited contribution of HK\$127,000 (2001: HK\$462,000)	890	555
	97,442	89,179

## 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, 2002

## 8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

### Directors' emoluments

The directors' emoluments are analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	264	266
	<b>264</b>	266
Other emoluments paid to executive directors:		
Salaries and other benefits (net of amount waived as shown in (a) below)	1,435	3,017
Performance related incentive payments	662	662
Retirement benefit scheme contributions (net of amount waived as shown in (a) below)	77	136
	<b>2,174</b>	3,815
	<b>2,438</b>	4,081

During the year ended 31st December, 2002, the executive directors waived part of their emoluments as follows:

	2002 HK\$'000	2001 HK\$'000
(a) Amounts waived in respect of the year ended 31st December, 2002		
Salaries and other benefits	1,600	–
Retirement benefit scheme contributions	60	–
	<b>1,660</b>	–
(b) Amount waived in respect of the year ended 31st December, 2001		
Performance related incentive payments	662	–

In addition to the above, rent-free accommodation was provided to two directors and the estimated rental values for the accommodation was approximately HK\$254,000 (2001: HK\$287,000).

# Notes to the Financial Statements

For the year ended 31st December, 2002

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

### Directors' emoluments (Continued)

The emoluments of the directors, including the estimated rental values for the rent-free accommodation and excluding the emoluments waived as shown in note 8(a) and (b), were within the following bands:

	<b>2002</b> <b>Number of</b> <b>directors</b>	2001 Number of directors
Nil to HK\$1,000,000	<b>4</b>	3
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	2
HK\$1,500,001 to HK\$2,000,000	<b>–</b>	1
	<b>5</b>	<b>6</b>

### Highest paid employees

The five highest paid individuals of the Group included one (2001: three) executive director, details of whose emoluments are set out above. The emoluments of the remaining four (2001: two) highest paid employees, other than directors of the Company, are as follows:

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Salaries and other benefits	<b>2,794</b>	1,347
Performance related incentive payments	<b>754</b>	1,166
Retirement benefit scheme contributions	<b>126</b>	61
	<b>3,674</b>	<b>2,574</b>

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

	<b>2002</b> <b>Number of</b> <b>employees</b>	2001 Number of employees
Nil to HK\$1,000,000	<b>3</b>	–
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	2
	<b>4</b>	<b>2</b>

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 9. TAXATION

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

The Inland Revenue Department (the "IRD") has tax disputes with certain subsidiaries of the Group and had issued notices of additional assessments in respect of prior years to those subsidiaries. The Group is in the process of finalising this matter with the IRD. Based on the current estimation in respect of the additional tax demanded by the IRD, a provision of HK\$2,700,000 (2001: Nil) is included in the taxation charge for the current 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.

## 10. DIVIDENDS

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Interim dividend paid in respect of 2002 of 8 cents (2001: 8 cents) per share	<b>29,953</b>	28,248
Final dividend proposed in respect of 2002 of 8 cents (2001: 8 cents) per share	<b>29,953</b>	29,756
	<b>59,906</b>	58,004

The final dividend in respect of 2002 of 8 cents (2001: 8 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 11. EARNINGS PER SHARE

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

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Earnings for the purposes of basic and diluted earnings per share – Net profit for the year	<b>105,671</b>	102,452
	<b>Number of shares</b>	
Weighted average number of shares for the purpose of basic earnings per share	<b>371,699,863</b>	351,455,425
Effect of dilutive potential shares in respect of share options	<b>6,978,197</b>	4,656,307
Weighted average number of shares for the purpose of diluted earnings per share	<b>378,678,060</b>	356,111,732

## 12. INVESTMENT PROPERTY

**THE GROUP**  
*HK\$'000*

### VALUATION

At 1st January, 2002 and at 31st December, 2002

**2,900**

The investment property was revalued at 31st December, 2002 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, 2002.

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, 2002

## 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Buildings under construction <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>							
<b>COST</b>							
At 1st January, 2002	160,289	35,211	197,196	33,281	8,178	5,211	439,366
Additions	1,747	8,577	24,169	3,646	1,945	8,928	49,012
Disposals	-	(2,983)	(3,103)	(894)	(2,172)	-	(9,152)
Disposal of subsidiaries	-	(11)	-	(3)	(27)	-	(41)
Reclassification	11,281	-	-	-	-	(11,281)	-
<b>At 31st December, 2002</b>	<b>173,317</b>	<b>40,794</b>	<b>218,262</b>	<b>36,030</b>	<b>7,924</b>	<b>2,858</b>	<b>479,185</b>
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st January, 2002	21,717	24,840	123,374	17,924	5,003	-	192,858
Provided for the year	5,920	7,571	25,899	5,748	1,009	-	46,147
Eliminated on disposals	-	(1,631)	(2,979)	(766)	(1,914)	-	(7,290)
Eliminated on disposal of subsidiaries	-	(2)	-	-	(2)	-	(4)
<b>At 31st December, 2002</b>	<b>27,637</b>	<b>30,778</b>	<b>146,294</b>	<b>22,906</b>	<b>4,096</b>	<b>-</b>	<b>231,711</b>
<b>NET BOOK VALUES</b>							
<b>At 31st December, 2002</b>	<b>145,680</b>	<b>10,016</b>	<b>71,968</b>	<b>13,124</b>	<b>3,828</b>	<b>2,858</b>	<b>247,474</b>
At 31st December, 2001	138,572	10,371	73,822	15,357	3,175	5,211	246,508



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's property interests shown above comprise:

	Leasehold properties		Buildings under construction	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Properties situated in the People's Republic of China other than Hong Kong (the "PRC") held under medium-term leases	131,444	123,751	2,858	5,211
Properties situated in Hong Kong held under medium-term leases	14,236	14,821	–	–
	<b>145,680</b>	138,572	<b>2,858</b>	5,211

## 14. GOODWILL

	THE GROUP HK\$'000
COST	
Arising on acquisition of additional interest in a subsidiary and balance at 31st December, 2002	2,549
AMORTISATION	
Provided for the year and balance at 31st December, 2002	(255)
NET BOOK VALUE	
At 31st December, 2002	<u>2,294</u>

Goodwill is amortised over a period of five years on a straight-line basis.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares ( <i>Note</i> )	<b>130,719</b>	130,719

*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, 2002 are set out in note 35.

## 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	
	2002 HK\$'000	2001 HK\$'000
Raw materials	<b>22,224</b>	23,358
Work in progress	<b>36,029</b>	48,353
Finished goods	<b>13,339</b>	14,619
	<b>71,592</b>	86,330

There are inventories of HK\$12,979,000 (2001: HK\$9,552,000) carried at net realisable value.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 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\$131,302,000 (2001: HK\$93,692,000), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Current	100,793	70,216
1 to 90 days overdue	29,452	22,928
More than 90 days overdue	1,057	548
	<b>131,302</b>	<b>93,692</b>

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

## 19. OTHER INVESTMENT

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Equity securities:		
Listed – Hong Kong, at market value	3,760	4,580

## 20. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$56,056,000 (2001: HK\$47,187,000), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Current to 90 days overdue	54,144	46,778
More than 90 days overdue	1,912	409
	<b>56,056</b>	<b>47,187</b>

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

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 21. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
<i>Authorised:</i>		
At beginning and at end of the years 2001 and 2002	1,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1st January, 2001	350,640,000	35,064
Issue of shares upon exercise of share options	2,810,000	281
At 31st December, 2001	353,450,000	35,345
Issue of shares upon subscription of shares (Note)	18,500,000	1,850
Issue of shares upon exercise of share options	2,460,000	246
<b>At 31st December, 2002</b>	<b>374,410,000</b>	<b>37,441</b>

*Note:*

Pursuant to an agreement dated 12th January, 2002 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 sold 28,500,000 shares of HK\$0.10 each in the Company at the price of HK\$1.70 per share to Templeton and Universal Honour subscribed for 18,500,000 shares of HK\$0.10 each issued by the Company at the price of HK\$1.70 per share. The above transactions were completed in January 2002.

## 22. SHARE OPTIONS

The Company's share option scheme was adopted at a special general meeting of the Company held on 24th October, 1996 (the "Share Option Scheme") for the primary purpose of providing incentives to the employees of the Group. Under the Share Option Scheme, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the shares quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher. The Share Option Scheme will expire on 23rd October, 2006.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 22. SHARE OPTIONS (Continued)

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Share Option Scheme. HK\$1 is payable by each eligible employee upon acceptance of the share options. Pursuant to the amended rules set out by the Stock Exchange, no further share options may be granted by the Company to any employees under the Share Option Scheme. A resolution will be proposed in the forthcoming annual general meeting that the existing Share Option Scheme be terminated and that a new share option scheme be adopted.

On 7th July, 2000, share options were granted under the Share Option Scheme to certain eligible employees of the Group to subscribe for 33,100,000 shares in the Company. These share options are exercisable between 7th July, 2000 and 23rd October, 2006 at an exercise price of HK\$0.88 per share as follows:

<b>Exercisable period</b>	<b>Maximum % of share options exercisable</b>
7th July, 2000 to 6th July 2001	Up to 40%
After 6th July, 2001	Up to 50%
After 6th July, 2002	Up to 60%
After 6th July, 2003	Up to 70%
After 6th July, 2004	Up to 80%
After 6th July, 2005	Up to 100%

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:

	<b>Number of share options</b>					
	<b>Outstanding at 1st January, 2001</b>	<b>Exercised during 2001</b>	<b>Lapsed during 2001</b>	<b>Outstanding at 31st December, 2001</b>	<b>Exercised during 2002</b>	<b>Outstanding at 31st December, 2002</b>
Category: Directors	6,060,000	(1,010,000)	–	5,050,000	(1,010,000)	4,040,000
Category: Employees	14,400,000	(1,800,000)	(4,200,000)	8,400,000	(1,450,000)	6,950,000
Total all categories	<u>20,460,000</u>	<u>(2,810,000)</u>	<u>(4,200,000)</u>	<u>13,450,000</u>	<u>(2,460,000)</u>	<u>10,990,000</u>

Total consideration received from employees, including directors, for the options exercised during the year amounted to HK\$2,165,000 (2001: HK\$2,473,000). The average closing price of shares issued upon exercise of share options is HK\$1.75 (2001: HK\$1.39).

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 23. RESERVES

	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>						
At 1st January, 2001	73,272	(3,269)	(2,082)	581	350,509	419,011
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	162	–	162
Issue of shares upon exercise of share options	2,192	–	–	–	–	2,192
Impairment loss recognised	–	–	1,076	–	–	1,076
Net profit for the year	–	–	–	–	102,452	102,452
Dividends paid	–	–	–	–	(52,793)	(52,793)
At 31st December, 2001	75,464	(3,269)	(1,006)	743	400,168	472,100
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	(43)	–	(43)
Realised upon disposal of subsidiaries	–	–	–	(115)	–	(115)
Issue of shares upon subscription of shares ( <i>note 21</i> )	29,600	–	–	–	–	29,600
Shares issue expenses	(240)	–	–	–	–	(240)
Issue of shares upon exercise of share options	1,919	–	–	–	–	1,919
Net profit for the year	–	–	–	–	105,671	105,671
Dividends paid	–	–	–	–	(59,709)	(59,709)
<b>At 31st December, 2002</b>	<b>106,743</b>	<b>(3,269)</b>	<b>(1,006)</b>	<b>585</b>	<b>446,130</b>	<b>549,183</b>

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 23. RESERVES (Continued)

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
At 1st January, 2001	73,272	105,369	13,266	191,907
Issue of shares upon exercise of share options	2,192	–	–	2,192
Net profit for the year	–	–	98,236	98,236
Dividends paid	–	–	(52,793)	(52,793)
At 31st December, 2001	75,464	105,369	58,709	239,542
Issue of shares upon subscription of shares ( <i>note 21</i> )	29,600	–	–	29,600
Shares issue expenses	(240)	–	–	(240)
Issue of shares upon exercise of share options	1,919	–	–	1,919
Net profit for the year	–	–	72,816	72,816
Dividends paid	–	–	(59,709)	(59,709)
<b>At 31st December, 2002</b>	<b>106,743</b>	<b>105,369</b>	<b>71,816</b>	<b>283,928</b>

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\$1,179,000 (2001: HK\$1,179,000) and HK\$173,000 (2001: HK\$173,000) in respect of goodwill and negative goodwill respectively.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 24. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount was unsecured, interest free and did not have fixed repayment terms.

During the year, the loan amounting to HK\$6,492,000 was assigned by the minority shareholder to the Group as part of the arrangement for the acquisition by the Group of additional interest in a subsidiary.

## 25. 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.

## 26. ACQUISITION OF A SUBSIDIARY

	2002 HK\$'000	2001 HK\$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	-	40
Inventories	-	709
Debtors, deposits and prepayments	-	415
Bank balances and cash	-	257
Creditors and accrued charges	-	(559)
Minority interests	-	(363)
	-	499
Satisfied by:		
Cash	-	499



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 26. ACQUISITION OF A SUBSIDIARY (Continued)

Net cash outflow arising on acquisition:

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Cash consideration paid	–	(499)
Bank balances and cash acquired	–	257
Net cash outflow arising on acquisition of a subsidiary	<b>–</b>	<b>(242)</b>

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

## 27. DISPOSAL OF SUBSIDIARIES

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
NET LIABILITIES DISPOSED OF		
Property, plant and equipment	<b>37</b>	–
Inventories	<b>748</b>	–
Debtors, deposits and prepayments	<b>273</b>	–
Bank balances and cash	<b>54</b>	–
Creditors and accrued charges	<b>(1,807)</b>	–
Minority interests	<b>(338)</b>	–
Net liabilities disposed of	<b>(1,033)</b>	–
Exchange reserve released	<b>(115)</b>	–
Gain on disposal	<b>(1,148)</b>	–
Cash consideration	<b>1,647</b>	–
Net cash inflow arising on disposal:		
Cash consideration received	<b>499</b>	–
Bank balances and cash disposed of	<b>(54)</b>	–
	<b>445</b>	–

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

# Notes to the Financial Statements

*For the year ended 31st December, 2002*

## **28. MAJOR NON-CASH TRANSACTION**

During the year, loan from a minority shareholder amounting to HK\$6,492,000 (note 24) was assigned by the minority shareholder to the Group as part of the arrangement for the acquisition by the Group of additional interest in a subsidiary.

The Group had no significant non-cash transaction during the year ended 31st December, 2001.

## **29. RETIREMENT BENEFIT SCHEME**

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 rules 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 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 (2001: Nil).

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 30. OPERATING LEASE ARRANGEMENTS

### The Group as lessee:

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	8,300	10,554
In the second to fifth year inclusive	13,854	20,431
After five years	–	1,419
	<b>22,154</b>	<b>32,404</b>

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\$398,000 (2001: HK\$478,000). The properties held at the balance sheet date have committed tenants for an average term of two years.

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	308	393
In the second to fifth year inclusive	–	355
	<b>308</b>	<b>748</b>

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 31. CAPITAL COMMITMENTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	1,132	7,500
– leasehold improvements	1,641	1,817
– plant and machinery	6,492	3,439
– furniture, fixtures and office equipment	–	36
	<b>9,265</b>	<b>12,792</b>

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

## 32. CONTINGENT LIABILITIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Bills discounted with recourse	–	4,781

At 31st December, 2002, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$119,130,000 (2001: HK\$94,130,000) granted to its subsidiaries. The extent of facilities utilised by the subsidiaries at 31st December, 2002 amounted to approximately HK\$1,540,000 (2001: HK\$4,781,000).

Details of a corporate guarantee given by the Group in favour of the minority shareholder of a subsidiary are set out in note 34.

## 33. PLEDGE OF ASSETS

At 31st December, 2002, leasehold properties with an aggregate net book value amounting to approximately HK\$14,236,000 (2001: HK\$14,821,000) and bank deposits of approximately HK\$10,895,000 (2001: HK\$8,981,000) 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, 2002

## 34. RELATED PARTY TRANSACTIONS

		A minority shareholder of a subsidiary		A related company (note 3)	
	Notes	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Sales of goods	1	–	–	<b>2,167</b>	6,171
Loan from related party	2	–	6,492	–	–

Notes:

1. These transactions were carried out at prices agreed by the parties concerned.
2. The terms of the loan and movement of the loan during the year are set out in note 24.
3. The related company is a wholly owned subsidiary of the minority shareholder of a subsidiary.

In addition to the above, at 31st December, 2002, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (2001: RMB1,020,000) (approximately HK\$962,000 (2001: HK\$962,000)) 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 (2001: RMB2,000,000) (approximately HK\$1,887,000 (2001: HK\$1,887,000)) granted to this subsidiary. No such facilities were utilised by the aforesaid subsidiary as at 31st December, 2001 as the respective bank borrowing was fully repaid during 2001.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 35. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Proportion of nominal value of issued capital/ registered capital held by the Company		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 Company Limited (Formerly known as Arts Optical Manufactory, Limited)	Hong Kong	HK\$1,000,000	–	100%	Trading in optical frames
Sin Dak Industrial Limited	Hong Kong	HK\$40,000	–	100%	Property holding
Fone Limited (Formerly known as Stepper Limited)	Hong Kong	HK\$100	–	100%	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: This subsidiary is registered as a sino-foreign equity joint venture company.

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 debt securities subsisting at 31st December, 2002 or at any time during the year.