1. BASIS OF PRESENTATION

The financial statements have been prepared on a going concern basis, notwithstanding that the Group had net current liabilities of HK$7,507,000 and a deficiency in assets of HK$89,942,000 as at 31 December 2002. In the opinion of the directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration of several financing and operating measures completed during the year and subsequent thereto together with other measures in progress at the date of this report, which include, but are not limited to, the following:

(i) The Group successfully completed a reduction of the Group's indebtedness of approximately HK$300 million through the conversion of convertible note liabilities into equity (see notes 22 and 25) which helped to lessen the liquidity pressure of the Group.

(ii) The Group is currently negotiating with its shareholder, Probest Holdings Inc. ("Probest"), a wholly-owned subsidiary of Tomorrow International Holdings Limited ("TIHL"), a company incorporated in Bermuda with limited liability and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to re-schedule the repayment terms of the loan from Probest and to waive a certain amount of the loans and interest payable to Probest. On 4 March 2003, the Company entered into a conditional asset disposal agreement (the "Asset Disposal Agreement") and a conditional loan restructuring agreement (the "Loan Restructuring Agreement") with Probest. The directors believe that the agreements will get the necessary approvals which, consequently, will significantly improve the liquidity position of the Group and of the Company. Further details of the Asset Disposal Agreement and the Loan Restructuring Agreement, and its impact are disclosed in note 32 to the financial statements.

The directors are of the opinion that, in light of the measures taken to date, together with the expected approval of the Asset Disposal Agreement and the Loan Restructuring Agreement by the relevant parties, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

If the going concern basis were not to be appropriate, adjustments would have to be made to restate the value of the assets to their break up values, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented in the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Cont'd)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 26 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company;

(c) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company; and

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Associates (Cont'd)

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Negative goodwill (Cont'd)

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 January 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of assets (Cont'd)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Buildings	Over the remaining lease terms
Plant and machinery	6.67%–10%
Furniture, fixtures and equipment	10%
Motor vehicles	20%

Changes in the values of fixed assets resulting from revaluations are dealt with, on an individual asset basis, as movements in the property revaluation reserve. Deficits arising from revaluation, to the extent they cannot be offset against the revaluation surplus in respect of the same asset, are charged to the profit and loss account. Any subsequent revaluation surplus is credited to profit and loss account to the extent of the deficit previously charged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fixed assets and depreciation (Cont'd)

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are credited or charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

In the prior years, the inventory cost was determined on the standard cost method, which is approximated to the actual cost. In the opinion of the directors, the change in accounting policy did not have a material impact on both the Group's inventories and accumulated losses as at 1 January 2001 and the Group's results for the year.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the balance sheet, cash and bank balances and time deposits represent assets which are not restricted as to use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

a. from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

b. interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

c. management fee, when the services are rendered; and

d. dividend income, when the shareholders' right to receive payment has been established.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits (Cont'd)

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries in the People's Republic of China (the "PRC") are members of the state-sponsored retirement scheme operated by the government of the PRC.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

4. SEGMENT INFORMATION

In accordance with the requirements of SSAP 26 "Segment reporting", the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

The Group is principally engaged in the manufacture and sale of optical products. The directors of the Company regard these segments as the primary source of the Group's risks and returns. The secondary segment format, representing the principal markets of the Group's products, is mainly divided into five geographical areas, namely the United States of America, Europe, Hong Kong, Mainland PRC and others.

(i) 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.

(ii) Geographical segments

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

4. SEGMENT INFORMATION (Cont'd)

Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	United States of America		Europe		Hong Kong		Mainland PRC		Others		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:														
Sales to external customers	**129,005**	122,898	**72,742**	64,640	**3,357**	13,032	**20,877**	18,761	**16,116**	22,340	**—**	—	**242,097**	241,671
Other segment information:														
Segment assets	**35,842**	30,516	**11,838**	16,393	**25,802**	15,806	**157,068**	162,618	**5,173**	5,905	**—**	—	**235,723**	231,238
Interests in associates	**161**	161	**—**	—	**(7,050)**	(6,531)	**37,788**	37,905	**(5)**	(5)	**—**	—	**30,894**	31,530
													266,617	262,768
Capital expenditure	**—**	—	**—**	—	**583**	530	**2,626**	2,056	**—**	27	**—**	—	**3,209**	2,613

5. TURNOVER

Turnover represents the net invoiced value of goods sold, net of returns and allowances.

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2002 HK$'000	2001 HK$'000
Cost of inventories*	**194,801**	189,725
Depreciation	**14,900**	15,293
Minimum lease payments under operating leases in respect of land and buildings	**3,093**	4,368
Staff costs (including directors' remuneration — note 8):		
Wages and salaries	**63,197**	78,161
Pension contributions	**1,192**	1,667
Less: Forfeited contributions	**(641)**	(421)
Net pension contributions	**551**	1,246
	63,748	79,407
Auditors' remuneration		
Current year provision	**1,300**	1,543
Prior year under/(over)provision	**(100)**	150
Provision against inventories	**1,612**	8,660
Provision for doubtful accounts receivable	**373**	1,427
Loss on disposal of fixed assets	**1,532**	936
Interest income	**(38)**	(117)
Exchange gains, net	**(699)**	(2,540)
Realisation of exchange reserve upon the deregistration of subsidiaries	**(1,001)**	—

* The cost of inventories includes HK$50,800,000 (2001: HK$64,076,000) relating to staff costs, provision against inventories and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2001: Nil).

7. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**2,654**	21,450
Interest on loan from a shareholder	**12,957**	—
Interest on finance leases	**—**	2
	15,611	21,452

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Directors' fees:		
Executive	**—**	—
Independent non-executive	**888**	720
	888	720
Other emoluments:		
Executive:		
Salaries and other benefits	**3,819**	7,286
Bonuses	**300**	355
Compensation for loss of office	**900**	—
Pension contributions	**172**	238
Independent non-executive	**—**	—
	5,191	7,879
	6,079	8,599

8. DIRECTORS' REMUNERATION (Cont'd)

The remuneration of the directors fell within the following bands:

	Number of directors	
	2002	2001
Nil – HK$1,000,000	**10**	4
HK$1,000,001 – HK$1,500,000	**2**	—
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	**—**	2
	13	7

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2001: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2001: two) non-director, highest paid employees are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,437**	1,656
Bonuses	**69**	199
Compensation for loss of office	**489**	—
Pension contributions	**27**	41
	2,022	1,896

9. FIVE HIGHEST PAID EMPLOYEES (Cont'd)

The remuneration of the above two non-director, highest paid employees fell within the following bands:

	Number of employees	
	2002	2001
Nil – HK$1,000,000	**1**	2
HK$1,000,001 – HK$1,500,000	**1**	—
	2	2

10. TAX

No provision for Hong Kong profits tax and overseas tax has been provided for both the current and prior years as the Group has either available tax losses brought forward from prior years to offset the assessable profits generated during the year, or has sustained losses for tax purposes.

The tax charge for the year represents the share of tax of associates located outside Hong Kong of HK$1,000,000 (2001: HK$295,000).

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK$60,530,000 (2001: HK$349,981,000).

12. EARNING/(LOSS) PER SHARE

The calculation of basic earning/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK$10,141,000 (2001: net loss of HK$58,889,000) and the weighted average of 1,989,579,052 (2001: 732,044,805) ordinary shares in issue during the year.

Diluted earning/(loss) per share for the years ended 31 December 2002 and 2001 have not been disclosed as no dilutive events existed during these years.

13. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At beginning of year	70,800	167,320	68,943	2,890	309,953
Additions	—	1,399	1,810	—	3,209
Disposals	—	(3,117)	(7,803)	—	(10,920)
Deficit on revaluation	(1,900)	—	—	—	(1,900)
At 31 December 2002	68,900	165,602	62,950	2,890	300,342
Accumulated depreciation and impairment:					
At beginning of year	14,800	122,335	37,139	2,515	176,789
Provided during the year	2,325	5,683	6,692	200	14,900
Disposals	—	(3,117)	(6,265)	—	(9,382)
Write-back on revaluation	(2,325)	—	—	—	(2,325)
At 31 December 2002	14,800	124,901	37,566	2,715	179,982
Net book value:					
At 31 December 2002	54,100	40,701	25,384	175	120,360
At 31 December 2001	56,000	44,985	31,804	375	133,164
An analysis of cost or valuation:					
At cost	—	165,602	62,950	2,890	231,442
At 1998 valuation	14,800	—	—	—	14,800
At 2002 valuation	54,100	—	—	—	54,100
	68,900	165,602	62,950	2,890	300,342

13. FIXED ASSETS (Cont'd)

Company

	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:				
At beginning of year	503	15,097	910	16,510
Disposals	(383)	(7,589)	—	(7,972)
Transfer to subsidiaries	(120)	(7,508)	(910)	(8,538)
At 31 December 2002	—	—	—	—
Accumulated depreciation:				
At beginning of year	479	10,359	535	11,373
Provided during the year	24	1,149	200	1,373
Disposals	(383)	(6,651)	—	(7,034)
Transfer to subsidiaries	(120)	(4,857)	(735)	(5,712)
At 31 December 2002	—	—	—	—
Net book value:				
At 31 December 2002	—	—	—	—
At 31 December 2001	24	4,738	375	5,137

13. FIXED ASSETS (Cont'd)

The analysis of the Group's leasehold land and buildings at 31 December 2002 is as follows:

	2002
	HK$'000
At valuation:	
Medium term leasehold land and buildings situated in Mainland PRC	**54,100**

Certain of the Group's leasehold land and buildings, which are held for own use in Dongguan and Shenzhen in the PRC, have been valued on an open market value basis, based on their existing use by B.I. Appraisals Limited, an independent firm of professional valuers, on 31 December 2002 at HK$54,100,000. A revaluation surplus of HK$487,000 and revaluation deficit of HK$62,000 resulting from these valuations, have been credited to profit and loss account and charged to the property revaluation reserve, respectively.

Had the Group's land and buildings stated at valuation been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$69,830,000 (2001: HK$72,556,000).

The Group has not obtained land use right certificates or building ownership certificates for leasehold land and buildings situated in the Mainland PRC with a net book value of HK$54,100,000 at 31 December 2002 (2001: HK$56,000,000).

14. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	**69,488**	74,258
Due from subsidiaries	**—**	113,443
	69,488	187,701
Provision for impairment	**(69,488)**	(74,258)
	—	113,443

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

In the prior year, amounts due from subsidiaries of HK$113,443,000 were not repayable within the next twelve months from that balance sheet date.

14. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Dongguan De Bao Optical Co., Ltd. ("De Bao")	The PRC	HK$58,550,910 *(Note i)*		50 *(Note iii)*	Manufacture of multi-coating lenses
Dongguan Hamwell Glasses Co., Ltd. ("Dongguan Hamwell")	The PRC	HK$62,504,800 *(Note ii)*		83	Manufacture of optical products
Global Origin Limited	Hong Kong	HK$75,000,000		90	Investment holding
Profit Trend International Limited	Hong Kong	HK$1,000,000		50 *(Note iii)*	Investment holding
Prowin Commercial & Industrial Limited	Hong Kong	HK$2		100	Property holding in the PRC
Shenzhen Henggang Swank Optical Industrial Co., Ltd. ("Henggang") *(Note iv)*	The PRC	US$30,000,000		81	Manufacture of optical products
Swank International Optical Company Limited	Hong Kong	HK$100,000	100		Trading of optical products

14. INTERESTS IN SUBSIDIARIES (Cont'd)

Notes:

(i) De Bao is registered as a wholly foreign owned enterprise under the PRC law. 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 approximately HK$59,549,000 was due for contribution on 18 March 1999 in accordance with De Bao's articles of association. The Group has been in discussion with the relevant authorities to modify the original terms of De Bao's articles of association, including the amount of total registered capital. Up to the date of this Annual Report, the Group has not yet obtained the approval from the relevant authorities.

(ii) Dongguan Hamwell is a Sino-foreign owned joint venture enterprise under the PRC law. The registered capital of Dongguan Hamwell is HK$67,940,000. At the balance sheet date, plant and machinery amounting to approximately HK$62,505,000 has been contributed by the Group to Dongguan Hamwell, towards meeting the registered capital requirement. The remaining registered capital of HK$5,435,000 has not yet been contributed by the minority shareholder of Dongguan Hamwell as at 31 December 2002.

(iii) The Company has the power to cast the majority of votes at meetings of the board of directors of these entities and therefore they are regarded as subsidiaries of the Company.

(iv) Henggang is a Sino-foreign owned joint venture enterprise under the PRC law. Subject to the payment of an annual amount of approximately HK$3,134,000 (2001: HK$3,132,000) to the joint venture party, the Group is entitled to all of the profits and bears all of the losses of Henggang.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

15. INTERESTS IN ASSOCIATES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**—**	—	**181,119**	181,119
Share of net assets	**142,016**	133,590	**—**	—
	142,016	133,590	**181,119**	181,119
Due from associates	**1,894**	10,956	**40**	3,651
	143,910	144,546	**181,159**	184,770
Provision for impairment	**(113,016)**	(113,016)	**(151,328)**	(158,334)
	30,894	31,530	**29,831**	26,436

The amounts due from associates are unsecured, interest-free and are not repayable within the next twelve months from the balance sheet date.

The amounts due to associates are unsecured, interest-free and have no fixed terms of repayment.

15. INTERESTS IN ASSOCIATES (Cont'd)

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group Direct	Indirect	Principal activities
Dongguan Yueheng Optical Co., Ltd.	Corporate	The PRC	50		Manufacture of optical lenses
Dongguan Yueheng Optical (HK) Co Limited	Corporate	Hong Kong		50	Trading of optical products
Dongguan Yueheng Optical (BVI) Company Limited	Corporate	The British Virgin Islands		50	Financial servicing and marketing of optical products

The above table lists 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 assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

16. OTHER RECEIVABLES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other receivables	**96,339**	96,339	**68,286**	68,286
Provision for impairment	**(96,339)**	(96,339)	**(68,286)**	(68,286)
	—	—	**—**	—

Other receivables represent the amounts owed by Hanmy (Holding) Limited and its related companies (collectively "Hanmy") to the Group. 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.

17. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable, based on payment due date and net of provisions, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Current to 30 days overdue	**47,650**	45,536
31 to 60 days overdue	**2,595**	3,148
61 to 90 days overdue	**2,238**	1,369
More than 90 days overdue	**1,381**	1,282
	53,864	51,335

The normal credit period granted by the Group to customers ranges from 30 days to 120 days.

18. INVENTORIES

	Group 2002 HK$'000	Group 2001 HK$'000
Raw materials	**20,764**	21,000
Work in progress	**6,856**	3,447
Finished goods	**4,391**	6,629
	32,011	31,076

19. BANK BORROWINGS

	Group 2002 HK$'000	Group 2001 HK$'000	Company 2002 HK$'000	Company 2001 HK$'000
Bank overdrafts, unsecured and repayable on demand	**—**	440	**—**	—
Bank loans, secured and repayable:				
Within one year	**—**	25,000	**—**	25,000
In the second year	**—**	37,500	**—**	37,500
In the third to fifth years, inclusive	**—**	187,500	**—**	187,500
	—	250,000	**—**	250,000
Total bank borrowings	**—**	250,440	**—**	250,000
Portion classified as current liabilities	**—**	(25,440)	**—**	(25,000)
Non-current portion	**—**	225,000	**—**	225,000

During the year, on 1 March 2002, the rights, title to and interest in the above bank loans brought forward from the prior year of HK$250,000,000 have been transferred to a shareholder of the Company, Probest (note 20).

20. DUE TO A SHAREHOLDER, PROBEST

The amount due to a shareholder, Probest of HK$262,957,000 comprises the loan principal of HK$250,000,000, which represents the bank loans of the Company brought forward from the prior year and acquired by Probest on 1 March 2002 (note 19), and interest payable of HK$12,957,000. The amount due to Probest is repayable as follows:

	Group and Company	
	2002	2001
	HK$'000	HK$'000
Loan interest repayable on demand	**12,957**	—
Loan principal repayable:		
Within one year	**62,500**	—
In the second year	**50,000**	—
In the third to fifth years, inclusive	**137,500**	—
	250,000	—
Amount due to Probest	**262,957**	—
Portion classified as current liabilities	**(75,457)**	—
Non-current portion	**187,500**	—

The amount due to Probest is unsecured and interest-bearing at 1% per annum over the Hong Kong prime rate on the loan principal.

At 31 December 2002, the loan principal of HK$25,000,000 and the accrued loan interest of HK$12,957,000 were overdue. Subsequent to the balance sheet date, the amount due to Probest is proposed to be restructured but subject to the approval of the Asset Disposal Agreement and the Loan Restructuring Agreement by the shareholders of the Company and the shareholders of TIHL, the ultimate holding company of Probest. Details of which are set out in note 32 to the financial statements.

21. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable, based on payment due date, is as follows:

	2002	2001
	HK$'000	HK$'000
Current to 30 days overdue	**17,746**	14,480
31 to 60 days overdue	**1,497**	693
61 to 90 days overdue	**242**	439
More than 90 days overdue	**1,473**	2,011
	20,958	17,623

22. CONVERTIBLE NOTES

Balance represented the convertible notes issued to Optiset Limited ("Optiset") in prior years. Optiset was a special purpose company established, on behalf of the banks and financial institution creditors of the Company, to hold the convertible notes and 51% equity interest in the Company prior to the Company's change in substantial shareholder to Probest on 1 March 2002. During the year, Optiset converted the convertible notes into 1,500,000,000 ordinary shares of the Company (note 25).

23. PROVISION FOR LONG SERVICE PAYMENTS

Group	**Long service payments**
	HK$'000
At beginning of year	1,000
Amount utilised during the year	(288)
At 31 December 2002	712
Portion classified as current liabilities	—
Non-current portion	712

23. PROVISION FOR LONG SERVICE PAYMENTS (Cont'd)

The Group provides for the probable future long service payments expected to be made to employees under the Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

24. DEFERRED TAX

The principal component of the Group's and the Company's net deferred tax asset position not recognised in the financial statements is as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**126,000**	134,000	**36,000**	44,000

The revaluation arising from the revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

25. SHARE CAPITAL

Shares

	2002 HK$'000	2001 HK$'000
Authorised:		
15,000,000,000 (2001: 2,500,000,000) ordinary shares of HK$0.20 each	**3,000,000**	500,000
Issued and fully paid:		
2,232,044,805 (2001: 732,044,805) ordinary shares of HK$0.20 each	**446,409**	146,409

There was no repurchase of any shares during the year.

During the year, the movements in the Company's share capital were as follows:

(a) Pursuant to an ordinary resolution passed on 28 May 2002, the authorised share capital of the Company was increased from HK$500,000,000 to HK$3,000,000,000 by the creation of 12,500,000,000 additional shares of HK$0.20 each, ranking pari passu in all respects with the existing share capital of the Company.

(b) On 1 March 2002, 1,500,000,000 ordinary shares of HK$0.20 each of the Company were issued at a nominal value of HK$0.20 each upon the conversion of the convertible notes by Optiset (note 22).

A summary of the transactions during the year with reference to the above movements of the Company's issued share capital is as follows:

	Number of shares in issue	Share capital HK$'000
At 1 January 2002	732,044,805	146,409
Convertible notes exercised (b)	1,500,000,000	300,000
At 31 December 2002	2,232,044,805	446,409

25. SHARE CAPITAL (Cont'd)

Share options

Details of the Company's share option scheme are included in note 26 to the financial statements.

26. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of Directors, as their disclosure is also a requirement of the Listing Rules.

On 28 May 2002, the share option scheme of the Company adopted on 28 June 1996 ceased to operate and a new share option scheme (the "Scheme") was adopted on the same date to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company.

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder of the Company's subsidiaries. The Scheme became effective on 28 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, up to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

26. SHARE OPTION SCHEME (Cont'd)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The share option may be exercised under the Scheme at any time during a period not exceeding 5 years after the date when the scheme option is granted and expiring on the last date of such period.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of an ordinary share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted since the adoption of the Scheme and the Company has no share options outstanding as at the balance sheet date.

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity in the financial statements.

27. RESERVES (Cont'd)

(b) Company

	Share premium account HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2001	715,132	(889,002)	(173,870)
Net loss for the year	—	(349,981)	(349,981)
At 31 December 2001 and at 1 January 2002	715,132	(1,238,983)	(523,851)
Net loss for the year	—	(60,530)	(60,530)
At 31 December 2002	715,132	(1,299,513)	(584,381)

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

(i) During the year, the accrued bank interest in respect of the bank loans and bank overdrafts of HK$16,917,000 was waived by the banks, out of which HK$14,263,000 was included in accrued liabilities and other payables brought forward from the prior year.

(ii) During the year, 1,500,000,000 ordinary shares of HK$0.20 each of the Company were issued at a nominal value of HK$0.20 each upon the conversion of convertible notes amounting to HK$300,000,000 by Optiset (note 25(b)).

(iii) During the year, Probest acquired the Company's bank loans brought forward from the prior year of HK$250,000,000 from the banks. The balance was included as an amount due to a shareholder, Probest, as at the balance sheet date (notes 19 and 20).

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Disposal of subsidiaries

	2002 HK$'000	2001 HK$'000
Net assets disposed of:		
Fixed assets	—	133
Inventories	—	1,770
Prepayments, deposits and other receivables	—	2,085
Cash and bank balances	—	640
Accrued liabilities and other payables	—	(2,992)
Due to associates of the Group	—	(10)
	—	1,626
Loss on disposal of interests in subsidiaries	—	(303)
Exchange fluctuation reserve realised	—	(518)
	—	805
Satisfied by:		
Cash received in 2001	—	1,500
Cash receivable in 2002	—	418
	—	1,918
Professional fees paid	—	(1,113)
	—	805

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Disposal of subsidiaries (Cont'd)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002	2001
	HK$'000	HK$'000
Cash consideration	—	1,500
Cash and cash equivalents disposed of	—	(640)
Professional fees paid	—	(1,113)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	(253)

The results of the subsidiaries disposed of in the year ended 31 December 2001 had no significant impact on the Group's consolidated turnover or loss before tax for that year.

29. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties and warehouses under operating lease arrangements. Leases for office properties and warehouses are negotiated for terms ranging from 2 to 3 years.

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,414**	2,629	**1,254**	2,197
In the second to fifth years, inclusive	**958**	—	**912**	—
	2,372	2,629	**2,166**	2,197

30. COMMITMENTS

Apart from the operating lease commitments detailed in note 29 above, the Group and the Company had no significant capital commitments as at the balance sheet date (2001: Nil).

31. RELATED AND CONNECTED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related and connected parties during the year:

		Group	
		2002	2001
	Notes	**HK$'000**	HK$'000
Sales of finished goods to associates	*(i)*	**19,373**	14,205
Purchases of raw materials and finished goods from associates	*(ii)*	**24,248**	25,145
Management fee income from associates	*(iii)*	**3,200**	4,241
Loan from a shareholder, Probest	*(iv)*	**250,000**	—
Interest expense charged by a shareholder, Probest	*(iv)*	**12,957**	—

Notes:

(i) The sales to associates were made according to the published prices, terms and conditions offered to the major customers of the Group.

(ii) The purchases from associates were made according to the published prices, terms and conditions offered by the associates to their major customers.

(iii) The management fee income was charged according to the management's estimation on costs of office premises and utilities used by the associates.

(iv) On 1 March 2002, Probest acquired bank loans of the Company amounting to HK$250,000,000 from the banks. The loan principal is unsecured and interest bearing at 1% per annum over the Hong Kong prime rate and is repayable in accordance with the repayment term set out in note 20 to the financial statements. As at 31 December 2002, the Group and the Company had an outstanding loan due to Probest of HK$262,957,000 (2001: Nil).

The transaction included in note (iv) above constituted a connected party transaction as defined in the Listing Rules.

32. POST BALANCE SHEET EVENTS

(i) On 4 March 2003, the Company entered into a conditional Asset Disposal Agreement, pursuant to which the Company conditionally agreed to sell to Probest a 30% equity interest in Profitown Investment Corporation ("BVI Holdco"), a company incorporated in the British Virgin Islands with limited liability on 19 November 2002 and a wholly-owned subsidiary of the Company, and 30% of the loan owing by BVI Holdco to the Company for an aggregate consideration of HK$3 million. Such consideration will be satisfied by Probest upon completion of the Asset Disposal Agreement by offsetting an equivalent amount of HK$3 million outstanding loan due to Probest by the Company, which amounted to HK$250 million as at 31 December 2002.

(ii) On 4 March 2003, the Company entered into a conditional Loan Restructuring Agreement, pursuant to which Probest agreed to waive the repayment of the outstanding principal of HK$47 million due by the Company and the loan interest accruing thereon since 1 March 2002 up to the effective date of the Loan Restructuring Agreement. As at 31 December 2002, the accrued loan interest amounted to approximately HK$13 million.

(iii) Pursuant to the Loan Restructuring Agreement, the remaining principal balance of HK$200 million due by the Company to Probest will be restructured on terms to be governed by a convertible note with face value of HK$200 million to be issued by the Company (the "Convertible Note"). The Convertible Note is secured by a 70% equity interest in BVI Holdco and 70% of the loan owing by BVI Holdco to the Company. The Convertible Note will bear interest at 3% per annum and the interest thereon is payable in full on maturity. The principal amount of the Convertible Note is repayable by the Company to Probest in five instalments with a maturity date on 30 June 2006. In addition, under the terms of the Convertible Note, the holders of the Convertible Note may redeem the whole or part of the Convertible Note during the period from the date of issue of the Convertible Note to its final maturity date.

Further details of the Asset Disposal Agreement, the Loan Restructuring Agreement and the issuance of the Convertible Note are set out in a circular to shareholders dated 7 April 2003 (the "Circular").

32. POST BALANCE SHEET EVENTS (Cont'd)

(iv) Pursuant to the Circular, the board of directors proposed to reorganise the capital structure of the Company. The implementation of the proposed capital restructuring would involve the following procedures:

(a) A reduction in the issued share capital in the amount of HK$0.199 for every issued share at a nominal value of HK$0.20 each of the Company. The credit will be set off, to the extent permitted and subject to such conditions as may be imposed by the High Court of Hong Kong, against the accumulated losses of the Company;

(b) A reduction in the nominal value of the issued and unissued shares of the Company from HK$0.20 each to HK$0.001 each;

(c) The authorised share capital of the Company will be restored to the original amount of HK$3,000,000,000 by the creation of an additional 2,985,000,000,000 shares of HK$0.001 each; and

(d) A consolidation of every ten shares of the Company of HK$0.001 each created by the capital reduction in (a) and (b) above into one share of HK$0.01 each.

Further details of the capital restructuring are also set out in the Circular.

All of the above transactions are conditional upon, but not limited to, the passing of resolutions at the extraordinary general meeting of the Company convened to be held on 2 May 2003.

33. CORPORATE INFORMATION

The principal activity of the Company is investment holding. During the year, the Group's principal activities consisted of the design, manufacture and sale of optical products. There were no changes in the nature of the Group's principal activities during the year.

On 1 March 2002, Probest acquired from Optiset a 71.9% equity interest in the Company. At the balance sheet date, Probest held a 57.9% equity interest in the Company. In the opinion of the directors, the ultimate holding company of the Company is TIHL.

34. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 April 2003.