

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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").

Pursuant to a resolution passed at the annual general meeting of the Company held on 28th May, 2003, the Company adopted 雅視光學集團有限公司 as its Chinese corporate name.

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, manufacture and sales of optical products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted for the first time the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes
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The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As a result of this change in policy, the balance of retained profits at 1st January, 2002 has been decreased by HK\$6,571,000, which is the cumulative effect of the change in policy on the results for periods prior to 1st January, 2002. The effect of the change is a decrease in profit for the year ended 31st December, 2003 of HK\$691,000 (2002: increase in profit of HK\$16,000). The deferred tax liabilities at 31st December, 2002 have been increased by HK\$6,555,000, which is the cumulative effect of the change in policy on the deferred tax liabilities as at 31st December, 2002.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is credited to the income statement.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

Property, plant and equipment

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

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment, other than buildings under construction, over their estimated useful lives, using the straight line method, as follows:

Leasehold land	Over the remaining terms of the leases
Buildings	Over the estimated useful lives of 25 years or the terms of the leases, if shorter
Leasehold improvements	Over the estimated useful lives of 3 years or the terms of the leases, if shorter
Furniture, fixtures and office equipment	Over 3 to 5 years
Others	Over 5 years

Buildings under construction

Buildings under construction are stated at cost, which comprises all direct costs incurred in relation to the construction. Depreciation is not provided until the construction work is completed and the buildings are ready for their intended use.

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 consolidated income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

Negative goodwill

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

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

Negative goodwill arising on acquisition of subsidiaries after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

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

Investments in subsidiaries

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Investments in securities**

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

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

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

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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, 2003

4. SEGMENT INFORMATION

Turnover

Turnover represents the net amounts received and receivable for goods sold to outside customers during the year.

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, 2003

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
Turnover					
External sales	208,009	227,279	61,208	22,915	519,411
Result					
Segment result	44,707	45,063	(529)	3,777	93,018
Unallocated corporate expenses					(3,862)
Dividend income from other investment					76
Gain on disposal of other investment					46
Interest income on bank deposits					1,766
Profit from operations					91,044
Finance costs					(43)
Gain on disposal of subsidiaries					508
Profit before taxation					91,509
Taxation					(9,544)
Profit before minority interests					81,965
Minority interests					(374)
Net profit for the year					82,339

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

At 31st December, 2003

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>
Assets					
Segment assets	87,387	75,183	12,921	13,037	188,528
Unallocated corporate assets					506,472
					695,000
Unallocated corporate liabilities					113,845

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	–	–	–	–	39,142	39,142
Depreciation and amortisation of property, plant and equipment	–	–	–	–	44,696	44,696
Other non-cash expenses	–	–	–	–	4,084	4,084

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

For the year ended 31st December, 2002

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000 (Restated)
Turnover					
External sales	249,420	243,190	76,648	33,260	602,518
Result					
Segment result	60,485	57,278	(6,587)	7,789	118,965
Unallocated corporate expenses					(4,991)
Dividend income from other investment					66
Gain on disposal of other investment					200
Interest income on bank deposits					2,017
Profit from operations					116,257
Finance costs					(109)
Gain on disposal of subsidiaries					1,647
Profit before taxation					117,795
Taxation					(13,412)
Profit before minority interests					104,383
Minority interests					(1,304)
Net profit for the year					105,687

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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>
Assets					
Segment assets	68,341	79,625	15,723	8,038	171,727
Unallocated corporate assets					521,946
					693,673
Unallocated corporate liabilities					110,093

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

5. OTHER OPERATING INCOME

Included in other operating income are:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Dividend income from other investment	76	66
Gain on disposal of other investment	46	200
Property rental income less negligible outgoings	376	398
Interest income on bank deposits	1,766	2,017
Sales of scrap materials	3,184	3,654

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

6. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,050	1,200
Amortisation of goodwill (charged to other operating expenses)	510	255
Depreciation and amortisation of property, plant and equipment	44,696	46,147
Impairment loss recognised in respect of property, plant and equipment (Note)	1,400	–
Loss on disposal of property, plant and equipment	1,774	1,121
Operating lease rentals in respect of rented premises	10,507	13,324
Revaluation decrease in investment property	400	–
Unrealised holding loss on other investment	–	380
Staff costs		
– Directors' emoluments (note 8)		
– Current year (net of amount waived in respect of 2003 and 2002)	2,519	2,438
– Amount waived in respect of 2002 and 2001	(597)	(662)
	1,922	1,776
– Other staff		
– Salaries and other allowances	98,426	94,776
– Retirement benefit scheme contributions net of forfeited contribution of HK\$268,000 (2002: HK\$127,000)	908	890
	101,256	97,442

Note:

The directors of the Company have reviewed the carrying amounts of the assets of the Group as at 31st December, 2003 and have determined to recognise the impairment loss amounting to HK\$1,400,000 in respect of a leasehold property with reference to the recoverable amount of such property.

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, 2003

8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The directors' emoluments are analysed as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	264	264
	264	264
Other emoluments paid to executive directors:		
Salaries and other benefits (net of amount waived as shown in (a) below)	2,159	1,435
Performance related incentive payments	–	662
Retirement benefit scheme contributions (net of amount waived as shown in (a) below)	96	77
	2,255	2,174
	2,519	2,438

During the year ended 31st December, 2003, the executive directors waived part of their emoluments as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
(a) Amounts waived in respect of the year ended 31st December, 2003 and 2002, respectively		
Salaries and other benefits	1,265	1,600
Retirement benefit scheme contributions	59	60
	1,324	1,660
(b) Amount waived in respect of the year ended 31st December, 2002 and 2001, respectively		
Performance related incentive payments	597	662

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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

Directors' emoluments (Continued)

In addition to the above, rent-free accommodation was provided to two directors and the estimated rental values for the accommodation was approximately HK\$221,000 (2002: HK\$254,000).

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:

	2003 Number of directors	2002 Number of directors
Nil to HK\$1,000,000	6	4
HK\$1,000,001 to HK\$1,500,000	–	1

Highest paid employees

The five highest paid individuals of the Group included two (2002: one) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2002: four) highest paid employees, other than directors of the Company, are as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Salaries and other benefits	2,124	2,794
Performance related incentive payments	–	754
Retirement benefit scheme contributions	96	126
	2,220	3,674

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

	2003 Number of employees	2002 Number of employees
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	–	1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

9. TAXATION

	2003	2002
	HK\$'000	<i>HK\$'000</i>
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	9,184	13,320
– (Over)under provision in respect of prior years	(331)	108
	8,853	13,428
Deferred taxation (<i>note 25</i>)		
Current year	2	(16)
Attributable to a change in tax rate	689	–
	691	(16)
	9,544	13,412

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/2004. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

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.

In 2002, the Inland Revenue Department (the "IRD") had tax disputes with certain subsidiaries of the Company and had issued notices of additional assessments in respect of prior years to those subsidiaries. This matter was finalised with the IRD during the current financial year. The resulting additional tax charge of HK\$2,700,000, which had been provided for in 2002, was paid during the year.

Details of the deferred taxation are set out in note 25.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

9. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	91,509	117,795
Tax at the Hong Kong Profits Tax rate of 17.5% (2002: 16%)	16,014	18,847
Tax effect of expenses not deductible for tax purpose	2,701	2,141
Tax effect of income not taxable for tax purpose	(9,996)	(10,627)
(Over)under provision in respect of prior years	(331)	108
Additional tax charge to certain subsidiaries in respect of prior years	–	2,700
Tax effect of tax losses and other deductible temporary differences for current year not recognised	1,984	3,264
Utilisation of tax losses and other deductible temporary differences for prior years previously not recognised	(404)	(283)
Increase in opening deferred tax liabilities resulting from an increase in tax rate	689	–
Effect of different tax rates of operations in other jurisdictions	(921)	(1,561)
Others	(192)	(1,177)
Tax expense for the year	9,544	13,412

10. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim dividend paid in respect of 2003 of 8 cents (2002: 8 cents) per share	30,150	29,953
First special dividend paid in respect of 2003 of 7 cents (2002: Nil) per share	26,381	–
Final dividend proposed in respect of 2003 of 8 cents (2002: 8 cents) per share	30,150	29,953
Second special dividend proposed in respect of 2003 of 7 cents (2002: Nil) per share	26,381	–
	113,062	59,906

The final dividend and second special dividend in respect of 2003 of 8 cents and 7 cents (2002: 8 cents and nil) per share respectively have been proposed by the directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

11. EARNINGS PER SHARE

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

	2003 HK\$'000	2002 <i>HK\$'000</i>
Earnings for the purposes of basic and diluted earnings per share – Net profit for the year	82,339	105,687
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	375,394,000	371,699,863
Effect of dilutive potential shares in respect of share options	5,397,075	6,978,197
Weighted average number of shares for the purpose of diluted earnings per share	380,791,075	378,678,060

12. INVESTMENT PROPERTY

	THE GROUP <i>HK\$'000</i>
VALUATION	
At 1st January, 2003	2,900
Revaluation decrease	(400)
At 31st December, 2003	2,500

The investment property was revalued at 31st December, 2003 by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers, on an open market value basis. The resulting deficit arising on revaluation of HK\$400,000 has been charged to the consolidated income statement.

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, 2003

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Buildings under construction HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1st January, 2003	173,317	40,794	218,262	36,030	7,924	2,858	479,185
Additions	415	4,265	25,585	2,283	249	6,345	39,142
Disposals	-	(5,186)	(1,951)	(831)	(524)	-	(8,492)
Disposal of subsidiaries	-	-	-	(121)	-	-	(121)
Reclassification	2,272	-	-	-	-	(2,272)	-
At 31st December, 2003	176,004	39,873	241,896	37,361	7,649	6,931	509,714
DEPRECIATION AND AMORTISATION							
At 1st January, 2003	27,637	30,778	146,294	22,906	4,096	-	231,711
Provided for the year	6,163	6,002	26,087	5,212	1,232	-	44,696
Impairment loss recognised	1,400	-	-	-	-	-	1,400
Eliminated on disposals	-	(3,141)	(1,638)	(501)	(524)	-	(5,804)
Eliminated on disposal of subsidiaries	-	-	-	(26)	-	-	(26)
At 31st December, 2003	35,200	33,639	170,743	27,591	4,804	-	271,977
NET BOOK VALUES							
At 31st December, 2003	140,804	6,234	71,153	9,770	2,845	6,931	237,737
At 31st December, 2002	145,680	10,016	71,968	13,124	3,828	2,858	247,474

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's property interests shown above comprise:

	Leasehold properties		Buildings under construction	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Properties situated in the People's Republic of China other than Hong Kong (the "PRC") held under medium-term leases	128,552	131,444	6,931	2,858
Properties situated in Hong Kong held under medium-term leases	12,252	14,236	–	–
	140,804	145,680	6,931	2,858

14. LOAN RECEIVABLE

The amount is secured, bears interest at market rate and will not be repaid within the next twelve months from the balance sheet date and, accordingly, the amount is shown as non-current.

15. GOODWILL

	THE GROUP HK\$'000
COST	
At 1st January, 2003 and at 31st December, 2003	2,549
AMORTISATION	
At 1st January, 2003	255
Provided for the year	510
At 31st December, 2003	765
NET BOOK VALUE	
At 31st December, 2003	1,784
At 31st December, 2002	2,294

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, 2003

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Unlisted shares (<i>Note</i>)	130,719	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, 2003 are set out in note 34.

17. 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.

18. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Raw materials	25,427	22,224
Work in progress	48,434	36,029
Finished goods	8,650	13,339
	82,511	71,592

There are inventories of HK\$4,574,000 (2002: HK\$12,979,000) carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

19. 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\$138,219,000 (2002: HK\$131,302,000), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Current	110,025	100,793
1 to 90 days overdue	25,925	29,452
More than 90 days overdue	2,269	1,057
	138,219	131,302

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

20. OTHER INVESTMENT

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Equity securities:		
Listed – Hong Kong, at market value	–	3,760

21. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$71,224,000 (2002: HK\$56,056,000), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Current to 90 days overdue	69,629	54,144
More than 90 days overdue	1,595	1,912
	71,224	56,056

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

22. 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 2002 and 2003	1,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1st January, 2002	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
At 31st December, 2002	374,410,000	37,441
Issue of shares upon exercise of share options	2,460,000	246
At 31st December, 2003	376,870,000	37,687

Note:

Pursuant to an agreement dated 12th January, 2002 entered into among the Company, Universal Honour Developments Limited ("Universal Honour"), a then 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.

23. SHARE OPTIONS

At the annual general meeting of the Company held on 28th May, 2003, the Company's share option scheme adopted on 24th October, 1996 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted in order to comply with the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to share option scheme.

Old Share Option Scheme

Under the Old 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

23. SHARE OPTIONS (Continued)

Old Share Option Scheme (Continued)

The maximum number of shares in respect of which options may be granted under the Old 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 Old Share Option Scheme. HK\$1 is payable by each eligible employee upon acceptance of the share options. No further share options can be granted upon termination of the Old Share Option Scheme but the existing outstanding share options will continue to be valid and exercisable in accordance with the provisions of the Old Share Option Scheme.

A summary of the movements in share options which were granted under the Old Share Option Scheme to certain eligible employees of the Group on 7th July, 2000 is as follows:

	Number of share options					
	Outstanding at 1st January, 2002	Exercised during 2002	Outstanding at 31st December, 2002	Exercised during 2003	Lapsed during 2003	Outstanding at 31st December, 2003
Category: Directors	5,050,000	(1,010,000)	4,040,000	(1,010,000)	–	3,030,000
Category: Employees	8,400,000	(1,450,000)	6,950,000	(1,450,000)	(1,150,000)	4,350,000
Total all categories	13,450,000	(2,460,000)	10,990,000	(2,460,000)	(1,150,000)	7,380,000

The above share options are exercisable between 7th July, 2000 and 23rd October, 2006 at an exercise price of HK\$0.88 per share as follows:

Exercisable period	Maximum % of share options exercisable
7th July, 2000 to 6th July 2001	Up to 40%
7th July, 2001 to 6th July 2002	Up to 50%
7th July, 2002 to 6th July 2003	Up to 60%
7th July, 2003 to 6th July 2004	Up to 70%
7th July, 2004 to 6th July 2005	Up to 80%
7th July, 2005 to 23rd October, 2006	Up to 100%

Total consideration received from employees, including directors, for the options exercised during the year amounted to approximately HK\$2,165,000 (2002: HK\$2,165,000). The closing price of the Company's shares on the date on which the share options were exercised was HK\$2.25 (2002: HK\$1.75).

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2003***23. SHARE OPTIONS (Continued)****New Share Option Scheme**

The purpose of the New Share Option Scheme is to attract and retain high calibre employees, and to motivate them towards higher levels of performance. Under the New Share Option Scheme, the board of directors of the Company shall be entitled to, in its absolute discretion, grant options to eligible employees, including executive directors or chief executive of the Company or any of its subsidiaries, to subscribe for shares in the Company at a price which shall be the highest of (i) the closing price of the Company's shares quoted on the Stock Exchange on the date of offer of the share options; (ii) the average of the closing prices of the Company's shares quoted on the Stock Exchange on the five trading days immediately preceding the date of offer of the share options; and (iii) the nominal value of the shares. The New Share Option Scheme will expire on 27th May, 2013.

An option may be exercised at any time during the period to be determined and notified by the board of directors to the grantee. Such period may commence on the date after the date of acceptance of such option to ten years from the date of acceptance of that option. A consideration of HK\$1 is payable upon acceptance of the offer.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and any other share option scheme established by the Company, if any, is 37,441,000, representing 10% of the issued share capital of the Company at the date of approval of the New Share Option Scheme. The total maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme, if any, shall not exceed 30% of the issued share capital of the Company from time to time.

No share options have been granted, exercised, cancelled or lapsed under the New Share Option Scheme since its adoption.

The financial impact of the share options granted 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 recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the 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 lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

24. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1st January, 2002	75,464	105,369	58,709	239,542
Issue of shares upon subscription of shares (<i>note 22</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)
At 31st December, 2002	106,743	105,369	71,816	283,928
Issue of shares upon exercise of share options	1,919	–	–	1,919
Net profit for the year	–	–	117,248	117,248
Dividends paid	–	–	(86,484)	(86,484)
At 31st December, 2003	108,662	105,369	102,580	316,611

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

25. DEFERRED TAX LIABILITIES

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Other temporary difference <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2002				
– as originally stated	(800)	–	–	(800)
– adjustment on adoption of SSAP 12 (Revised)	(7,796)	319	906	(6,571)
– as restated	(8,596)	319	906	(7,371)
Credit (charge) to consolidated income statement for the year	490	(319)	(155)	16
At 31st December, 2002	(8,106)	–	751	(7,355)
Credit (charge) to consolidated income statement for the year	348	–	(350)	(2)
Effect of change in tax rate	(759)	–	70	(689)
At 31st December, 2003	(8,517)	–	471	(8,046)

At 31st December, 2003, the Group has unused tax losses of HK\$27,892,000 (2002: HK\$24,074,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$16,232,000 (2002: HK\$10,436,000) that will expire from 2004 to 2008. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK\$14,478,000 (2002: HK\$12,647,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

26. DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 <i>HK\$'000</i>
NET ASSETS (LIABILITIES) DISPOSED OF		
Property, plant and equipment	95	37
Inventories	70	748
Debtors, deposits and prepayments	2,553	273
Bank balances and cash	8,282	54
Creditors and accrued charges	(500)	(1,807)
Taxation payable	(598)	–
Minority interests	–	(338)
Net assets (liabilities) disposed of	9,902	(1,033)
Attributable goodwill	6	–
Exchange reserve released	38	(115)
	9,946	(1,148)
Gain on disposal	508	1,647
Cash consideration	10,454	499
Net cash inflow arising on disposal:		
Cash consideration received	10,454	499
Bank balances and cash disposed of	(8,282)	(54)
	2,172	445

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

27. MAJOR NON-CASH TRANSACTION

The Group had no major non-cash transaction during the year ended 31st December, 2003.

In 2002, loan from a minority shareholder 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

28. 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 rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The retirement benefit scheme contributions arising from the 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, forfeited contributions of HK\$9,300 are available to reduce future contributions (2002: Nil).

29. 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	
	2003 HK\$'000	2002 HK\$'000
Within one year	7,630	8,300
In the second to fifth year inclusive	18,962	13,854
Over five years	2,148	–
	28,740	22,154

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 four years and rentals are fixed for an average of four years.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

29. OPERATING LEASE ARRANGEMENTS (Continued)

The Group as lessor:

Property rental income earned during the year was HK\$376,000 (2002: HK\$398,000). The properties held at the balance sheet date have committed tenants for an average term of two years.

	THE GROUP	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Within one year	276	308
In the second to fifth year inclusive	230	–
	506	308

30. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	4,336	1,132
– leasehold improvements	1,946	1,641
– plant and machinery	924	6,492
– furniture, fixtures and office equipment	83	–
	7,289	9,265

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

31. CONTINGENT LIABILITIES

THE GROUP

	2003 HK\$'000	2002 <i>HK\$'000</i>
Bills discounted with recourse	3,310	–

At 31st December, 2003, the Group had given a corporate guarantee in favour of a financial institution to secure general credit facilities to the extent of HK\$9,750,000 (2002: Nil). The extent of facilities utilised at 31st December, 2003 amounted to approximately HK\$9,750,000 (2002: Nil).

Details of a corporate guarantee given by the Group in favour of the minority shareholder of a subsidiary are set out in note 33.

THE COMPANY

At 31st December, 2003, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$111,130,000 (2002: HK\$119,130,000) granted to its subsidiaries. Other than the bills discounted with recourse amounting to HK\$3,310,000 as stated above, there was no outstanding balance of banking facilities utilised by the subsidiaries at 31st December, 2003 (2002: HK\$1,540,000).

32. PLEDGE OF ASSETS

At 31st December, 2003, leasehold properties with an aggregate net book value amounting to approximately HK\$12,252,000 (2002: HK\$14,236,000) and bank deposits of approximately HK\$18,037,000 (2002: HK\$10,895,000) 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, 2003

33. RELATED PARTY TRANSACTIONS

	Note	A related company (note 2)	
		2003 HK\$'000	2002 HK\$'000
Sales of goods	1	–	2,167

Notes:

1. These transactions were carried out at prices agreed by the parties concerned.
2. The related company is a wholly owned subsidiary of the then minority shareholder of a subsidiary.

In addition to the above, at the balance sheet dates, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (approximately 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 (approximately HK\$1,887,000) granted to this subsidiary. No such facilities were utilised by the aforesaid subsidiary as at 31st December, 2002 and 2003.

34. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2003 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

34. PRINCIPAL SUBSIDIARIES (Continued)

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	
Arts 1000 Optical Company Limited	British Virgin Islands/PRC	US\$1	–	100%	Retailing of optical frames
Arts Optical Company Limited	Hong Kong	HK\$1,000,000	–	100%	Trading in optical frames
Sin Dak Industrial Limited	Hong Kong	HK\$40,000	–	100%	Property holding
Eyeconcept Limited (Formerly known as Fone 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, 2003 or at any time during the year.