1. BASIS OF PREPARATION

a) Principal activities

The principal activity of the Company is investment holding. During the year, the Group's principal activities are the design, manufacture and sale of optical products.

b) Going concern concept

The financial statements have been prepared by the directors with due care on a going concern basis, notwithstanding the fact that the Group had net loss of approximately HK$7,054,000 (2002: net profit of approximately HK$10,141,000) for the year and net liabilities of HK$60,035,000 (2002: HK$89,942,000) as at 31 December 2003. The validity of the going concern basis for the preparation of the financial statements depends upon future profitable operations of the Group and the adequate funds being available to the Group. In the opinion of the directors, the Group could be able to obtain adequate funds to carry on its business as a going concern and to pay for debts as and when they fall due in the foreseeable future. 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.

c) Group financial statements

The Group financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. 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 intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

SSAP 12 (Revised) "Income Taxes" ("SSAP 12 (Revised)") is effective for the first time for the current year's financial statements. SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior periods, deferred tax is provided using the income statement 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. SSAP 12 (Revised) requires the adoption of the 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.

The retrospective adoption of the revised standard has not resulted in any significant effect on the financial statements in the prior periods and, accordingly, no prior periods adjustment has been made.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants and the disclosure requirements of the Companies Ordinance. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain properties. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the principal accounting policies adopted by the Group is set out below.

a) Revenue recognition

i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed;

ii) Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal amounts outstanding and the interest rates applicable;

iii) Management fee is recognised when the services are rendered; and

iv) Dividend income is recognised when the shareholders' rights to receive payment is established.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

b) Borrowing costs

Borrowing costs are interests and other costs incurred in connection with the borrowings of funds. The borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

c) Negative goodwill

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

– for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and

– for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

d) Property, plant and equipment

Property, plant and equipment other than other properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Land and buildings held for own use are stated in the balance sheet at their revalued amount, being their open market value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Changes arising on the revaluation of land and buildings held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of that same asset; and

– when a surplus arises on revaluation, it will be credited to the income statement, if and to the extent that a deficit on revaluation in respect of that same asset, had previously been charged to the income statement.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Company.

The gain or loss on disposal of property, plant and equipment other than other properties is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

e) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

f) Depreciation

Depreciation is not provided for freehold land. Property, plant and equipment are depreciated at rates sufficient to write off their cost/valuation less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land	Over the lease term
Buildings	Over the lease term
Plant and machinery	6.67% – 10%
Furniture and fixtures	10%
Motor vehicles	20%

g) Impairment of assets

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

– property, plant and equipment (other than properties carried at revalued amounts); and

– investments in subsidiaries, associates and joint ventures (except for those accounted for at fair value).

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

i) Calculation of recoverable amount

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

g) Impairment of assets (cont'd)

ii) Reversals of impairment losses

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

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

h) Subsidiaries

A subsidiary is a company in which the Group or 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. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries in the balance sheet are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted to the extent of dividends received and receivable.

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

i) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

i) Jointly controlled entity

Jointly controlled entity is a contractual arrangement that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

Investment in jointly controlled entity is stated at cost less impairment losses unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise. The results of jointly controlled entity are accounted for on the basis of dividends received and receivable.

Interests in a jointly controlled entity is accounted for in the consolidated financial statements using the equity method.

ii) Jointly controlled assets

A jointly controlled asset is a joint venture that does not involve the establishment of a separate entity but involves the joint control and often the joint ownership by the venturers of one or more assets contributed to or acquired and dedicated for the purpose of the joint venture. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.

The Group's or the Company's share of the jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements and classified according to the nature of the relevant item. Liabilities and expenses which the Group or the Company has incurred in respect of its interest in the jointly controlled assets are accounted for on an accrual basis.

Income from the sale or use of its share of the output of jointly controlled assets together with its share of any expenses incurred by jointly controlled assets is recognised when it is probable that the economic benefits associated with the transaction will flow to/from the Group or the Company.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

i) Joint ventures (cont'd)

iii) Jointly controlled operation

A jointly controlled operation is a joint venture involving the use of the assets and other resources of the venturers without the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers. Assets remain under the ownership and control of each venturer. Each venturer also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. Revenue and expenses incurred in common are shared by the venturers according to the contractual agreement.

Assets that the Group or the Company controls and liabilities that it incurs in relation to jointly controlled operations are recognised in the Group's or the Company's balance sheet on an accrual basis and classified according to the nature of the item. The Group's or the Company's share of the income that it earns from a jointly controlled operation together with expenses that it incurs are included in the Group's or the Company's income statement when it is probable that economic benefits associated with the transactions will flow to/from the Group or the Company.

j) Associates

An associate is a company in which the Group or the Company has significant influence and which is neither a subsidiary nor a joint venture of the Group or the Company.

The investments in associates are stated at cost less provision, if necessary, for any impairment loss, such provision being determined for each associate individually. The results of associates are accounted for to the extent of dividends received and receivable.

The investments in associates are accounted for in the consolidated balance sheet under the equity method whereby the investments are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's or the Company's share of net assets of the associates. The results of the associates are accounted for in the consolidated income statement to the extent of the Group's or the Company's share of the associates' results of operations.

k) Related parties

Two 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.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a weighted average basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

m) Trade receivable

Provision is made against trade receivable to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

n) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the investment and advance.

o) Provisions and Contingent Liabilities

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

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

p) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

q) Translation of foreign currencies

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The financial statements of subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences arising are dealt with as movement in exchange fluctuation reserves.

r) 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.

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.

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

r) Employee benefits (cont'd)

Employment Ordinance long service payments (cont'd)

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 income statement 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 income statement 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.

Notes to the Financial Statements (cont'd)

31 December 2003

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

s) Segment reporting

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

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

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

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

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

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.

4. SEGMENT INFORMATION (cont'd)

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.

Geographical segments

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

	United States of America		Europe		Hong Kong		Mainland PRC		Others		Eliminations		Consolidated	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Segment revenue:														
Sales to external customers	118,149	129,005	48,656	72,742	4,747	3,357	9,259	20,877	11,425	16,116	–	–	192,236	242,097
Other segment information:														
Segment assets	32,404	35,842	11,541	11,838	38,025	25,802	132,763	157,068	3,249	5,173	–	–	217,982	235,723
Interests in associates	161	161	–	–	(9,376)	(7,050)	44,796	37,788	–	(5)	–	–	35,581	30,894
													253,563	266,617
Capital expenditure	–	–	–	–	136	583	917	2,626	–	–	–	–	1,053	3,209

5. TURNOVER

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

6. OTHER REVENUE

	2003 HK$'000	2002 HK$'000
Bank interest income	71	38
Management fee received from an associate	2,346	3,200
Sales of obsolete inventories	390	860
Gain on disposal of property, plant and equipment	81	–
Others	350	–
	3,238	4,098

7. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

(Loss)/profit from operating activities is stated after crediting and charging the following:

	2003 HK$'000	2002 HK$'000
Crediting		
Exchange gains, net	–	699
Realisation of exchange reserve upon the deregistration of subsidiaries	–	1,001
Charging		
Cost of inventories*	175,652	194,801
Depreciation	14,068	14,900
Minimum lease payments under operating leases in respect of land and buildings	1,514	3,093
Staff costs (including directors' remuneration – note 10):		
Wages and salaries	53,329	63,197
Pension contributions	812	1,192
Less: Forfeited contributions	(393)	(641)
Net pension contributions	419	551
	53,748	63,748
Exchange loss, net	192	–
Auditors' remuneration		
– Current year	550	1,300
– Under/(over)provision	65	(100)
	615	1,200
Provision against inventories	7,168	1,612
Provision for doubtful debts	5,074	373
Loss on disposal of property, plant and equipment	–	1,532

7. (LOSS)/PROFIT FROM OPERATING ACTIVITIES (cont'd)

* The cost of inventories includes HK$51,775,000 (2002: HK$50,800,000) 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 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).

8. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within five years	–	2,654
Interest on loan from a shareholder	13,549	12,957
Interest on promissory note	1,527	–
	15,076	15,611

9. GAIN ARISING FROM GROUP REORGANISATION

i) On 3 September 2003, the Company entered into a conditional Share Sale Agreement, pursuant to which the Company conditionally agreed to sell to Probest Holdings Inc. ("Probest") 30% of the entire issued capital in Profitown Investment Corporation ("Profitown"), 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 Profitown to the Company at an aggregate consideration of HK$3 million. The agreement was completed on 4 November 2003. Such consideration was satisfied by Probest by offsetting an equivalent amount of HK$3 million outstanding loan due to Probest by the Company.

ii) On 3 September 2003, the Company entered into a Loan Settlement Agreement relating to the remaining principal of the loan of HK$247 million (the "Loan") due to Probest, 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 of HK$26,506,000 accruing thereon since 1 March 2002 up to the effective date of the Loan Settlement Agreement which fell on 4 November 2003. The Company agreed to apply the net proceeds from the Open Offer to repay HK$37 million of the Loan due to Probest.

iii) Pursuant to the Loan Settlement Agreement, the remaining principal balance of HK$163 million due by the Company to Probest was restructured on terms which were governed by a promissory note as detailed in note 26 to the financial statements.

Further details of the above Share Sale Agreement, the Loan Settlement Agreement, the Open Offer and the issuance of the promissory note are set out in a joint announcement dated 3 September 2003, which superseded those transactions as referred to in the previous announcement dated 7 April 2003.

After completion of the above transactions with Probest, a net gain of HK$29,638,000 was earned and crediting to the consolidated income statement for the year ended 31 December 2003.

Notes to

the Financial Statements (cont'd)

31 December 2003

10. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK$'000	HK$'000
Directors' fees:		
Executive	–	–
Independent non-executive	503	888
	503	888
Other emoluments:		
Executive:		
Salaries and other benefits	2,591	3,819
Bonuses	–	300
Compensation for loss of office	1,846	900
Pension contributions	71	172
Incentive paid on joining	–	–
Independent non-executive	–	–
	4,508	5,191
	5,011	6,079

Compensation for loss of office was paid and accrued by the following parties:

	2003	2002
	HK$'000	HK$'000
The Company	1,846	900
The Company's subsidiaries	–	–
Others	–	–
	1,846	900

No directors receive remuneration from the Company's associates in respect of their services to the Company and its subsidiaries (2002: Nil).

10. DIRECTORS' REMUNERATION (cont'd)

The remuneration of the directors fell within the following bands:

	Number of directors 2003	2002
Nil – HK$1,000,000	9	10
HK$1,000,001 – HK$1,500,000	1	2
HK$1,500,001 – HK$2,000,000	–	1
HK$2,000,001 – HK$2,500,000	–	–
HK$2,500,001 – HK$3,000,000	–	–
HK$3,000,001 – HK$3,500,000	1	–
	11	13

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2002: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: three) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2002: two) non-director, highest paid employees are as follows:

	Group 2003 HK$'000	2002 HK$'000
Salaries, allowances and benefits in kind	1,807	1,437
Bonuses	–	69
Compensation for loss of office	–	489
Pension contributions	62	27
	1,869	2,022

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

	Number of employees 2003	2002
Nil – HK$1,000,000	3	1
HK$1,000,001 – HK$1,500,000	–	1
	3	2

Notes to
the Financial Statements (cont'd)
31 December 2003

12. TAXATION

No Hong Kong profits tax and overseas tax has been provided in the financial statements as the companies within the Group have either accumulated tax losses brought forward, which exceed the estimated assessable profits for the year, or no assessable profits for the year.

The charge for the year can be reconciled to the (loss)/profit per the consolidated income statement as follows:

	2003 HK$'000	2002 HK$'000
(Loss)/profit before taxation	(8,401)	10,763
Calculated at a taxation rate of 17.5% (2002: 16%)	(1,470)	1,722
Effect of different taxation rates in other countries	(1,156)	(259)
Income not subject to taxation	(4,895)	(6,624)
Expenses not deductible for taxation purposes	8,816	11,942
Unrecognised tax losses	(1,484)	(7,253)
Utilisation of previously unrecognised tax losses	340	1,472
Taxation charge	151	1,000

The tax charge for the year represents the share of tax of associates located outside Hong Kong of HK$151,000 (2002: HK$1,000,000).

13. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a profit of approximately HK$34,535,000 (2002: loss of HK$60,530,000) which has been dealt with in the financial statements of the Company.

14. DIVIDENDS

The directors do not recommend the payment of any dividend for the year (2002: Nil).

15. (LOSS)/EARNINGS PER SHARE

a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders for the year of HK$7,054,000 (2002: net profit of HK$10,141,000) and the weighted average of 676,340,153 (2002: 198,957,905 as restated due to a share consolidation of every ten shares which was completed on 29 July 2003) ordinary shares in issue during the year.

b) Diluted

Diluted (loss)/earnings per share for the years ended 31 December 2003 and 2002 have not been disclosed as no dilutive events existed during these years.

16. PROPERTY, PLANT AND EQUIPMENT

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 1/1/2003	68,900	165,602	62,950	2,890	300,342
Additions	–	786	267	–	1,053
Disposals	–	(23)	(188)	(369)	(580)
At 31/12/2003	68,900	166,365	63,029	2,521	300,815
Accumulated depreciation and impairment					
At 1/1/2003	14,800	124,901	37,566	2,715	179,982
Charge for the year	3,089	5,361	5,530	88	14,068
Disposals	–	(17)	(139)	(370)	(526)
At 31/12/2003	17,889	130,245	42,957	2,433	193,524
Net book value					
At 31/12/2003	51,011	36,120	20,072	88	107,291
At 31/12/2002	54,100	40,701	25,384	175	120,360
An analysis of cost or valuation					
At cost	–	166,365	63,029	2,521	231,915
At 1998 valuation	14,800	–	–	–	14,800
At 2002 valuation	54,100	–	–	–	54,100
	68,900	166,365	63,029	2,521	300,815

Notes to
the Financial Statements (cont'd)
31 December 2003

16. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The Group's leasehold land and buildings are held on the medium term and are situated in Mainland PRC.

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 2003 at HK$51,100,000 (2002: HK$54,100,000).

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$67,103,000 (2002: HK$69,830,000).

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$51,011,000 at 31 December 2003 (2002: HK$54,100,000).

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	1,086	69,488
Less: Impairment loss	(1,081)	(69,488)
	5	–

17. INVESTMENTS IN SUBSIDIARIES (cont'd)

The following is a list of the principal subsidiaries at 31 December 2003:

Name	Country/ place of incorporation/ establishment and operation	Principal activities	Nominal value of issued ordinary/ registered share capital	Interest held Directly	Interest held Indirectly
Profitown Investment Corporation	The British Virgin Islands	Investment holding	US$1,000	70%	–
Dongguan De Bao Optical Co., Ltd. ("De Bao")	The PRC	Manufacture of multi-coating lenses	HK$58,550,910 (Note i)	–	50% (Note iii)
Dongguan Hamwell Glasses Co., Ltd. ("Dongguan Hamwell")	The PRC	Manufacture of optical products	HK$62,504,800 (Note ii)	–	83%
Global Origin Limited	Hong Kong	Investment holding	HK$75,000,000	–	90%
Profit Trend International Limited	Hong Kong	Investment holding	HK$1,000,000	–	50% (Note iii)
Prowin Commercial & Industrial Limited	Hong Kong	Property holding in the PRC	HK$2	–	100%
Shenzhen Henggang Swank Optical Industrial Co., Ltd. ("Henggang") (Note iv)	The PRC	Manufacture of optical products	US$30,000,000	–	81%
Swank International Optical Company Limited	Hong Kong	Trading of optical products	HK$100,000	–	100%

Notes to
the Financial Statements (cont'd)
31 December 2003

17. INVESTMENTS 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 approximately HK$58,551,000 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 the 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 2003.

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$2,830,000 (2002: HK$3,134,000) 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.

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Unlisted shares, at cost	–	–	–	181,119
Share of net assets	143,592	142,016	–	–
Less: Impairment loss	(113,016)	(113,016)	–	(151,328)
	30,576	29,000	–	29,791
Amounts due from associates	5,005	1,894	–	40
	35,581	30,894	–	29,831

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

18. INTERESTS IN ASSOCIATES (cont'd)

b) The following is a list of the principal associates at 31 December 2003:

Name	Business structure	Country/ place of incorporation/ establishment and operations	Principal activities	Percentage of interest in ownership/ voting power held indirectly
Dongguan Yueheng Optical Co., Ltd. *(Note)*	Corporate	The PRC	Manufacture of optical lenses	50%
Dongguan Yueheng Optical (HK) Co. Limited	Corporate	Hong Kong	Trading of optical products	50%
Dongguan Yueheng Optical (BVI) Company Limited	Corporate	The British Virgin Islands	Financial servicing and marketing of optical products	50%

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 as 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.

Note: Dongguan Yueheng Optical Co., Ltd. is a sino-foreign owned joint venture enterprise under the PRC law.

19. OTHER RECEIVABLES

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Other receivables	96,339	96,339	–	68,286
Less: Impairment loss	(96,339)	(96,339)	–	(68,286)
	–	–	–	–

Other receivables represent the amounts owed by Hanmy (Holding) Limited and its related companies (collectively "Hanmy") to the Group. The Group has commenced legal proceedings against Hanmy for recovery of the amounts due. The Group has fully provided for these debts as in the opinion of the directors, it is uncertain whether the debts will be recovered following the conclusion of the legal proceedings.

20. TRADE RECEIVABLES

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

	Group	
	2003	2002
	HK$'000	HK$'000
Current to 30 days overdue	42,703	47,650
31 to 60 days overdue	3,479	2,595
61 to 90 days overdue	444	2,238
More than 90 days overdue	4	1,381
	46,630	53,864

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

21. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	13,014	20,764
Work in progress	7,202	6,856
Finished goods	1,443	4,391
	21,659	32,011

As 31 December 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK$21,659,000 (2002: HK$32,011,000).

22. AMOUNTS DUE FROM/(TO) A SUBSIDIARY

The amounts are unsecured, interest free and repayable on demand.

23. AMOUNT DUE TO A SHAREHOLDER, PROBEST

On 3 September 2003, Probest entered into the Share Sale Agreement with the Company. The amount due to Probest of HK$43,558,000 represents the 30% of the shareholder's loan, which is unsecured, interest bearing at a rate per annum equivalent to 1% over Hong Kong prime rate and has no fixed repayment terms. Analysis of the amount due to Probest is as follows:

	Group		Company	
	2003	2002	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000
Loan interest repayable on demand	–	12,957	–	12,957
Loan principal repayable:–				
Within one year or on demand	–	62,500	–	62,500
In the second year	–	50,000	–	50,000
In the third to fifth year, inclusive	–	137,500	–	137,500
No fixed repayment terms	43,558	–	–	–
	43,558	250,000	–	250,000
Amount due to Probest	43,558	262,957	–	262,957
Portion classified as current liabilities	–	(75,457)	–	(75,457)
Non-current portion	43,558	187,500	–	187,500

24. AMOUNTS DUE TO ASSOCIATES

The amounts are unsecured, interest free and repayable on demand.

25. TRADE PAYABLES

The ageing analysis of the Group's trade payables, based on payment due date, is as follows:

	2003 HK$'000	2002 HK$'000
Current to 30 days overdue	24,205	17,746
31 to 60 days overdue	602	1,497
61 to 90 days overdue	210	242
More than 90 days overdue	975	1,473
	25,992	20,958

26. PROMISSORY NOTE

	Group and Company	
	2003 HK$'000	2002 HK$'000
Interest repayable on demand	1,527	–
Principal repayable:		
Within 1 year	25,500	–
Payable after 1 year but within 2 years	62,500	–
After 2 years but within 5 years	75,000	–
Total	164,527	–
Amount due to Probest under Promissory Note	164,527	–
Portion classified as current liabilities	(27,027)	–
Non-current portion	137,500	–

The Promissory Note payable to Probest is unsecured with maturity date on 1 June 2006 and bearing interest at the rate per annum equivalent to 1% over the prevailing Hong Kong prime rate.

27. PROVISION FOR LONG SERVICE PAYMENTS

Group

	Long service payments HK$'000
At 1 January 2003	712
Amount utilised during the year	(222)
At 31 December 2003	490
Portion classified as current liabilities	–
Non-current portion	490

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(r) 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.

28. DEFERRED TAXATION

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	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Tax losses	129,931	126,000	33,902	36,000

The revaluation arising from the revaluation of the Group's leasehold land and buildings does not constitute a temporary 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.

29. ISSUED CAPITAL

Shares

	2003 HK$'000	2002 HK$'000
Authorised:		
300,000,000,000 ordinary shares of HK$0.01 each (2002: 15,000,000,000 ordinary shares of HK$0.20 each)	3,000,000	3,000,000
Issued and fully paid:		
3,124,862,734 ordinary shares of HK$0.01 each (2002: 2,232,044,805 ordinary shares of HK$0.20 each)	31,249	446,409

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) Capital Reorganisation

Pursuant to the Company's circular dated 7 April 2003, the Company passed a special resolution on 2 May 2003 to reorganise the capital structure of the Company. The implementation of the capital reorganisation involved the following procedures:

i) 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 was set off, to the extent permitted and subject to such conditions as imposed by the High Court of Hong Kong, against the accumulated losses of the Company to the extent of approximately HK$102,377,000.

In accordance with the judgement of the capital reduction of the Company approved by the High Count on 29 July 2003, the Company provided an undertaking that in the event of its making any future recoveries in respect of the assets of which provision for diminution in value or depreciation was made in the accounts of the Company for the accounting periods up to and including the period ending on 31 December 2002, beyond their written down value in the Company's audited accounts as at 31 December 2002, all such recoveries beyond that written down value up to an amount of approximately HK$341,800,000 ("the limit"), was credited to a special capital reserve in the accounting records of the Company (the "Special Capital Reserve") and that so long as there shall remain outstanding any debt of or claim against the Company which, if the date on which the reduction of capital becomes effective ("the effective date") was the date of the commencement of the winding up of the Company, would be admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits for the purposes of Section 79B of the Companies Ordinance and shall (for so long as the Company shall remain a listed company) be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Companies Ordinance, or any statutory re-enactments or modifications thereof provided that

29. ISSUED CAPITAL (cont'd)

(1) the Company shall be at liberty to apply any amounts standing to the credit of the Special Capital Reserve for the same purposes as a share premium account may be applied;

(2) the limit in respect of the Special Capital Reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the capitalisation of distributable profits;

(3) the limit in respect of the Special Capital Reserve may be reduced upon the disposal or other realisation, after the effective date, of any of the assets by the amount of the provision made in relation to such asset as at 31 December 2002 less such amount (if any) as is credited to the Special Capital Reserve as a result of such disposal or realisation; and

(4) in the event that the amount standing to the credit of the Special Capital Reserve exceeds the limit thereof after any reduction of such limit pursuant to provisos (2) and/or (3) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

ii) 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;

iii) The authorised share capital of the Company was 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

iv) A consolidation of every ten shares of the Company of HK$0.001 each created by the capital reduction in (i) and (ii) above into one share of HK$0.01 each. Accordingly, 223,204,481 new shares of HK$0.01 each was credited as fully paid and additional capital reduction of HK$341,800,000, in addition to (i), was transferred to a special reserve which is not distributable.

Further details of the capital reorganisation, which was completed on 29 July 2003, are also set out in the circular dated 7 April 2003.

b) On 17 October 2003, the Company passed a resolution to raise not less than HK$37.7 million before expenses by way of an Open Offer for issue of shares on the basis of 13 offer shares at HK0.013 each for every existing share of HK$0.01 each in the issued capital of the Company held by the qualifying shareholders on the record date. Out of the net proceeds from the Open Offer, approximately HK$37 million had been applied to repay partly the then loan due to Probest.

Notes to
the Financial Statements (cont'd)

31 December 2003

29. ISSUED CAPITAL (cont'd)

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

	Number of shares in issue	Share capital HK$'000
At 1 January 2003	2,232,044,805	446,409
Issue of new shares before Capital Reorganisation	5	–
Capital Reorganisation (a)	(2,008,840,329)	(444,177)
Issue of shares by the Open Offer (b)	2,901,658,253	29,017
At 31 December 2003	3,124,862,734	31,249

30. SHARE OPTION SCHEME

The Company operates a share option scheme (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 in 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.

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.

30. SHARE OPTION SCHEME (cont'd)

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.

Pursuant to the Scheme, the Company granted 5 share options to an employee with an exercise period ranging from 12 June 2003 to 11 July 2003. These 5 share options were exercised at an exercise price of HK$0.20 per share on 12 June 2003. The Stock Exchange closing price of the Company's shares on the trading day immediately prior to the date of the grant of the share options was HK$0.01. The Stock Exchange closing price of the Company's shares at the date of the exercise of the share options was HK$0.01. The Board considers that it is not appropriate to state the theoretical value of the options granted during the year under the Scheme. The Board believes that any calculation of the value of share options may not be meaningful as the exercise price is greater than the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options and also the share options were exercised at the same day of the grant of the options.

31. 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 shareholders' equity in the financial statements.

31. RESERVES (cont'd)

b) Company

	Share premium account HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002	715,132	–	(1,238,983)	(523,851)
Net loss for the year	–	–	(60,530)	(60,530)
At 31 December 2002 and at 1 January 2003	715,132	–	(1,299,513)	(584,381)
Issue of new shares	8,704	–	–	8,704
Expenses for issue of new share	(374)	–	–	(374)
Capital Reorganisation *(note 29(a))*	–	341,800	102,377	444,177
Net profit for the year	–	–	34,535	34,535
At 31 December 2003	723,462	341,800	(1,162,601)	(97,339)

32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

i) During the year, the accrued interest due to a shareholder, Probest, of HK$26,506,000 was waived by Probest, out of which HK$12,957,000 was included in other payables and accruals brought forward from the prior year.

ii) Pursuant to the Company's Capital Reorganisation, which was completed on 29 July 2003, as detailed in note 29(a) to the financial statements the then issued share capital was consolidated and reduced and the gain of approximately HK$444,177,000 was transferred to a non-distributable special reserve of approximately HK$341,800,000 and to write off accumulated loss to the extent of approximately HK$102,377,000.

iii) Group reorganisation transactions with Probest as disclosed in note 9 to the financial statements.

33. OPERATING LEASE COMMITMENTS

At 31 December 2003, the Group and the Company had commitments for future minimum lease under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Within one year	1,004	1,414	912	1,254
In the second to fifth year inclusive	–	958	–	912
	1,004	2,372	912	2,166

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.

34. 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 2003 HK$'000	Group 2002 HK$'000
Sales of finished goods to associates	(i)	8,390	19,373
Purchases of raw materials and finished goods from associates	(ii)	12,755	24,248
Management fee income from an associate	(iii)	2,346	3,200
Amount due to a shareholder, Probest (note 23)		43,558	250,000
Promissory note payable to Probest (note 26)		163,000	–
Loan principal and interests waived by Probest (note 9(ii))		73,506	–
Disposal of 30% equity interests in Profitown to Probest (note 9(i))		3,000	–
Interest expense charged by a shareholder, Probest		15,076	12,957
Annual rental to a joint venture partner	(iv)	2,830	3,134

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 associate.

iv) The annual rental was paid to a joint venture partner in the PRC and accordingly the Group is entitled to all of the profits and bears all of the losses of Henggang.

35. POST BALANCE SHEET EVENTS

Change of shareholdings in the Company

On 16 December 2003, Probest entered into a sale and purchase agreement with Rich Global Investments Limited ("Rich Global") and Kingsway Lion Spur Technology Limited ("Kingsway Lion"), both being wholly-owned subsidiaries of SW Kingsway Capital Holdings Limited, pursuant to which, Probest agreed to sell and Rich Global and Kingsway Lion agreed to purchase a total of 593,724,000 shares, representing approximately 19% of the entire issued share capital of the Company, at a total consideration of approximately HK$15,971,000 or approximately HK$0.0269 per share. Out of the 593,724,000 shares, 312,486,000 shares, representing approximately 10% of the entire current issued share capital of the Company, were purchased by Rich Global and the transaction was completed on 31 December 2003. The balance of the 281,238,000 shares, representing approximately 9% of the entire current issued share capital of the Company, were purchased by Kingsway Lion and the transaction was subsequently completed on 2 January 2004.

36. PARENT ENTERPRISES

The directors consider Probest to be its immediate parent enterprise and Winspark Venture Limited, of which Probest is subsidiary, to be its ultimate parent enterprise. Both companies are incorporated in the British Virgin Islands.

37. COMPARATIVE FIGURES

With a review of financial statements' presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.