

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

During the year, the Group was involved in the design, manufacture, distribution and retail of optical products.

In the opinion of the directors, the ultimate holding company is KFL Holdings Limited, which is incorporated in the British Virgin Islands.

2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised SSAP 12 "Income tax" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax). The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future.
- a deferred tax liability has been recognised on the revaluation of the Company's/Group's land and buildings.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis.
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 31 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 31 to the financial statements.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

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

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

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

Fixed assets and depreciation

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

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Leasehold land and buildings	Over the shorter of the remaining lease terms or 2%
Leasehold improvements	5% to 20%
Plant and machinery	15% to 25%
Tools and moulds	15% to 25%
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Intangible assets

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Web platform

A web platform for product development, workflow automation and inventory management, which supports the enterprise resources planning system, is stated at cost, including associated consultancy charges, and amortised on the straight-line basis over its estimated useful life of five years, commencing from the date when the web platform is put into use.

Trademarks

Trademarks for intellectual property rights, are stated at cost, including registration fees and associated legal costs, and amortised on the straight-line basis over their estimated useful lives up to 10 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Long term investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Other long term investments in listed equity securities, intended to be held on a long term basis, are stated at their fair values at the balance sheet date, on an individual investment basis.

The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Short term investments

Short term investments in listed and unlisted equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. Listed securities are stated at their fair values based on their quoted market prices at the balance sheet date. Unlisted securities are stated at their fair values based on the directors' valuation, or where appropriate, the proceeds on disposal after the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) from the rendering of subcontracting services, on completion of the transactions;
- (d) management fee income, when services are rendered; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Pension scheme and other post-employment benefits

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

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

The employees of the Group's subsidiaries which operate outside Hong Kong and the PRC are covered by their respective local arrangements. In particular, certain of the Group's employees in Italy are entitled to post-employment benefits immediately upon their departure under any circumstances. The provision for such post-employment benefits is based on the remuneration earned by the employees for their lengths of service to the Group up to the balance sheet date.

Share option scheme

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

4. SEGMENT INFORMATION

Segment information is presented by way of geographical segments. No further business segment analysis of the Group's revenues and results is presented as all the Group's revenue and results are generated from vertically integrated activities which include the design, manufacture, distribution and retailing of optical products.

In determining the Group's geographical segments, revenues and results 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.

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

In prior years, certain sales to North America were classified as sales to Europe based on information regarding the locations of the ultimate customers provided by certain distributors in North America. The directors consider that it is more appropriate to classify such sales as sales to the North America region based on invoices rendered to the distributors in North America in the current year. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

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4. SEGMENT INFORMATION *(continued)*

Geographical segments

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

Group

	North America		PRC		Asia Pacific (including Hong Kong)		Europe		Corporate		Others		Consolidated	
	Year ended 31 December 2003 HK\$'000	Period ended 31 December 2002 HK\$'000 (restated)	Year ended 31 December 2003 HK\$'000	Period ended 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period ended 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period ended 31 December 2002 HK\$'000 (restated)	Year ended 31 December 2003 HK\$'000	Period ended 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period ended 31 December 2002 HK\$'000	Year ended 31 December 2003 HK\$'000	Period ended 31 December 2002 HK\$'000 (restated)
Segment revenue:														
Sales to external customers	482,871	320,216	291,797	185,701	122,534	83,933	337,622	295,786	1,056	—	1,852	3,117	1,237,732	888,753
Other revenue	3,695	1,812	2,947	950	1,590	1,763	6,500	25,648	775	418	2	47	15,509	30,638
Total	486,566	322,028	294,744	186,651	124,124	85,696	344,122	321,434	1,831	418	1,854	3,164	1,253,241	919,391
Segment results	143,467	72,516	68,878	46,396	(1,161)	17,977	(16,278)	(11,092)	1,415	5,278	792	1,252	197,113	132,327
Interest and dividend income													44,109	32,949
Profit from operating activities													241,222	165,276
Finance costs													(39,089)	(46,541)
Profit before tax													202,133	118,735
Tax													(21,017)	(17,275)
Profit before minority interests													181,116	101,460
Minority interests													494	(457)
Net profit from ordinary activities attributable to shareholders													181,610	101,003

	North America		PRC		Asia Pacific (including Hong Kong)		Europe		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment assets	134,398	133,015	1,054,604	1,067,418	1,875,081	1,329,628	650,881	453,693	3,714,964	2,983,754
Unallocated assets									1,244	4,503
Total assets									3,716,208	2,988,257
Segment liabilities	12,453	18,344	57,958	47,303	94,223	78,361	257,491	142,117	422,125	286,125
Unallocated liabilities									1,250,529	1,241,333
Total liabilities									1,672,654	1,527,458
Other segment information:										
Depreciation	396	1,133	45,186	29,194	18,112	13,563	11,157	17,654	74,851	61,544
Amortisation of intangible assets	—	—	—	—	2,873	969	2,676	6,344	5,549	7,313
Amortisation of goodwill	3,137	2,352	—	—	—	—	7,671	6,376	10,808	8,728
Provision for doubtful debts	—	938	571	27	11,446	5,885	—	5,293	12,017	12,143
Provision for slow moving and obsolete inventories	—	1,594	—	—	14,753	406	—	—	14,753	2,000
Write back of provision for slow moving and obsolete inventories	(4,230)	—	—	(7,626)	—	—	—	(4,776)	(4,230)	(12,402)
Capital expenditure	140	3,077	103,711	110,263	18,814	21,002	42,357	19,126	165,022	153,468

5. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover, other revenue and gains is as follows:

	Note	Year ended 31 December 2003 HK\$'000	Period from 1 April 2002 to 31 December 2002 HK\$'000
Turnover			
Sale of goods		1,237,732	888,753
Other revenue			
Interest income		43,866	32,704
Dividend income from investments		243	245
Subcontracting income		3,270	1,617
Management fee income		825	250
Others		9,162	14,568
		57,366	49,384
Gains			
Gain on disposal of subsidiaries	35(c)	–	12,897
Gain on disposal of a short term listed investment		–	2
Waiver of trade payables		2,252	1,304
		2,252	14,203
Other revenue and gains		59,618	63,587

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6. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	Year ended 31 December 2003 HK\$'000	Period from 1 April 2002 to 31 December 2002 HK\$'000
Cost of inventories sold	(i)	532,884	354,185
Auditors' remuneration		4,747	6,040
Depreciation	14	74,851	61,544
Minimum lease payments under operating leases on land and buildings	(i)	23,067	27,045
Amortisation of intangible assets	(ii), 15	5,549	7,313
Goodwill:			
Amortisation of goodwill	(ii), 16	10,808	8,728
Impairment arising during the year	(ii), 16	12,897	—
Staff costs (excluding directors' remuneration — note 8):			
Wages and salaries	(i)	184,118	193,275
Pension scheme contributions (defined contribution scheme)		3,263	3,245
Less: Forfeited contributions	(iii)	(158)	(272)
Net pension scheme contributions		3,105	2,973
Restructuring costs	(iv)	—	10,706
Impairment of fixed assets	(ii), 14	4,905	—
Provision for doubtful debts		12,017	12,143
Provision for slow moving and obsolete inventories		14,753	2,000
Write back of provision for slow moving and obsolete inventories		(4,230)	(12,402)
Exchange losses, net		10,548	1,156
Loss on disposal of intangible assets		—	926
Loss on disposal of fixed assets		67	1,404
Unrealised gain on revaluation of short term listed investment		(629)	—
Unrealised loss on revaluation of long term listed investment		43	—
		43	—

Notes:

- (i) Cost of sales includes HK\$93,164,000 (period from 1 April 2002 to 31 December 2002: HK\$94,864,000) relating to staff costs, depreciation and operating lease rentals, which is also included in the respective total amounts disclosed separately above for each of these expenses.
- (ii) Amortisation of intangible assets and goodwill, impairment of fixed assets and goodwill for the year are included in "Other operating expenses, net" on the face of the profit and loss account.
- (iii) At 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (period from 1 April 2002 to 31 December 2002: HK\$26,000).
- (iv) Restructuring costs, comprising compensation for dismissal of workers and staff, removal costs and restructuring advisory fee, were incurred for the restructuring of the Group's distribution business in Europe and North America during the prior year.

7. FINANCE COSTS

	Group	
	Year ended 31 December 2003 HK\$'000	Period from 1 April 2002 to 31 December 2002 HK\$'000
Interest on bank loans and overdrafts wholly repayable:		
within five years	34,006	39,460
beyond five years	1,116	920
Interest on finance leases and hire purchase contracts	434	1,848
Interest on convertible notes	257	1,740
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Total interest	35,813	43,968
Bank charges	3,276	2,573
	<hr/>	<hr/>
	39,089	46,541
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8. DIRECTORS' REMUNERATION

Directors' remuneration for the year/period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	Year ended 31 December 2003 HK\$'000	Period from 1 April 2002 to 31 December 2002 HK\$'000
Executive directors:		
Fees	60	45
Other emoluments:		
Salaries, allowances and benefits in kind	12,594	8,928
Pension scheme contributions	72	54
	<hr/>	<hr/>
	12,666	8,982
	<hr/>	<hr/>
	12,726	9,027
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Non-executive directors:		
Fees	188	—
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The remuneration of all of the executive directors, amounting to HK\$12,726,000 for the current year (period from 1 April 2002 to 31 December 2002: HK\$9,027,000), was borne by the ultimate holding company, KFL Holdings Limited. The remuneration was not charged to the Group's results for the year.

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8. DIRECTORS' REMUNERATION *(continued)*

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	Year ended 31 December 2003	Period from 1 April 2002 to 31 December 2002
Nil to HK\$1,000,000	5	7
HK\$1,000,001 to HK\$1,500,000	2	4
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	—
HK\$3,000,001 to HK\$3,500,000	1	—
	11	13

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (period from 1 April 2002 to 31 December 2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the two (period from 1 April 2002 to 31 December 2002: two) non-director, highest paid employees for the year are as follows:

	Group	
	Year ended 31 December 2003 HK\$'000	Period from 1 April 2002 to 31 December 2002 HK\$'000
Salaries, allowances and benefits in kind	3,818	2,981

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	Year ended 31 December 2003 HK\$'000	Period from 1 April 2002 to 31 December 2002 HK\$'000
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	—
	2	2

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profit tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	Year ended 31 December 2003 HK\$'000	Period from 1 April 2002 to 31 December 2002 HK\$'000 (Restated)
Group:		
Current — Hong Kong		
Charge for the year	22,761	12,989
Underprovision in prior years	200	106
Current — Elsewhere		
Charge for the year	999	881
Underprovision in prior years	62	143
Deferred tax (<i>note 31</i>)	(3,005)	3,156
Total tax charge for the year	21,017	17,275

In relation to the Group's distribution operations in the PRC, the Group has made arrangements with the PRC subcontractor (note 36(b)) under which all taxes incurred in connection with these sales in the PRC are to be borne by the PRC subcontractor. The Group has also received indemnities from the PRC subcontractor for any taxes in the PRC that may be levied on the Group in connection with the activities covered by these arrangements. Accordingly, the directors consider that there is no tax payable in the PRC in respect of these distribution operations.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2003

	Hong Kong		USA		Others		Consolidated	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>233,017</u>		<u>(2,357)</u>		<u>(28,527)</u>		<u>202,133</u>	
Tax at the statutory tax rate	40,778	17.5	(825)	35.0	(8,062)	28.3	31,891	15.8
Adjustments in respect of								
current tax of previous periods	200	0.1	19	(0.8)	43	(0.1)	262	0.1
Income not subject to tax	(82,936)	(35.6)	—	—	(1,607)	5.6	(84,543)	(41.8)
Expenses not deductible for tax	57,973	24.9	215	(9.1)	4,783	(16.8)	62,971	31.2
Tax losses not recognised	4,204	1.8	610	(25.9)	5,391	(18.9)	10,205	5.0
Tax losses utilised from								
previous periods	(1,564)	(0.7)	—	—	—	—	(1,564)	(0.8)
Others	1,301	0.5	—	—	494	(1.8)	1,795	0.9
Tax charge at the Group's effective rate	<u>19,956</u>	<u>8.5</u>	<u>19</u>	<u>(0.8)</u>	<u>1,042</u>	<u>(3.7)</u>	<u>21,017</u>	<u>10.4</u>

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10. TAX *(continued)*

Group – 2002

	Hong Kong		USA		Others		Consolidated	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>192,275</u>		<u>(67,809)</u>		<u>(5,731)</u>		<u>118,735</u>	
Tax at the statutory tax rate	30,764	16.0	(23,733)	35.0	1,766	(30.8)	8,797	7.4
Adjustments in respect of								
current tax of previous periods	106	–	–	–	143	(2.5)	249	0.2
Income not subject to tax	(79,067)	(41.1)	–	–	(1,240)	21.6	(80,307)	(67.6)
Expenses not deductible for tax	58,525	30.4	–	–	4,291	(74.9)	62,816	52.9
Tax losses not recognised	6,996	3.6	23,733	(35.0)	10,558	(184.2)	41,287	34.8
Tax losses utilised from								
previous periods	(360)	(0.2)	–	–	(14,494)	252.9	(14,854)	(12.5)
Others	(713)	(0.4)	–	–	–	–	(713)	(0.6)
Tax charge at the Group's effective rate	<u>16,251</u>	<u>8.4</u>	<u>–</u>	<u>–</u>	<u>1,024</u>	<u>(17.9)</u>	<u>17,275</u>	<u>14.6</u>

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK\$5,943,000 (period from 1 April 2002 to 31 December 2002: Net profit of HK\$1,366,000).

12. DIVIDENDS

	Year ended 31 December 2003 HK\$'000	Period from 1 April 2002 to 31 December 2002 HK\$'000
Additional final dividend in respect of prior year	1,759	148
Interim — HK7.0 cents (2002: HK5.6 cents) per ordinary share	31,164	22,569
Proposed final — HK4.8 cents (2002: HK4.4 cents) per ordinary share	23,962	17,673
	<u>56,885</u>	<u>40,390</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The additional final dividend represents the additional payment of the prior year's final dividend of HK4.4 cents (period from 1 April 2002 to 31 December 2002: HK1.5 cents) per ordinary share to the new shareholders of 40,000,000 shares (period from 1 April 2002 to 31 December 2002: 9,903,500 shares) registered as members between 1 January 2003 and 26 May 2003, the date upon which members were entitled to the dividend.

13. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December 2003 HK\$'000	Period from 1 April 2002 to 31 December 2002 HK\$'000 (Restated)
Earnings		
Net profit attributable to shareholders, used in the basic earnings per share calculation	181,610	101,003
Increase in earnings arising from a saving in interest cost, net of tax (assuming the convertible notes had been converted into shares in the Company at their date of issue)	264	655
Adjusted profit attributable to shareholders used in the diluted earnings per share calculation	181,874	101,658
Number of shares		
	2003	2002
Weighted average number of ordinary shares in issue during the year/period used in basic earnings per share calculation	429,236,296	402,535,166
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all convertible notes outstanding during the year/period	1,435,050	3,563,218
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	1,115,449	—
Weighted average number of ordinary shares used in diluted earnings per share calculation	431,786,795	406,098,384

In the calculations of the diluted earnings per share in 2002, the effect of the share options outstanding during the period was not taken into account as the average market price of the Company's ordinary shares was lower than the exercise price of the share options and, accordingly, the share option has an anti-dilutive effect on the basic earnings per share for the period from 1 April 2002 to 31 December 2002.

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14. FIXED ASSETS

Group

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Tools and moulds	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:							
At beginning of year	597,221	137,579	251,252	34,384	102,717	16,821	1,139,974
Additions	39,076	41,546	28,935	4,161	12,437	2,918	129,073
Acquisition of subsidiaries (note 35(b))	—	2,513	936	7,787	18,496	83	29,815
Disposals	—	(6)	(16,099)	(3,103)	(3,751)	(699)	(23,658)
Exchange realignment	5,554	(2)	4,156	2,813	2,772	89	15,382
At 31 December 2003	<u>641,851</u>	<u>181,630</u>	<u>269,180</u>	<u>46,042</u>	<u>132,671</u>	<u>19,212</u>	<u>1,290,586</u>
Analysis of cost or valuation:							
At cost	572,551	181,630	269,180	46,042	132,671	19,212	1,221,286
At 31 March 1993 valuation	69,300	—	—	—	—	—	69,300
	<u>641,851</u>	<u>181,630</u>	<u>269,180</u>	<u>46,042</u>	<u>132,671</u>	<u>19,212</u>	<u>1,290,586</u>
Accumulated depreciation and impairment:							
At beginning of year	52,557	44,867	147,405	26,113	72,049	14,572	357,563
Provided during the year	10,745	20,763	23,813	4,088	13,703	1,739	74,851
Acquisition of subsidiaries (note 35(b))	—	756	781	6,805	16,279	62	24,683
Disposals	—	—	(12,309)	(2,200)	(3,642)	(625)	(18,776)
Impairment during the year	—	—	—	—	4,905	—	4,905
Exchange realignment	134	(2)	1,926	2,037	1,722	44	5,861
At 31 December 2003	<u>63,436</u>	<u>66,384</u>	<u>161,616</u>	<u>36,843</u>	<u>105,016</u>	<u>15,792</u>	<u>449,087</u>
Net book value:							
At 31 December 2003	<u>578,415</u>	<u>115,246</u>	<u>107,564</u>	<u>9,199</u>	<u>27,655</u>	<u>3,420</u>	<u>841,499</u>
At 31 December 2002	<u>544,664</u>	<u>92,712</u>	<u>103,847</u>	<u>8,271</u>	<u>30,668</u>	<u>2,249</u>	<u>782,411</u>
Net book value of the Group's fixed assets held under finance leases or hire purchase contracts:							
At 31 December 2003	<u>—</u>	<u>—</u>	<u>26,553</u>	<u>—</u>	<u>6,680</u>	<u>606</u>	<u>33,839</u>
At 31 December 2002	<u>—</u>	<u>—</u>	<u>21,669</u>	<u>—</u>	<u>10,413</u>	<u>634</u>	<u>32,716</u>

Certain of the Group's leasehold land and buildings were revalued at 31 March 1993 by C.Y. Leung & Company Limited, independent professionally qualified surveyors. The land and buildings were revalued at open market value, based on their existing use. Since then, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions of SSAP 17, "Property, plant and equipment" in 1995, from the requirement to carry out future revaluations of its fixed assets which were stated at valuation at that time.

14. FIXED ASSETS *(continued)*

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$29,069,000 (31 December 2002: HK\$29,809,000).

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
At cost:			
Long term leases	—	174,646	174,646
Medium term leases	82,704	115,973	198,677
Short term leases	—	24,205	24,205
No specified terms of leases	—	175,023	175,023
	82,704	489,847	572,551
At valuation:			
Medium term leases	69,300	—	69,300
	152,004	489,847	641,851

Certain of the Group's leasehold land and buildings situated in Hong Kong were pledged to secure general banking facilities granted to the Group, as detailed in note 27 to the financial statements.

At the balance sheet date, the legal title of certain fixed assets in the PRC with a net book value of approximately HK\$303 million (31 December 2002: HK\$277 million) is held in trust of the Group by a PRC factory collective in which the PRC subcontractor is the legal representative, further details of which are included in note 36(b)(iii).

15. INTANGIBLE ASSETS

Group

	Development costs HK\$'000	Web platform HK\$'000	Trademarks HK\$'000	Total HK\$'000
Cost:				
At beginning of year	19,837	7,929	7,608	35,374
Additions	—	5,533	30,416	35,949
Acquisition of subsidiary <i>(note 35(b))</i>	9,288	—	—	9,288
Exchange realignment	2,113	—	1,104	3,217
At 31 December 2003	31,238	13,462	39,128	83,828
Accumulated amortisation:				
At beginning of year	14,411	847	4,785	20,043
Provided during the year	2,120	2,339	1,090	5,549
Acquisition of subsidiary <i>(note 35(b))</i>	1,927	—	9	1,936
Exchange realignment	1,954	—	573	2,527
At 31 December 2003	20,412	3,186	6,457	30,055
Net book value:				
At 31 December 2003	10,826	10,276	32,671	53,773
At 31 December 2002	5,426	7,082	2,823	15,331

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16. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

Group

	HK\$'000
Cost:	
At beginning of year	197,446
Acquisition of subsidiaries (<i>note 35 (b)</i>)	41,318
Acquisition of additional interest in an existing subsidiary	25,787
Exchange realignment	6,969
	<u>271,520</u>
At 31 December 2003	<u>271,520</u>
Accumulated amortisation and impairment:	
At beginning of year	33,634
Amortisation provided during the year	10,808
Impairment during the year (<i>note 6</i>)	12,897
Exchange realignment	839
	<u>58,178</u>
At 31 December 2003	<u>58,178</u>
Net book value:	
At 31 December 2003	<u>213,342</u>
At 31 December 2002	<u>163,812</u>

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	92,714	92,714
Current accounts:		
Due from subsidiaries	860,681	507,693
Due to subsidiaries	(23,117)	(22,532)
	837,564	485,161
	930,278	577,875

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Active Sino Group Limited	British Virgin Islands	The People's Republic of China	US\$1,000	—	82.5	Investment holding
Allied Industrial Limited	Hong Kong	The People's Republic of China	HK\$10,000	—	100	Distribution of optical products
B.M. Optical Parts Company Limited	Hong Kong	Hong Kong	HK\$500,000	—	80	Trading of optical products
Bold Ware Optical (Metal) Manufactory Limited	Hong Kong	The People's Republic of China	HK\$100	—	80	Manufacture and trading of spectacles accessories
Chaoyang City Taixingshen Optical Company Limited <i>(note (d) and (e))</i>	The People's Republic of China	The People's Republic of China	HK\$3,000,000	—	80	Investment holding
Creative Eyewear Limited	British Virgin Islands	The People's Republic of China	US\$2,000,000	—	75	Manufacture and trading of optical products
Fore-Z Limited	British Virgin Islands	Hong Kong	US\$10,000	—	100	Design and trading of optical products
Metzler International (Italia) S.p.A.	Italy	Italy	EUR1,246,916	—	97.45	Distribution of optical products
Infinite Eyewear Limited	Hong Kong	Hong Kong	HK\$3	—	100	Distribution of optical frames
Leadkeen Industrial Limited	Hong Kong	The People's Republic of China	HK\$100,000	—	100	Manufacture and trading of optical products
M.D. Creation Limited	Hong Kong	Hong Kong	HK\$10,000	—	100	Provision of design and marketing services of optical products
Metzler International (Netherlands) B.V. <i>(note (e))</i>	Netherlands	Netherlands	EUR113,400	—	100	Distribution of optical products
Metzler International (Philippines) Inc. <i>(note (e))</i>	Philippines	Philippines	Peso5,000,000	—	49.70 <i>(note (a))</i>	Distribution of optical products
Metzler International (Japan) Ltd. <i>(note (e))</i>	Japan	Japan	JPY95,000,000	—	57.30	Distribution of optical products
Metzler International (Switzerland) AG <i>(note (e))</i>	Switzerland	Switzerland	SFR140,000	—	55	Distribution of optical products

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17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Metzler International (U.K.) Ltd. <i>(note e)</i>	United Kingdom	United Kingdom	GBP10,000	—	65	Distribution of optical products
Metzler International (Czech Republic) s.r.o. <i>(note e)</i>	Czech Republic	Czech Republic	CZK1,000,000	—	75	Distribution of optical products
Metzler International (Slovakia) s.r.o. <i>(note e)</i>	Slovakia	Slovakia	SKK400,000	—	75	Distribution of optical products
Metzler International (Asia) Limited	Hong Kong	Hong Kong	HK\$4,000,000	—	97.45	Distribution of optical products
Metzler International (M) SDN. BHD.	Malaysia	Malaysia	RM100	—	97.45	Trading of optical products
Metzler International (S'pore) Pte. Limited	Singapore	Singapore	S\$100	—	97.45	Trading of optical products
Metzler International (USA) Inc. <i>(note e)</i>	United States of America	United States of America	US\$10,000	—	97.45	Distribution of optical frames
Moulin (HK) Logistics Company Limited	Hong Kong	Hong Kong	HK\$10,000	—	100	Provision of logistic services
Moulin Holdings (H.K.) Company Limited	Hong Kong	Hong Kong	HK\$2	—	100	Investment holding
Metzler International AG <i>(note e)</i>	Germany	Germany	EUR794,941	—	97.45	Investing holding
Moulin Business Solutions Limited	Hong Kong	Hong Kong	HK\$10,000	—	100	Provision of business solutions services
Moulin Optical Manufactory Limited	Hong Kong	Hong Kong	HK\$1,000,000	—	100	Manufacture and trading of optical products
Mounthill Group Limited	British Virgin Islands	Hong Kong	US\$1,000	—	100	Licences holding
N.G.A. Optical Manufactory Limited	Hong Kong	The People's Republic of China	HK\$6,500,000	—	50 <i>(note a)</i>	Manufacture and trading of optical products
NiGuRa Optik GmbH <i>(note e)</i>	Germany	Germany	EUR1,432,200	—	100	Distribution of optical frames
Oaktree Investments Limited	Hong Kong	Hong Kong	HK\$1,000,000	—	100	Money lending and investment holding

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Peace City Investment Limited	Hong Kong	Hong Kong	HK\$3	—	100	Property investment
Profit Partner Holdings Limited	British Virgin Islands	Hong Kong	US\$10,000	—	100	Investment holding
Shanghai Hillman's Spectacles Limited <i>(note b)</i>	The People's Republic of China	The People's Republic of China	US\$700,000	—	82.5	Retail trading of optical products
Shanghai Hillman Trading Limited <i>(note b)</i>	The People's Republic of China	The People's Republic of China	RMB300,000	—	69.12	Retail trading of optical products
Shanghai Moulin International Holdings Limited <i>(note c)</i>	The People's Republic of China	The People's Republic of China	RMB60,000,000	—	76.8	Manufacture and trading of optical products
Sino Concept Industrial Limited	Hong Kong	The People's Republic of China	HK\$10,000	—	100	Provision of electroplating services
Sintesi S.r.l.	Italy	Italy	EUR3,000,000	—	97.45	Manufacturing of optical products
United Optical S.p.A.	Italy	Italy	EUR2,452,621	—	97.45	Distribution of optical products

(a) These entities are accounted for as subsidiaries of the Group because the Group has control of more than half of the voting power of these companies.

(b) Shanghai Hillman's Spectacles Limited ("SH Spectacles") and Shanghai Hillman Trading Limited ("SH Trading") are co-operative joint venture companies established in the People's Republic of China (the "PRC"). SH Spectacles and SH Trading obtained business registration certificates on 9 December 1994 and 24 April 1997, respectively, and are licensed to conduct business for 15 years and 10 years, respectively, from the date of their business registration.

(c) Shanghai Moulin International Holdings Limited is a Sino-foreign joint stock company established in the PRC which obtained its business registration certificate on 28 October 2002.

(d) Chaoyang City Taixingshen Optical Company is a Sino-foreign investment enterprise established in the PRC which obtained its business registration certificate on 16 September 1999 and are licensed to conduct business for 12 years.

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17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

- (e) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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.

During the year, the Group acquired NiGuRa Optik GmbH and certain overseas companies from independent third parties. Further details of these acquisitions are included in note 35(b) to the financial statements.

18. LONG TERM INVESTMENTS

Listed equity investments in Hong Kong, at market value
Unlisted equity investments outside Hong Kong, at cost

Group	
2003 HK\$'000	2002 HK\$'000
4	47
3,275	3,708
3,279	3,755

19. PROMISSORY NOTES

Settlement of trade debts *(note a)*
Advances to a PRC subcontractor *(note b)*

Portion classified as current assets *(note 23)*:
Settlement of trade debts
Advances to a PRC subcontractor

Long term portion

Group	
2003 HK\$'000	2002 HK\$'000
38,491	44,961
9,259	18,519
47,750	63,480
(15,091)	(33,559)
(9,259)	(9,259)
(24,350)	(42,818)
23,400	20,662

19. PROMISSORY NOTES *(continued)*

Notes:

- (a) Included in the promissory notes for the settlement of trade debts were:
- (i) an outstanding amount of HK\$23,400,000 arising during the year. The original notes of HK\$23,400,000 were unsecured and bear interest at 6% per annum and were repayable in 2008;
 - (ii) an outstanding amount of HK\$11,076,000 remained as at 31 December 2003 arose during the year ended 31 March 2001. The original notes of HK\$22,076,000 are unsecured, bear interest at 9% per annum and are repayable by four equal semi-annual installments commencing from April 2003; and
 - (iii) a remaining amount of HK\$4,015,000 for a subsidiary acquired in the year ended 31 March 2002. The original notes were secured by a licensing agreement, bore interest at the US prime rate and are repayable by equal monthly instalments commencing from February 2004.
- (b) The promissory notes were received for advances to a PRC subcontractor (note 36). The notes are unsecured, interest-free and are repayable by half yearly installments commencing from 30 April 2003.

20. STAFF LOANS

	Group	
	2003 HK\$'000	2002 HK\$'000
Staff loans	8,224	8,224
Portion classified as current assets <i>(note 23)</i>	(4,610)	(1,410)
Long term portion	3,614	6,814

Included in staff loans were:

- (i) balances totalling HK\$810,000 (2002: HK\$810,000) which are unsecured, interest-free and have no fixed terms of repayment; and
- (ii) a balance of HK\$7,414,000 (2002: HK\$7,414,000) which is partially secured, interest-free and repayable within three years.

21. PREPAYMENTS FOR FRAME BOARD SPACE

	Group	
	2003 HK\$'000	2002 HK\$'000
Prepayments for frame board space	68,982	53,511
Portion classified as current assets <i>(note 23)</i>	(18,978)	(13,524)
Long term portion	50,004	39,987

Prepayments for frame board space were made to optical retail chains to secure continuous purchases from these retail chains and to reserve a certain minimum percentage of frame board space for display in each retail outlet in accordance with contractual agreements.

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22. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	123,547	157,813
Work in progress	34,123	44,097
Finished goods	295,605	223,286
	<u>453,275</u>	<u>425,196</u>
Provision for slow moving and obsolete inventories	(40,784)	(31,444)
	<u>412,491</u>	<u>393,752</u>

The inventories were carried at cost as at the balance sheet date. (31 December 2002: HK\$25,433,000 was carried at net realisable value).

23. TRADE AND OTHER RECEIVABLES

		Group		Company	
	Notes	2003 HK\$'000	2002 HK\$'000 (restated)	2003 HK\$'000	2002 HK\$'000
Trade debtors and bills receivable	(a)	506,877	488,180	—	—
Other debtors and prepayments		376,897	373,540	3,452	—
Promissory notes	19	24,350	42,818	—	—
Staff loans	20	4,610	1,410	—	—
Due from a PRC subcontractor	36(b)(iv),(b)	85,504	213,797	—	—
Prepayments for frame board space	21	18,978	13,524	—	—
Deposits with a non-bank financial institution	36(b)(v)	35,626	30,541	—	—
Due from the ultimate holding company	(c)	29,233	29,148	16,927	26,691
		<u>1,082,075</u>	<u>1,192,958</u>	<u>20,379</u>	<u>26,691</u>

In the prior year, the deposits with a non-bank financial institution were included in the cash and bank balances. The directors consider that it is more appropriate to reclassify these deposits to other receivables under current assets, and the non-current portion under non-current assets.

23. TRADE AND OTHER RECEIVABLES *(continued)*

Notes:

- (a) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period from 60 to 90 days, and 120 days for certain major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of the trade debtors and bills receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	241,726	164,367
1 to 3 months	138,394	121,864
4 to 6 months	90,010	141,757
7 to 12 months	20,442	70,189
Over 12 months	68,512	43,434
	559,084	541,611
Provision for doubtful debts	(52,207)	(53,431)
	506,877	488,180

- (b) The amount due from a PRC subcontractor is unsecured (31 December 2002: unsecured), bears interest at 8% per annum (period ended 31 December 2002: 11.825% per annum) and is repayable within three years (31 December 2002: no fixed terms of repayment). Amount considered by the discretion as not repayable within on year of HK\$97,000,000 is classified under non-current assets. Details of the transactions with the PRC subcontractor are set out in note 36(b).
- (c) The amounts due from the ultimate holding company are unsecured, interest-free and have no fixed terms of repayment. The Company's balance as at 31 December 2003 comprised the outstanding amount of the executive directors' remuneration during the current and prior years borne by the ultimate holding company as set out in note 8.

24. SHORT TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Listed equity investments outside Hong Kong, at market value	2,286	1,657
Unlisted equity investments, at fair value	—	40,000
Provision for impairment	—	(4,500)
	—	35,500
	2,286	37,157

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25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000 (restated)	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	423,445	122,637	649	30
Time deposits	466,495	142,628	—	—
	889,940	265,265	649	30

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$110,041,000 (31 December 2002: HK\$157,585,000). The RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Certain deposits at 31 December 2002 have been reclassified to other receivables in the current year's financial statements, as explained in note 23.

26. TRADE AND OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade creditors and bills payable	(a)	222,610	177,272	—	—
Other creditors and accruals		144,906	77,012	696	658
Due to a minority shareholder	(b)	867	4,086	—	—
Due to a related company	(c)	307	2,531	—	—
		368,690	260,901	696	658

Notes:

- (a) An aged analysis of the trade creditors and bills payable as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	101,794	74,050
1 to 3 months	41,890	48,247
Over 3 months	78,926	54,975
	222,610	177,272

- (b) The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.
- (c) The amount due to a related company is unsecured, interest-free and has no fixed terms of repayment.

27. INTEREST-BEARING BANK BORROWINGS

	Group	
	2003 HK\$'000	2002 HK\$'000
Bank overdrafts:		
Secured	31,075	—
Unsecured	102,268	108,673
	133,343	108,673
Bank loans:		
Secured	183,638	10,668
Unsecured	843,260	1,031,270
	1,026,898	1,041,938
	1,160,241	1,150,611
Bank overdrafts repayable within one year or on demand	133,343	108,673
Bank loans repayable:		
Within one year or on demand	397,144	371,807
In the second year	60,353	68,298
In the third to fifth years, inclusive	143,403	132,970
Beyond five years	5,798	28,863
	606,698	601,938
Syndicated loan repayable:		
Within one year or on demand	79,200	19,800
In the second year	79,200	79,200
In the third to fifth years, inclusive	261,800	341,000
	420,200	440,000
	1,160,241	1,150,611
Portion classified as current liabilities	(609,687)	(500,280)
Long term portion	550,554	650,331

Certain of the Group's bank loans are secured by mortgages over certain of the Group's leasehold land and buildings, which had an aggregate net book value at the balance sheet date of approximately HK\$35,500,000 (31 December 2002: HK\$36,274,000).

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28. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery, furniture, fixtures and equipment and motor vehicles for its business. These leases are classified as finance leases or hire purchase contracts and have remaining lease terms up to three years.

At 31 December 2003, the total future minimum lease payments under finance leases and hire purchase contract payables and their present values, were as follows:

Group	Minimum lease payments 2003 HK\$'000	Minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2002 HK\$'000
Amounts payable:				
Within one year	15,479	15,200	15,102	14,461
In the second year	8,303	9,391	8,218	9,046
In the third to fifth years, inclusive	2,532	5,227	2,530	4,887
Total minimum finance lease payments	26,314	29,818	25,850	28,394
Future finance charges	(464)	(1,424)		
Total net finance lease and hire purchase contract payables	25,850	28,394		
Portion classified as current liabilities	(15,102)	(14,461)		
Long term portion	10,748	13,933		

29. PROVISIONS

Group	Post-employment benefits HK\$'000	Others HK\$'000	Total HK\$'000
At beginning of year	19,073	—	19,073
Acquisition of subsidiaries (note 35(b))	26,853	—	26,853
Charge for the year	2,869	13,000	15,869
Amounts utilised during the year	(9,041)	(2,905)	(11,946)
Exchange realignment	3,586	—	3,586
At 31 December 2003	43,340	10,095	53,435

Certain subsidiaries of the Group in Italy provide for employee benefits for services performed to date which are payable immediately upon the employees departure under the Italian civil and labour laws. The provision is based on the remuneration earned by the employees according to the length of their service to the Group up to the balance sheet date, and is recognised as a long term liability as there is no indication of a material outflow of resources from the Group in the near future.

Certain overseas subsidiaries of the Group provide compensation for cancellation of contracts with certain agents in Europe. The provisions are calculated with reference to the contracted amounts and its related legal and professional fees. The provisions are recognised as a long term liabilities as the negotiations with the agents that are not anticipated to be completed within one year.

30. CONVERTIBLE NOTES

Pursuant to a Subscription Agreement dated 13 August 1999 and a Supplemental Agreement dated 5 February 2001, the Company issued unsecured convertible notes with a principal amount of US\$15,000,000 on 2 September 1999. The notes bore interest at the rate of 5% per annum, which was payable semi-annually in arrears on 30 April and 31 October in each year, together with additional interest, representing the dividend yield (equivalent to the dividends declared by the Company, divided by the weighted average closing price of the Company's shares calculated according to the Subscription Agreement) of the Company's shares less 5%, which was payable in arrears on 31 October each year. The notes were convertible into ordinary shares in the Company, at the option of the holders at any time during the 54 months after the issue of the notes, at the conversion price of HK\$0.87 per share (subject to adjustment). The shares to be issued on any exercise of the conversion rights attaching to the notes would rank *pari passu* in all respects with the Company's shares already in issue.

Prior to the Company entering into the Supplemental Agreement, all outstanding notes were to be mandatorily converted on maturity. Under the terms of the Supplemental Agreement, unless previously converted or redeemed, the Company was required to redeem the notes on 2 March 2004. In addition, the Company had the right to voluntarily redeem the notes at any time under certain conditions.

Upon such redemption, in addition to the principal amount outstanding and any accrued but unpaid interest under the notes, the Company was required to pay an additional amount calculated as provided in the conditions of the notes which would give the holders of the notes a total internal rate of return of 6% and 10%, for redemption at maturity and voluntary redemption, respectively, with reference to the market rate.

On 13 September 2002, the Company entered into a deed of early redemption with a note holder, Vintage Year Limited ("VYL") for the purpose of enabling the Company to redeem the convertible notes held by VYL in an aggregate amount of US\$13,000,000 (the "VYL Notes"). The VYL Notes were redeemed by the Company on 29 November 2002.

On 28 May 2003, the remaining notes of US\$2,000,000 or HK\$15,600,000 equivalent were redeemed by the Company.

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31. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group

	Accelerated tax depreciation HK\$'000	2003 Revaluation of properties HK\$'000	Total HK\$'000
At 1 January 2003			
As previously reported	9,210	—	9,210
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	(1,047)	5,370	4,323
As restated	8,163	5,370	13,533
Acquisition of subsidiaries (<i>note 35(b)</i>)	3,889	—	3,889
Deferred tax charged to the profit and loss account during the year (<i>note 10</i>)	4,692	—	4,692
Deferred tax charged to revaluation reserve due to the effect of a change in tax rates	—	405	405
Gross deferred tax liabilities at 31 December 2003	<u>16,744</u>	<u>5,775</u>	<u>22,519</u>

Deferred tax assets

Group

	2003 Losses available for offset against future taxable profit HK\$'000
At 1 January 2003	
As previously reported	1,828
Prior year adjustment: SSAP 12 — restatement of deferred tax	6,022
As restated	7,850
Acquisition of subsidiaries (<i>note 35(b)</i>)	2,714
Deferred tax credited to the profit and loss account during the year (<i>note 10</i>)	7,697
Gross deferred tax assets at 31 December 2003	<u>18,261</u>
Net deferred tax liabilities at 31 December 2003	<u>4,258</u>

31. DEFERRED TAX *(continued)*

Deferred tax liabilities

Group

	Accelerated tax depreciation HK\$'000	2002 Revaluation of properties HK\$'000	Total HK\$'000
At 1 April 2002			
As previously reported	6,308	—	6,308
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	<u>(1,857)</u>	<u>5,370</u>	<u>3,513</u>
As restated	4,451	5,370	9,821
Deferred tax charged to the profit and loss account during the year (as restated) <i>(note 10)</i>	<u>3,712</u>	<u>—</u>	<u>3,712</u>
Gross deferred tax liabilities at 31 December 2002	<u>8,163</u>	<u>5,370</u>	<u>13,533</u>

Deferred tax assets

Group

	2002 Losses available for offset against future taxable profit HK\$'000
At 1 April 2002	
As previously reported	1,808
Prior year adjustment: SSAP 12 — restatement of deferred tax	<u>5,486</u>
As restated	7,294
Deferred tax credited to the profit and loss account during the year	<u>556</u>
Gross deferred tax assets at 31 December 2002	<u>7,850</u>
Net deferred tax liabilities at 31 December 2002	<u>5,683</u>

The Group has tax losses of HK\$22,361,000 (31 December 2002: HK\$27,832,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (31 December 2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

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31. DEFERRED TAX *(continued)*

Deferred tax assets *(continued)*

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 December 2002 and 31 March 2002 by HK\$4,323,000 and HK\$3,513,000, respectively and an increase in the Group's deferred tax assets as at 31 December 2002 and 31 March 2002 by HK\$6,022,000 and HK\$5,486,000, respectively. As a consequence, the Group's property revaluation reserve as at 31 December 2002 and 31 March 2002 has been reduced by HK\$5,370,000 and HK\$5,370,000, respectively, the consolidated net profits attributable to shareholders for the year ended 31 December 2002 has been decreased by HK\$274,000, and the consolidated retained profits at 31 December 2002 and 31 March 2002 have been increased by HK\$7,069,000 and HK\$7,343,000, respectively, as detailed in the consolidated statement of changes in equity.

32. SHARE CAPITAL

Shares

	2003 HK\$'000	2002 HK\$'000
Authorised:		
1,200,000,000 ordinary shares of HK\$0.50 each	<u>600,000</u>	<u>600,000</u>
Issued and fully paid:		
499,200,562 (31 December 2002: 401,767,562) ordinary shares of HK\$0.50 each	<u>249,600</u>	<u>200,884</u>

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

- (a) The subscription rights attaching to 17,745,000 shares options, of which every five share options represent one consolidated share*, were exercised at an adjusted subscription price of HK\$3.10 per consolidated share (note 33), resulting in the issue of 3,549,000 shares of HK\$0.50 each for a total cash consideration, before expenses, of HK\$11,002,000.
- (b) On 14 May 2003 and 3 December 2003, 40,000,000 and 54,000,000 shares were placed to independent investors at prices of HK\$3.50 and HK\$5.60 per subscription share, resulting in gross proceeds of approximately HK\$140,000,000 and HK\$302,400,000, respectively, before share issue expenses. The market prices of the Company's shares at their placement dates were HK\$3.70 and HK\$5.80, respectively. The proceeds were used to expand the Group's distribution business in Europe and will be used to expand the business of the Group in the United States through possible mergers, acquisitions and/or business combinations.
- (c) The Company repurchased 116,000 shares of HK\$0.50 each through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 31 December 2002 at a price of HK\$2.575 per share for a total consideration of HK\$298,000. Such shares were cancelled in January 2003 and the premium payable on repurchase was charged against the share premium account.

* Pursuant to a special resolution passed on 6 September 2002, every five issued and unissued ordinary shares of HK\$0.10 each of the Company were consolidated into one ordinary share of HK\$0.50 each (a "Consolidated Share").

32. SHARE CAPITAL *(continued)*

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

	Notes	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2002		2,006,648,314	200,665	163,778	364,443
Share options exercised		13,093,500	1,309	6,809	8,118
Repurchase and cancellation of own shares		(3,414,000)	(341)	(1,669)	(2,010)
Consolidation of shares		(1,613,062,252)	—	—	—
Repurchase and cancellation of own shares		<u>(1,498,000)</u>	<u>(749)</u>	<u>(3,171)</u>	<u>(3,920)</u>
At 31 December 2002 and beginning of year		401,767,562	200,884	165,747	366,631
Share options exercised	(a)	3,549,000	1,774	9,228	11,002
Issue of shares	(b)	94,000,000	47,000	395,400	442,400
Repurchase and cancellation of own shares	(c)	<u>(116,000)</u>	<u>(58)</u>	<u>(240)</u>	<u>(298)</u>
		499,200,562	249,600	570,135	819,735
Share issue expenses		<u>—</u>	<u>—</u>	<u>(11,498)</u>	<u>(11,498)</u>
At 31 December 2003		<u>499,200,562</u>	<u>249,600</u>	<u>558,637</u>	<u>808,237</u>

Share options

Details of the Company's share option scheme are included in note 33 to the financial statements.

33. SHARE OPTION SCHEME

The Company operated a share option scheme (the "Old Scheme") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the Old Scheme included the Company's directors and employees of the Group. The Old Scheme became effective on 6 September 1993 and, unless otherwise cancelled or amended, was to remain in force for 10 years from that date.

The maximum number of unexercised share options permitted to be granted under the Old Scheme was an amount equivalent, upon their exercise, to 5% 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 Old Scheme within any 12-month period, was limited to 25% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit was subject to shareholders' approval in a general meeting.

NOTES TO FINANCIAL STATEMENTS

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33. SHARE OPTION SCHEME *(continued)*

The offer of a grant of share options was able to be accepted within 21 days from the date of the offer, with no consideration being payable by the grantee. The exercise period of the share options granted was determinable by the directors, and commenced after a certain vesting period and ended on a date which was not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options was determinable by the directors, but was not able to be less than the higher of (i) the nominal value of the Company's shares; and (ii) an amount not less than 80% of the average closing price of the Company's shares on the Stock Exchange for the five business days immediately preceding the date of the offer to grant an option.

On 23 August 2001, the Stock Exchange announced 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 schemes. The amendments took effect on 1 September 2001 and set out the revised requirements for share option schemes operated by listed companies. With a view to bringing the Company's share option scheme in line with the new requirements of Chapter 17 of the Listing Rules, the operation of the Old Scheme was terminated upon the adoption of a new share option scheme (the "New Scheme" detailed below). No further options will be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised will continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On 6 September 2002, at the annual general meeting, the Company adopted the New Scheme. The Company operates the New 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 executive directors and non-executive directors, and other directors and employees of the Group. The Scheme became effective on 6 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Other details of the New Scheme were disclosed in a circular dated 12 August 2002.

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

33. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options				Date of grant of share options (2)	Exercise period of share options (4)	Exercise price of share options as adjusted HK\$ (3)	Price of Company's shares at exercise date of options (4)
	At 1 January 2003 (1)	Exercised during the year	Cancelled during the year	At 31 December 2003				
Directors								
Ma Bo Kee	3,750,000	(1,250,000)	(2,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
Ma Bo Fung	3,750,000	(1,250,000)	(2,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
Ma Bo Lung	3,750,000	(1,250,000)	(2,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
Ma Lit Kin, Cary	3,750,000	(1,250,000)	(2,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
Ma Hon Kin, Dennis	2,250,000	(750,000)	(1,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
Tong Ka Wai, Dicky	2,250,000	(750,000)	(1,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
	<u>19,500,000</u>	<u>(6,500,000)</u>	<u>(13,000,000)</u>	<u>—</u>				
Other employees								
Managerial level in aggregate								
	18,225,000	(5,255,000)	(12,970,000)	—	27 December 2000/ 30 May 2001	1 January 2002 to 5 September 2003	3.1	4.525
Others in aggregate								
	9,301,000	(5,990,000)	(3,311,000)	—	27 December 2000/ 30 May 2001	1 January 2002 to 5 September 2003	3.1	4.502
	<u>27,526,000</u>	<u>(11,245,000)</u>	<u>(16,281,000)</u>	<u>—</u>				
	<u>47,026,000</u>	<u>(17,745,000)</u>	<u>(29,281,000)</u>	<u>—</u>				

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33. SHARE OPTION SCHEME *(continued)*

Notes:

- (1) With effect from 9 September 2002, every five issued shares and unissued shares of HK\$0.10 each in the capital of the Company were consolidated into one ordinary share of HK\$0.50 each in the Company. Accordingly, upon the exercise of the share options granted under the previous stock option scheme, every five share options should be utilised to subscribe for one Consolidated Share.
- (2) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (3) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The share consolidation as detailed in note 32 has resulted in an adjustment to the exercise price of the outstanding share options. The adjusted exercise price for one Consolidated Share is HK\$3.10, which took effect from 9 September 2002.
- (4) The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing price over all of the exercises of options within the disclosure category.

The 17,745,000 share options of the Company's previous share option scheme exercised during the year resulted in the issue of 3,549,000 ordinary shares of the Company and new share capital of HK\$1,774,000 and share premium of HK\$9,228,000 (before issue expenses), as detailed in note 32 to the financial statements.

At the balance sheet date, the Company had no outstanding share options under the previous share option scheme.

No share options have been granted to any eligible participants, including directors or the Group's employees under the New Scheme since its adoption on 6 September 2002.

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current period and prior year are presented in the consolidated statement of changes in equity on page 43 of the financial statements.

34. RESERVES *(continued)*

(b) Company

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2002		163,778	92,613	127,615	384,006
Repurchase and cancellation of own shares		(4,840)	—	—	(4,840)
Share options exercised		6,809	—	—	6,809
Net profit for the year		—	—	1,366	1,366
Additional final dividend for year ended 31 March 2002	12	—	—	(148)	(148)
Interim dividend for the year ended 31 December 2002	12	—	—	(22,569)	(22,569)
Proposed final dividend for the year ended 31 December 2002	12	—	—	(17,673)	(17,673)
At 31 December 2002		165,747	92,613	88,591	346,951
Issue of shares		395,400	—	—	395,400
Share issue expenses	32	(11,498)	—	—	(11,498)
Repurchase and cancellation of own shares	32	(240)	—	—	(240)
Share options exercised	32	9,228	—	—	9,228
Net loss for the year		—	—	(5,943)	(5,943)
Additional final dividend for the year ended 31 December 2002	12	—	—	(1,759)	(1,759)
Interim dividend for the year ended 31 December 2003	12	—	—	(31,164)	(31,164)
Proposed final dividend for the year ended 31 December 2003	12	—	—	(23,962)	(23,962)
31 December 2003		<u>558,637</u>	<u>92,613</u>	<u>25,763</u>	<u>677,013</u>

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation at the time of the Company's listing in 1993, over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

- the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of the Company's assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Under the bye-laws of the Company, the share premium account is not distributable.

NOTES TO FINANCIAL STATEMENTS

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35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

- (i) During the year, the Group entered into finance lease and hire purchase arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$393,000 (2002: HK\$2,095,000).
- (ii) During the year, a promissory note of HK\$9,434,000 due from the PRC subcontractor (notes 19 and 36(b)(iv)) was transferred to advance to the PRC subcontractor.
- (iii) During the year, the Group has entered into a sale and purchase agreement with a former subsidiary of the Group which was disposed of in the prior year, for the acquisition of intangible assets for a consideration of HK\$35,949,000. The consideration was satisfied by the set off of accounts receivable from the former subsidiary.
- (iv) During the year, the Group entered into finance lease and hire purchase arrangements in respect of settlement of a payable to an independent third party amounted to HK\$10,798,000.
- (v) During the year, the PRC subcontractor has paid HK\$65,280,000 (31 December 2002: HK\$43,333,000) for and on behalf of the Group in respect of additions to fixed assets (note 36(b)(i)).
- (vi) During the year, the Group entered into a share purchase agreement with an independent third party of the Group in respect of further acquisition of additional interest in a subsidiary of the Group amounted to HK\$25,787,000. The consideration was satisfied by the set off of an amount receivable from the minority shareholders amounted to HK\$17,460,000 and HK\$8,327,000 was included in other payables.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of subsidiaries

		2003 HK\$'000	2002 HK\$'000
Net assets acquired:			
Fixed assets	14	5,132	—
Intangible assets	15	7,352	—
Deferred tax assets	31	2,714	—
Inventories		53,132	—
Trade debtors and bills receivables		31,397	—
Other debtors and prepayments		5,544	—
Cash and bank balances		6,361	—
Trade creditors and bills payable		(38,475)	—
Other creditors and accruals		(46,197)	—
Bank overdrafts		(2,159)	—
Provision for employee termination indemnities	29	(26,853)	—
Deferred tax liabilities	31	(3,889)	—
Minority interests		(284)	—
		<u>(6,225)</u>	—
Goodwill on acquisition	16	41,318	—
		<u>35,093</u>	—
Satisfied by:			
Cash		9,106	—
Decrease in accounts receivable		18,712	—
Increase in other payable		7,275	—
		<u>35,093</u>	—

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	9,106	—
Cash and bank balances acquired	(6,361)	—
Bank overdrafts and bank loans assumed	2,159	—
	<u>4,904</u>	—
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>4,904</u>	—

On 1 May 2003, the Group acquired a group of overseas subsidiaries from a former subsidiary of the Group. These subsidiaries are engaged in the distribution of optical products. The purchase consideration for the acquisition was satisfied by set off of accounts receivable from the former subsidiary.

On 30 September 2003, the Group acquired a 100% interest in NiGuRa Optik GmbH from an independent third party. NiGuRa Optik GmbH is engaged in the distribution of optical products. The purchase consideration for the acquisition was in the form of cash, with HK\$9,106,000 being paid at the acquisition date and the remaining HK\$7,275,000 being paid subsequent to the balance sheet date.

The subsidiaries acquired in the current year contributed HK\$80,255,000 to the Group's turnover and a loss of HK\$9,947,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

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31 December 2003

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of subsidiaries

	Year ended 31 December 2003 HK\$'000	Period from 1 April 2002 to 31 December 2002 HK\$'000
Net assets disposed of:		
Fixed assets	—	72,959
Goodwill	—	4,618
Intangible assets	—	1,379
Inventories	—	124,728
Trade debtors and bills receivables	—	54,271
Other debtors and prepayments	—	23,154
Cash and bank balances	—	3,333
Trade creditors and bills payable	—	(38,813)
Other creditors and accruals	—	(54,075)
Tax payable	—	(1,353)
Due to the Group	—	(58,626)
Bank loans	—	(133,805)
Bank overdrafts	—	(20,885)
Minority interests	—	43
	<u>—</u>	<u>(23,072)</u>
Goodwill written off	—	40,603
Exchange fluctuation reserve released	—	(2,357)
Gain on disposal of subsidiaries (note 5)	—	12,897
	<u>—</u>	<u>28,071</u>

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	—	71
Other debtors and prepayments	—	28,000
Cash and bank balances disposed of	—	(3,333)
Bank overdrafts disposed of	—	20,885
	<u>—</u>	<u>25,623</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>—</u>	<u>45,623</u>

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of subsidiaries *(continued)*

The components of the purchase consideration for the disposal were in the form of cash, with HK\$71,000 being paid at the disposal date and HK\$28,000,000 being paid in January 2003. Therefore, there was a net inflow of cash and cash equivalents of HK\$17,623,000 during the period from 1 April 2002 to 31 December 2002 and HK\$28,000,000 during the year ended 31 December 2003.

The results of the subsidiaries disposed of during period ended 31 December 2002 had no significant impact on the Group's consolidated turnover or profit after tax for the period from 1 April 2002 to 31 December 2002.

36. TRANSACTIONS WITH A PRC SUBCONTRACTOR

During the year, the Group had certain business transactions with a PRC subcontractor of the Group. The PRC subcontractor who deals with certain subcontracting business and distribution business for the Group in the PRC, is also a nephew of Mr Ma Bo Kee, the Chairman of the Company.

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with the PRC subcontractor during the year.

(a) Interest income receivables

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest income due from the PRC subcontractor	11,381	17,169

The interest income from the PRC subcontractor was calculated according to the terms set out in note 23(b).

(b) (i) During the year, the PRC subcontractor had the following cash transactions with the Group:

	2003	2002
	HK\$'000	HK\$'000
Cash paid on behalf of the Group for purchases of raw materials	51,766	36,529
additions of fixed assets	65,280	43,333
payment of manufactory overheads	27,430	16,667
Cash received on behalf of the Group from sales	151,493	105,992

(ii) As disclosed in note 10, the Group has made arrangements with the PRC subcontractor under which all taxes incurred in connection with sales related to the distribution operations in the PRC are to be borne by the PRC subcontractor. The Group has also received indemnities from the PRC subcontractor for any taxes in the PRC that may be levied on the Group in connection with the activities covered by these arrangements. Accordingly, the directors consider that there is no tax payable in the PRC in respect of these distribution operations.

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36. TRANSACTIONS WITH A PRC SUBCONTRACTOR *(continued)*

- (iii) At the balance sheet date, the legal title of certain fixed assets in the PRC with a net book value of approximately HK\$303 million (31 December 2002: HK\$277 million) is held in trust of the Group by a PRC factory collective in which the PRC subcontractor is the legal representative. In the opinion of the directors, the Group is the beneficial owner of these assets and has proper ownership of these assets in accordance with undertaking agreements signed between the Group and the PRC factory collective.

- (iv) As disclosed in the consolidated balance sheet and in note 23 to the financial statements, the Group had outstanding receivables and promissory notes due from the PRC subcontractor of HK\$183 million and HK\$9 million (31 December 2002: HK\$214 million and HK\$18 million), respectively, as at the balance sheet date. The receivable balance is mainly accumulated from the transactions noted in note (i) above. The receivable balance is unsecured, interest bearing at 8% per annum (2002: 11.825% per annum) and, in the opinion of the directors, HK\$97 million is not repayable within one year according to the repayment plan (31 December 2002: no fixed terms of repayment). As detailed in note 40, the receivable balance was assigned to five individual third parties subsequent to the year end.

- (v) At the balance sheet date, HK\$59,626,000 (31 December 2002: HK\$84,541,000) had been deposited into a fixed term deposit account with a non-bank financial institution in the PRC. The deposit was held in trust for the Group by a company controlled by the PRC subcontractor at the balance sheet date. However, the legal owner of the deposit was subsequently changed back to a subsidiary of the Group. Therefore, the deposit is now held by the Group. In the opinion of directors, an amount of HK\$24,000,000 (31 December 2002: HK\$54,000,000) will be drawn after one year (included in non-current assets in the balance sheet) and the balance of HK\$35,626,000 (31 December 2002: HK\$30,541,000) (note 23) could be drawn on demand.

- (vi) Chaoyang Shi Martin Optical Co. Ltd. ("Chaoyang Martin") is a PRC domestic enterprise owned legally by a PRC citizen and another PRC factory collective in which the PRC subcontractor is the legal representative. The Group's 100% beneficial ownership of Chaoyang Martin has been supported by way of a declaration of trust executed by those two legal owners and therefore it has been included as a subsidiary for consolidation purposes. The legal ownership of Chaoyang Martin was subsequently transferred to one of the Group's wholly owned subsidiary on 27 March, 2004.

37. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank guarantees given in lieu of deposits for licensing agreement	15,853	13,283	—	—
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	831,003	860,595
Guarantees given to a finance company for finance leases granted to subsidiaries	—	—	4,505	9,886
	15,853	13,283	835,508	870,481

As at 31 December 2003, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$831,003,000 (31 December 2002: HK\$860,595,000).

- (b) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$2,434,000 (31 December 2002: Nil) as at 31 December 2003, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance, if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

38. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and office equipment and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to nine years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	14,687	20,495
In the second to fifth years, inclusive	39,701	31,006
After five years	17,800	14,415
	72,188	65,916

At the balance sheet date, the Company did not have any future minimum lease payments under non-cancellable operating leases.

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39. CAPITAL COMMITMENTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Authorised, but not contracted for, in respect of the purchase of land use rights in the PRC (RMB15,000,000)	13,889	13,889
Authorised, but not contracted for, in respect of the purchase of machinery	5,746	528
Capital contribution to a subsidiary in the form of a joint stock company in the PRC (RMB21,000,000)	—	19,444
	19,635	33,861

40. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, on 29 March 2004, the Group entered into a debt assignment agreement with the PRC subcontractor and five independent individual third parties who are the distributors of the Group's PRC distribution business relating to the assignment of the Group's remaining receivables from the PRC subcontractor as at 29 March 2004 resulting in approximately HK\$160 million receivables due from those five independent third parties.

On 29 March 2004, the PRC subcontractor entered into an agreement with a subsidiary of the Company to indemnify that subsidiary from any losses arising from the receivables assigned to the five independent third parties amounting to approximately HK\$160 million together with interest thereon whenever applicable.

In connection with the aforesaid indemnity, the PRC subcontractor has pledged certain of his equity interests in certain unlisted companies to the Group. According to the management accounts of these companies as at 31 December 2003, the net asset value of the pledged equity interests in these companies amounted to approximately HK\$144 million.

- (b) Subsequent to the balance sheet date, on 20 April 2004, the directors publicly announced that the Group submitted an unsolicited non-binding offer to acquire Cole National Corporation ("CNC"), a New York Stock Exchange-listed company, at a price of US\$25 per share in cash. In the opinion of the directors, the deal is at a preliminary stage and the acquisition may or may not proceed.
- (c) On 28 April 2004, Mr. Ma Bo Kee, a director of the Company, entered into an agreement with certain subsidiaries of the Company to indemnify it from any losses arising from certain other receivables arising from short term advances to independent third parties undertaken by those subsidiaries amounting to HK\$86,000,000 as at 28 April 2004, together with interest thereon whenever applicable. The directors do not foresee the continuation of such transactions in the future.

41. COMPARATIVE AMOUNTS

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

Other reclassifications of comparative amounts are set forth in note 4 and note 23.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 April 2004.