

## **1. GENERAL**

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

## **2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention as modified for the revaluation of an investment property.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition (continued)

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases.

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

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

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

#### Property, plant and equipment

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment (continued)

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

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

#### Buildings under construction

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

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition of subsidiaries prior to 1st January, 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

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

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

#### Negative goodwill

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Negative goodwill (continued)

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

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

#### Investments in subsidiaries

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

#### Inventories

Inventories are stated at the lower of cost and net realisable value. During the year, the Group changed the method of calculating the cost of inventories from the first-in, first-out method to the weighted average method. In the opinion of the directors, the effects of such changes in accounting method in the financial statements are insignificant. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and the estimated costs necessary to make the sale.

#### Investments in securities

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

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

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

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

#### Impairment

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### Taxation

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

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

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

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

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

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

#### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of overseas subsidiaries are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. All exchange differences arising on consolidation are classified as equity and transferred to exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

#### Retirement benefit costs

Payments to the Group's Mandatory Provident Fund Scheme are charged as an expense as they fall due.

### 4. SEGMENT INFORMATION

#### Turnover

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

#### Business segments

The Group is principally engaged in the design, manufacture and sales of optical products. No business segment analysis is presented as management considers this as one single business segment.

#### Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China.

#### 4. SEGMENT INFORMATION (continued)

##### Geographical segments (continued)

Segment information of the Group by location of customers is presented as below:

For the year ended 31st December, 2004

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
<b>Turnover</b>					
External sales	348,563	246,584	59,305	30,507	684,959
<b>Result</b>					
Segment result	63,622	44,840	2,576	5,016	116,054
Unallocated corporate expenses					(4,803)
Interest income on bank deposits					706
Profit from operations					111,957
Finance costs					(53)
Profit before taxation					111,904
Taxation					(9,104)
Profit before minority interests					102,800
Minority interests					(352)
Net profit for the year					102,448

**4. SEGMENT INFORMATION (continued)**

**Geographical segments (continued)**

At 31st December, 2004

**Balance sheet**

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	139,966	90,363	18,444	17,700	266,473
Unallocated corporate assets					468,726
					735,199
Unallocated corporate liabilities					139,910

**Other information**

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure	-	-	-	-	69,815	69,815
Depreciation and amortisation of property, plant and equipment	-	-	-	-	47,412	47,412
Other non-cash expense	-	-	-	-	510	510



#### 4. SEGMENT INFORMATION (continued)

##### Geographical segments (continued)

For the year ended 31st December, 2003

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

**4. SEGMENT INFORMATION (continued)**

**Geographical segments (continued)**

At 31st December, 2003

**Balance sheet**

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	87,387	75,183	12,921	13,037	188,528
Unallocated corporate assets					506,472
					695,000
Unallocated corporate liabilities					113,845

**Other information**

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure	-	-	-	-	39,142	39,142
Depreciation and amortisation of property, plant and equipment	-	-	-	-	44,696	44,696
Other non-cash expenses	-	-	-	-	4,084	4,084

## 5. OTHER OPERATING INCOME

Included in other operating income are:

	2004 HK\$'000	2003 HK\$'000
Sales of scrap materials	3,815	3,184
Revaluation increase in investment property	700	–
Interest income on bank deposits	706	1,766
Gain on disposal of property, plant and equipment	626	–
Property rental income less negligible outgoings	320	376
Dividend income from other investment	–	76
Gain on disposal of other investment	–	46

## 6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2004 HK\$'000	2003 HK\$'000
Auditors' remuneration	1,080	1,050
Amortisation of goodwill (charged to other operating expenses)	510	510
Depreciation and amortisation of property, plant and equipment	47,412	44,696
Operating lease rentals in respect of rented premises	7,432	10,507
Impairment loss recognised in respect of property, plant and equipment	–	1,400
Loss on disposal of property, plant and equipment	–	1,774
Revaluation decrease in investment property	–	400
Staff costs		
– Directors' emoluments (note 8)	2,818	1,922
– Other staff		
– Salaries and other allowances	120,868	98,426
– Retirement benefit scheme contributions net of forfeited contribution of Nil (2003: HK\$268,000)	1,141	908
	<b>124,827</b>	<b>101,256</b>

## 7. FINANCE COSTS

The finance costs represent interest expense on bank borrowings wholly repayable within five years.

## 8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

### Directors' emoluments

The directors' emoluments are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	314	264
	<b>314</b>	264
Other emoluments paid to executive directors:		
Salaries and other benefits (net of amount waived as shown in note below)	1,953	2,159
Performance related incentive payments	463	–
Retirement benefit scheme contributions (net of amount waived as shown in note below)	88	96
	<b>2,504</b>	2,255
	<b>2,818</b>	2,519
Less: Amount waived in respect of emoluments for the year ended 31st December, 2002		
– Performance related incentive payments	–	597
	<b>2,818</b>	1,922

**8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (continued)****Directors' emoluments (continued)**

Note:

During the years ended 31st December, 2003 and 31st December, 2004, an executive director waived part of his emoluments as follows:

	2004 HK\$'000	2003 HK\$'000
Amounts waived in respect of emoluments for the current year		
Salaries and other benefits	1,235	1,265
Retirement benefit scheme contributions	57	59
	<b>1,292</b>	<b>1,324</b>

In addition to the above, rent-free accommodation was provided to two executive directors and the estimated rental values for the accommodation was approximately HK\$46,000 (2003: HK\$221,000).

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

	2004 Number of directors	2003 Number of directors
Nil to HK\$1,000,000	7	6
HK\$1,000,001 to HK\$1,500,000	1	–

**Highest paid employees**

The five highest paid individuals of the Group included two (2003: two) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2003: three) highest paid employees, other than directors of the Company, are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	2,149	2,124
Performance related incentive payments	436	–
Retirement benefit scheme contributions	97	96
	<b>2,682</b>	<b>2,220</b>

**8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (continued)**

**Highest paid employees (continued)**

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

	2004 Number of employees	2003 Number of employees
Nil to HK\$1,000,000	3	3

**9. TAXATION**

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	7,209	9,184
– Overprovision in respect of prior years	(175)	(331)
	7,034	8,853
Deferred taxation (note 25)		
Current year	2,070	2
Attributable to a change in tax rate	–	689
	2,070	691
	9,104	9,544

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the directors, that portion of the Group's profit is not at present subject to taxation in any other jurisdiction in which the Group operates.

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

## 9. TAXATION (continued)

Taxation for the year can be reconciled to the profit per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	111,904	91,509
Tax at the Hong Kong Profits Tax rate of 17.5%	19,583	16,014
Tax effect of expenses not deductible for tax purpose	1,805	2,701
Tax effect of income not taxable for tax purpose	(10,939)	(9,996)
Overprovision in respect of prior years	(175)	(331)
Tax effect of tax losses and other deductible temporary differences for current year not recognised	459	1,984
Utilisation of tax losses and other deductible temporary differences for prior years previously not recognised	(1,380)	(404)
Increase in opening deferred tax liabilities resulting from an increase in tax rate	-	689
Effect of different tax rates of operations in other jurisdictions	-	(921)
Others	(249)	(192)
Taxation for the year	9,104	9,544

## 10. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend paid in respect of 2004 of 9 cents (2003: 8 cents) per share	34,122	30,150
First special dividend paid in respect of 2003 of 7 cents per share	-	26,381
Final dividend proposed in respect of 2004 of 9 cents (2003: 8 cents) per share	34,122	30,150
Second special dividend proposed in respect of 2003 of 7 cents per share	-	26,381
	68,244	113,062

The final dividend in respect of 2004 of 9 cents (2003: 8 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 11. EARNINGS PER SHARE

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

	2004 HK\$'000	2003 HK\$'000
Earnings for the purposes of basic and diluted earnings per share – Net profit for the year	102,448	82,339
	<b>Number of shares</b>	
Weighted average number of shares for the purpose of basic earnings per share	377,827,104	375,394,000
Effect of dilutive potential shares in respect of share options	4,018,679	5,397,075
Weighted average number of shares for the purpose of diluted earnings per share	381,845,783	380,791,075

## 12. INVESTMENT PROPERTY

	<b>THE GROUP</b> HK\$'000
<b>VALUATION</b>	
At 1st January, 2004	2,500
Revaluation increase	700
<b>At 31st December, 2004</b>	<b>3,200</b>

The investment property was revalued at 31st December, 2004 by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers, on an open market value basis. The resulting surplus arising on revaluation of HK\$700,000 has been credited to the consolidated income statement.

The investment property is situated in Hong Kong and is held under a medium-term lease.

The investment property is leased out under operating leases.



### 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Buildings under construction HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
<b>COST</b>							
At 1st January, 2004	176,004	39,873	241,896	37,361	7,649	6,931	509,714
Additions	7,824	5,706	40,028	3,205	968	12,084	69,815
Disposals	(8,303)	(4,854)	(2,512)	(2,496)	(570)	-	(18,735)
Reclassification	14,517	-	-	-	-	(14,517)	-
<b>At 31st December, 2004</b>	<b>190,042</b>	<b>40,725</b>	<b>279,412</b>	<b>38,070</b>	<b>8,047</b>	<b>4,498</b>	<b>560,794</b>
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st January, 2004	35,200	33,639	170,743	27,591	4,804	-	271,977
Provided for the year	6,569	4,764	30,136	4,690	1,253	-	47,412
Eliminated on disposals	(3,821)	(4,757)	(2,212)	(2,249)	(482)	-	(13,521)
<b>At 31st December, 2004</b>	<b>37,948</b>	<b>33,646</b>	<b>198,667</b>	<b>30,032</b>	<b>5,575</b>	<b>-</b>	<b>305,868</b>
<b>NET BOOK VALUES</b>							
<b>At 31st December, 2004</b>	<b>152,094</b>	<b>7,079</b>	<b>80,745</b>	<b>8,038</b>	<b>2,472</b>	<b>4,498</b>	<b>254,926</b>
At 31st December, 2003	140,804	6,234	71,153	9,770	2,845	6,931	237,737

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

The Group's property interests shown above comprise:

	Leasehold properties		Buildings under construction	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Properties situated in the People's Republic of China other than Hong Kong (the "PRC") held under medium-term leases	144,720	128,552	4,498	6,931
Properties situated in Hong Kong held under medium-term leases	7,374	12,252	-	-
	<b>152,094</b>	140,804	<b>4,498</b>	6,931

### 14. LOAN RECEIVABLE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Amount due:		
- Within one year	1,131	-
- More than one year	19,851	20,982
	<b>20,982</b>	20,982
Less: Amount due within one year shown under current assets	(1,131)	-
	<b>19,851</b>	20,982

The amount is secured and bears interest at market rate.

## 15. GOODWILL

	<b>THE GROUP</b> HK\$'000
<b>COST</b>	
At 1st January, 2004 and at 31st December, 2004	2,549
<b>AMORTISATION</b>	
At 1st January, 2004	765
Provided for the year	510
At 31st December, 2004	1,275
<b>NET BOOK VALUE</b>	
At 31st December, 2004	1,274
At 31st December, 2003	1,784

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

## 16. INVESTMENT SECURITIES

	<b>THE GROUP</b>	
	<b>2004</b> HK\$'000	2003 HK\$'000
Equity securities, unlisted	13,653	–

## 17. INVESTMENTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b> HK\$'000	2003 HK\$'000
Unlisted shares ( <i>Note</i> )	130,719	130,719

*Note:* The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time when they became members of the Group pursuant to the group reorganisation in 1996.

Particulars of the principal subsidiaries at 31st December, 2004 are set out in note 32.

## 18. AMOUNT DUE FROM A SUBSIDIARY

The amount is unsecured, interest free and does not have fixed repayment terms. In the opinion of the directors, the amount will not be repaid within the next twelve months from the balance sheet date and, accordingly, the amount is shown as non-current.

## 19. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	36,436	25,427
Work in progress	73,119	48,434
Finished goods	9,805	8,650
	<b>119,360</b>	<b>82,511</b>

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Inventories carried at net realisable value:		
– Raw materials	2,530	4,016
– Finished goods	455	558
	<b>2,985</b>	<b>4,574</b>

## 20. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 30 days to 120 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$193,241,000 (2003: HK\$138,219,000), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Current	148,963	110,025
1 to 90 days overdue	41,265	25,925
More than 90 days overdue	3,013	2,269
	<b>193,241</b>	<b>138,219</b>

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

## 21. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$94,943,000 (2003: HK\$71,224,000), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Current	<b>67,885</b>	51,374
1 to 90 days overdue	<b>26,911</b>	18,255
More than 90 days overdue	<b>147</b>	1,595
	<b>94,943</b>	71,224

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

## 22. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
Authorised:		
At beginning and at end of the years 2003 and 2004	1,000,000,000	100,000
Issued and fully paid:		
At 1st January, 2003	374,410,000	37,441
Issue of shares upon exercise of share options	2,460,000	246
At 31st December, 2003	376,870,000	37,687
Issue of shares upon exercise of share options	2,260,000	226
At 31st December, 2004	379,130,000	37,913

## 23. SHARE OPTIONS

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

### Old Share Option Scheme

Under the Old Share Option Scheme, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the shares quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted under the Old Share Option Scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Old Share Option Scheme. HK\$1 is payable by each eligible employee upon acceptance of the share options. No further share options can be granted upon termination of the Old Share Option Scheme but the existing outstanding share options will continue to be valid and exercisable in accordance with the provisions of the Old Share Option Scheme.

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

	Number of share options						
	Outstanding at 1st January, 2003	Exercised during 2003	Lapsed during 2003	Outstanding at 31st December, 2003	Exercised during 2004	Lapsed during 2004	Outstanding at 31st December, 2004
Category: Directors	4,040,000	(1,010,000)	-	3,030,000	(1,010,000)	-	2,020,000
Category: Employees	6,950,000	(1,450,000)	(1,150,000)	4,350,000	(1,250,000)	(600,000)	2,500,000
Total all categories	10,990,000	(2,460,000)	(1,150,000)	7,380,000	(2,260,000)	(600,000)	4,520,000

### 23. SHARE OPTIONS (continued)

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

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

Total consideration received from employees, including directors, for the options exercised during the year amounted to approximately HK\$1,989,000 (2003: HK\$2,165,000). The closing price of the Company's shares on the date on which the share options were exercised was HK\$2.55 (2003: HK\$2.25).

#### New Share Option Scheme

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

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

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

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

## 23. SHARE OPTIONS (continued)

### New Share Option Scheme (continued)

The financial impact of the share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## 24. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
At 1st January, 2003	106,743	105,369	71,816	283,928
Premium arising on issue of shares upon exercise of share options	1,919	-	-	1,919
Net profit for the year	-	-	117,248	117,248
Dividends paid	-	-	(86,484)	(86,484)
At 31st December, 2003	108,662	105,369	102,580	316,611
Premium arising on issue of shares upon exercise of share options	1,763	-	-	1,763
Net profit for the year	-	-	74,328	74,328
Dividends paid	-	-	(90,653)	(90,653)
At 31st December, 2004	110,425	105,369	86,255	302,049

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Allied Power Inc. at the date on which the group reorganisation became effective and the nominal amount of the share capital of the Company issued under the group reorganisation.

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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



## 25. DEFERRED TAX LIABILITIES

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

	<b>Accelerated tax depreciation</b>	<b>Other temporary difference</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2003	(8,106)	751	(7,355)
Credit (charge) to consolidated income statement for the year	348	(350)	(2)
Effect of change in tax rate	(759)	70	(689)
At 31st December, 2003	(8,517)	471	(8,046)
Charge to consolidated income statement for the year	(1,063)	(1,007)	(2,070)
At 31st December, 2004	(9,580)	(536)	(10,116)

At 31st December, 2004, the Group has unused tax losses of HK\$13,350,000 (2003: HK\$27,892,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$8,081,000 (2003: HK\$16,232,000) that will expire from 2005 to 2009. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK\$13,316,000 (2003: HK\$14,478,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 26. RETIREMENT BENEFIT SCHEME

The Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

As stipulated under the rules and regulations in the PRC, the subsidiaries established in the PRC are required to contribute certain percentage of payroll costs of its employees to a state-managed retirement scheme operated by the PRC government for its employees in the PRC. After the contribution, the Group has no further obligation for actual payment of the retirement benefits.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

At 31st December, 2003, forfeited contributions of HK\$9,300 were available to reduce future contributions. There were no forfeited contributions at 31st December, 2004.

## 27. OPERATING LEASE ARRANGEMENTS

### The Group as lessee:

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	5,425	7,630
In the second to fifth year inclusive	11,580	18,962
Over five years	908	2,148
	<b>17,913</b>	<b>28,740</b>

Operating lease payments represent rentals payable by the Group for certain of its office, retail shops and other premises. Leases are negotiated for an average term of four years and rentals are fixed for an average term of four years.

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

**27. OPERATING LEASE ARRANGEMENTS** (continued)**The Group as lessor:**

Property rental income earned during the year was HK\$320,000 (2003: HK\$376,000). The property held at the balance sheet date has committed tenant for an average term of two years.

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	230	276
In the second to fifth year inclusive	–	230
	<b>230</b>	<b>506</b>

**28. CAPITAL COMMITMENTS**

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	12,402	4,336
– leasehold improvements	732	1,946
– plant and machinery	11,074	924
– furniture, fixtures and office equipment	–	83
	<b>24,208</b>	<b>7,289</b>

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

**29. CONTINGENT LIABILITIES**

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	3,922	3,310

At 31st December, 2004, the Group had given a corporate guarantee in favour of a financial institution to secure general credit facilities to the extent of HK\$9,750,000 (2003: HK\$9,750,000). The extent of facilities utilised at 31st December, 2004 amounted to approximately HK\$9,750,000 (2003: HK\$9,750,000).

## 29. CONTINGENT LIABILITIES (continued)

Details of a corporate guarantee given by the Group in favour of the minority shareholder of a subsidiary are set out in note 31.

### THE COMPANY

At 31st December, 2004, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$120,130,000 (2003: HK\$111,130,000) granted to its subsidiaries. Other than the bills discounted with recourse amounting to HK\$3,922,000 at 31st December, 2004 (2003: HK\$3,310,000) as stated above, there was no outstanding balance of banking facilities utilised by the subsidiaries at 31st December, 2003 and 31st December, 2004.

## 30. PLEDGE OF ASSETS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Assets pledged to banks in respect of banking facilities granted to the Group		
– leasehold properties with an aggregate net book value	–	12,252
– bank deposits	2,187	18,037
	<b>2,187</b>	<b>30,289</b>

## 31. RELATED PARTY TRANSACTIONS

The Group had the following related party transactions:

- (i) On 29th January, 2004, the Group entered into a sale and purchase agreement to dispose of a leasehold property to Mr. Ng Kim Ying, an executive director of the Company, for a consideration of HK\$2,500,000. Based on the valuation carried out by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers, the consideration of HK\$2,500,000 represented a premium of approximately 4% to the open market value of the property as at 26th January, 2004. The transaction was completed on 27th February, 2004.
- (ii) At 31st December, 2003, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (approximately HK\$962,000) in consideration of the guarantee given by this minority shareholder in favour of banks to secure general banking facilities to the extent of RMB2,000,000 (approximately HK\$1,887,000) granted to this subsidiary. No such facilities were utilised by the aforesaid subsidiary as at 31st December, 2003. The facilities expired during the year ended 31st December, 2004.

### 32. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration/ and operation	Nominal value of issued ordinary shares/ contributed capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Allied Power Inc.	British Virgin Islands	C\$50,000	100%	–	Investment holding
Able Rich Enterprises Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Argent Optical Manufactory Limited	Hong Kong/ PRC	HK\$100,000	–	100%	Manufacture of optical frames
Artland Technology Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Arts 1000 Optical Company Limited	British Virgin Islands/PRC	US\$1	–	100%	Retailing of optical products
Arts Optical Company Limited	Hong Kong	HK\$1,000,000	–	100%	Trading in optical frames
Sin Dak Industrial Limited	Hong Kong	HK\$40,000	–	100%	Property holding
Eyeconcept Limited	Hong Kong	HK\$100	–	100%	Trading in optical frames
深圳北方光學實業有限公司 (Shenzhen North Optical Industrial Company Limited)	PRC	HK\$17,675,600	–	51% (Note 1)	Manufacture of and trading in optical lens
滙駿光學城(河源)有限公司 (known as "Huijun Optical (Heyuan) Limited")	PRC	HK\$10,000,000	–	100% (Note 2)	Inactive
滙聯眼鏡製造廠(河源) 有限公司 (known as "Huilian Optical Manufactory (Heyuan) Limited")	PRC	HK\$10,000,000	–	100% (Note 2)	Inactive

### 32. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
滙龍眼鏡五金配件(河源) 有限公司 (known as "Huilong Optical Manufactory (Heyuan) Limited")	PRC	HK\$10,000,000	–	100%	Inactive (Note 2)

*Note:*

1. This subsidiary is registered as a sino-foreign equity joint venture company.
2. These subsidiaries are registered as wholly foreign owned companies.

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 assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at 31st December, 2004 or at any time during the year.