Notes to the Financial Statements

31 December 2004

1. BASIS OF PREPARATION

a) Principal activities

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

b) Going concern concept

The financial statements have been prepared by the directors with due care on a going concern basis, notwithstanding the fact that the Group had net loss of approximately HK$5,768,000 (2003: HK$7,054,000) for the year ended 31 December 2004 and net liabilities of HK$65,352,000 (2003: HK$60,035,000) as at 31 December 2004. The validity of the Group to carry on its business as a going concern is dependent upon future profitable operations of the Group and the funds being available to the Group and the waiver of amount payable by the Company to a shareholder, Probest as detailed in note 35(b) to the financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Should the Group be unable to continue its business as a going concern, adjustments would have to be made to restate the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

c) Group financial statements

The Group financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

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

a) Revenue recognition

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

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

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

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

b) Borrowing costs

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

c) Negative goodwill

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

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

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

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

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

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

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

d) Property, plant and equipment

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

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

Notes to
the Financial Statements
31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

d) Property, plant and equipment (cont'd)

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

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

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

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

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

e) Depreciation

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

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

f) Impairment of assets

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

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

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

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

i) Calculation of recoverable amount

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

ii) Reversals of impairment losses

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

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

g) Operating leases

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

h) Subsidiaries

A subsidiary is a company in which the Group or Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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

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

i) Joint venture company

The Group's joint venture company is an independent business entity established and operating in mainland China. The joint venture agreement and related constitution stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared in accordance with the terms of the joint venture agreement.

The Group's joint venture company is accounted for a subsidiary as the Group has unilateral control over the joint venture company.

j) Associates

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

k) Related parties

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

l) Inventories

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

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

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

m) Trade receivable

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

n) Cash equivalents

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

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

Notes to
the Financial Statements

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3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

o) Provisions and contingent liabilities

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

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

p) Deferred taxation

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

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

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

q) Translation of foreign currencies

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

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

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

r) Employee benefits

Paid leave carried forward

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

Employment Ordinance long service payments

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

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

Pension scheme

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

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

Notes to
the Financial Statements

31 December 2004

3. PRINCIPAL ACCOUNTING POLICIES (cont'd)

r) Employee benefits (cont'd)

Share option scheme

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

s) Segment reporting

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

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

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

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

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

4. SEGMENT INFORMATION

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

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

i) Business segments

The Group has only one business segment and is the manufacture and sale of optical products. Therefore, no separate analysis of business segment information is prepared as all the information has been disclosed in the consolidated financial statements.

ii) Geographical segments

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

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

Notes to
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4. SEGMENT INFORMATION (cont'd)

Geographical segments

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

	United States of America		Europe		Hong Kong		Mainland China		Others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:														
Sales to external customers	91,777	118,149	53,340	48,656	5,784	4,747	10,967	9,259	13,022	11,425	–	–	174,890	192,236
Other segment information:														
Segment assets	24,661	32,404	12,596	11,541	40,513	38,025	122,871	132,763	5,118	3,249	–	–	205,759	217,982
Interests in associates	161	161	–	–	(10,165)	(9,376)	47,224	44,796	–	–	–	–	37,220	35,581
													242,979	253,563
Capital expenditure	–	–	–	–	49	136	2,951	917	–	–	–	–	3,000	1,053

5. TURNOVER

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

6. OTHER REVENUE

	2004 HK$'000	2003 HK$'000
Bank interest income	66	71
Management fee received from an associate	585	2,346
Sales of obsolete inventories	698	350
Gain on disposal of property, plant and equipment	29	81
Rental income	556	–
Unclaimed dividend written back	421	–
Others	511	390
	2,866	3,238

7(a). REVERSAL OF IMPAIRMENT LOSS UPON DISPOSAL OF INTERESTS IN ASSOCIATES

On 30 April 2004, the Company entered into a disposal agreement with an independent third party whereby the Company agreed to dispose all of its 49% equity interests in Hanson International Industrial Company Limited ("Zhuhai Hanson"), a private company established in the PRC, and Hanson International Optical Co., Ltd ("Hong Kong Hanson"), a private company incorporated in Hong Kong, at the aggregate consideration of HK$4,700,000. Full provision for impairment loss against the Group's interests in these associates had been made in the previous years.

7(b). WAIVER OF AMOUNTS DUE TO ASSOCIATES UPON DISPOSAL OF INTERESTS IN ASSOCIATES

As a precondition of the said disposals, on the same date, a supplemental agreement was also made between the Company, Zhuhai Hanson, Hong Kong Hanson, and all the other shareholders of Zhuhai Hanson and Hong Kong Hanson, under which Zhuhai Hanson and Hong Kong Hanson agreed to waive all the debts due by the Group amounted to approximately HK$6,200,000.

As a result, a net gain of approximately HK$10,900,000 arising from the disposal of the interests in the two associates, which represented the write back of the previous impairment loss provision for the interests in the associates of HK$4,700,000 and the write off of current accounts payable to these two associates of approximately HK$6,200,000, has been recorded in the current year's consolidated income statement.

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8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

Profit/(loss) from operating activities is stated after charging the following:

	2004 HK$'000	2003 HK$'000
Cost of inventories*	156,870	175,652
Depreciation	13,645	14,068
Minimum lease payments under operating leases in respect of land and buildings	1,569	1,514
Staff costs (including directors' remuneration – note 10):		
Wages and salaries	42,535	53,329
Pension contributions	532	812
Less: Forfeited contributions	(22)	(393)
Net pension contributions	510	419
	43,045	53,748
Exchange loss, net	437	192
Auditors' remuneration		
– Current year	570	550
– (Over)/under provision	(923)	65
	(353)	615
Provision against inventories	238	7,168
Provision for doubtful debts	–	5,074

* The cost of inventories includes HK$42,934,000 (2003: HK$51,775,000) relating to staff costs, provision against inventories and depreciation, which are also included in the respective total amounts disclosed above for each of these types of expenses.

At 31 December 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

9. FINANCE COSTS

	Group 2004 HK$'000	2003 HK$'000
Interest on loan from a shareholder	3,036	13,549
Interest on promissory note	10,531	1,527
	13,567	15,076

10. GAIN ARISING FROM GROUP REORGANISATION

i) On 3 September 2003, the Company entered into a conditional Share Sale Agreement, pursuant to which the Company conditionally agreed to sell to Probest Holdings Inc. ("Probest") 30% of the entire issued capital in Profitown Investment Corporation ("Profitown"), a company incorporated in the British Virgin Islands with limited liability on 19 November 2002 and a wholly-owned subsidiary of the Company, and 30% of the loan owing by Profitown to the Company at an aggregate consideration of HK$3 million. The agreement was completed on 4 November 2003. Such consideration was satisfied by Probest by offsetting an equivalent amount of HK$3 million outstanding loan due to Probest by the Company.

ii) On 3 September 2003, the Company entered into a Loan Settlement Agreement relating to the remaining principal of the loan of HK$247 million (the "Loan") due to Probest, pursuant to which Probest agreed to waive the repayment of the outstanding principal of HK$47 million due by the Company and the loan interest of HK$26,506,000 accruing thereon since 1 March 2002 up to the effective date of the Loan Settlement Agreement which fell on 4 November 2003. The Company agreed to apply the net proceeds from the Open Offer to repay HK$37 million of the Loan due to Probest.

iii) Pursuant to the Loan Settlement Agreement, the remaining principal balance of HK$163 million due by the Company to Probest was restructured on terms which were governed by a promissory note as detailed in note 27 to the financial statements.

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

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

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11. DIRECTORS' REMUNERATION

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

	Group	
	2004 HK$'000	2003 HK$'000
Directors' fees:		
Executive	–	–
Independent non-executive	271	503
	271	503
Other emoluments:		
Executive:		
Salaries and other benefits	478	2,591
Compensation for loss of office	–	1,846
Pension contributions	5	71
Incentive paid on joining	–	–
Independent non-executive	–	–
	483	4,508
	754	5,011

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

	2004 HK$'000	2003 HK$'000
The Company	–	1,846
The Company's subsidiaries	–	–
Others	–	–
	–	1,846

No directors receive remuneration from the Company's associates in respect of their services to the Company and its subsidiaries (2003: Nil).

11. DIRECTORS' REMUNERATION (cont'd)

The remuneration of the directors fell within the following bands:

	Number of directors 2004	2003
Nil – HK$1,000,000	9	9
HK$1,000,001 – HK$1,500,000	–	1
HK$1,500,001 – HK$2,000,000	–	–
HK$2,000,001 – HK$2,500,000	–	–
HK$2,500,001 – HK$3,000,000	–	–
HK$3,000,001 – HK$3,500,000	–	1
	9	11

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2003: two). Details of the remuneration of the remaining five (2003: three) non-directors, highest paid employees are as follows:

	Group 2004 HK$'000	2003 HK$'000
Salaries, allowances and benefits in kind	1,226	1,807
Bonuses	–	–
Compensation for loss of office	–	–
Pension contributions	24	62
	1,250	1,869

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

	Number of employees 2004	2003
Nil – HK$1,000,000	5	3
	5	3

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13. TAXATION

No Hong Kong profits tax and overseas tax has been provided in the financial statements as the companies within the Group have neither accumulated tax losses brought forward, which exceed the estimated assessable profits for the year, nor assessable profits for the year.

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

	2004 HK$'000	2003 HK$'000
Loss before taxation	(8,309)	(8,401)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	(1,454)	(1,470)
Effect of different taxation rates in other countries	634	(1,156)
Income not subject to taxation	(274)	(8,492)
Expenses not deductible for taxation purposes	2,238	12,233
Unrecognised tax losses	4,305	515
Utilisation of previously unrecognised tax losses	(5,449)	(1,479)
Taxation charge	–	151

The tax charge for 2003 represented the share of tax of associates located outside Hong Kong of HK$151,000.

14. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a profit of approximately HK$188,000 (2003: profit of HK$34,535,000) which has been dealt with in the financial statements of the Company.

15. DIVIDENDS

The directors did not recommend the payment of any dividend for the year (2003: Nil).

16. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders for the year of HK$5,768,000 (2003: net loss of HK$7,054,000) and the weighted average of 3,124,862,734 (2003: 676,340,153) ordinary shares in issue during the year.

b) Diluted

Diluted loss per share for the years ended 31 December 2004 and 2003 have not been disclosed as no dilutive events existed during these years.

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation					
At 1/1/2004	68,900	166,365	63,029	2,521	300,815
Additions	–	2,467	533	–	3,000
Disposals	–	(576)	(5)	(332)	(913)
At 31/12/2004	68,900	168,256	63,557	2,189	302,902
Accumulated depreciation and impairment					
At 1/1/2004	17,889	130,245	42,957	2,433	193,524
Charge for the year	3,088	5,396	5,111	50	13,645
Disposals	–	(437)	–	(294)	(731)
At 31/12/2004	20,977	135,204	48,068	2,189	206,438
Net book value					
At 31/12/2004	47,923	33,052	15,489	–	96,464
At 31/12/2003	51,011	36,120	20,072	88	107,291
An analysis of cost or valuation					
At cost	–	168,256	63,557	2,189	234,002
At 1998 valuation	14,800	–	–	–	14,800
At 2002 valuation	54,100	–	–	–	54,100
	68,900	168,256	63,557	2,189	302,902

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

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

Certain of the Group's leasehold land and buildings, which are held for own use in Dongguan and Shenzhen in the PRC, have been valued on an open market value basis, based on their existing use by B.I. Appraisals Limited, an independent firm of professional valuers, on 31 December 2002 at HK$54,100,000. In the opinion of the directors, there was no significant change on the open market value for the leasehold land and buildings at 31 December 2004.

Had the Group's land and buildings stated at valuation been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK$64,377,148 (2003: HK$67,103,000).

The Group has not obtained land use right certificates or building ownership certificates for leasehold land and buildings situated in the Mainland China with a net book value of HK$47,923,000 at 31 December 2004 (2003: HK$51,011,000).

As at 31 December 2004, the Company had no property, plant and equipment.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	1,086	1,086
Less: Impairment loss	(1,081)	(1,081)
	5	5

18. INVESTMENTS IN SUBSIDIARIES (cont'd)

The following is a list of the principal subsidiaries at 31 December 2004:

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

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18. INVESTMENTS IN SUBSIDIARIES (cont'd)

Notes:

i) De Bao is registered as a wholly foreign owned enterprise under the PRC law. The registered capital of De Bao is HK$118,100,000. At the balance sheet date, plant and machinery amounting to HK$58,550,910 has been contributed by the Group towards meeting the registered capital requirement. The outstanding amount of approximately HK$59,549,000 was due for contribution on 18 March 1999 in accordance with De Bao's articles of association. The Group has been in discussion with the relevant authorities to modify the original terms of the articles of association, including the amount of total registered capital. Up to the date of this Annual Report, the Group has not yet obtained the approval from the relevant authorities.

ii) Dongguan Hamwell is a sino-foreign owned joint venture enterprise under the PRC law. The registered capital of Dongguan Hamwell is HK$67,940,000. At the balance sheet date, plant and machinery amounting to approximately HK$62,505,000 has been contributed by the Group to Dongguan Hamwell, towards meeting the registered capital requirement. The remaining registered capital of HK$5,435,000 has not yet been contributed by the minority shareholder of Dongguan Hamwell as at 31 December 2004.

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

iv) Henggang is a sino-foreign owned joint venture enterprise under the PRC law. Subject to the payment of an annual amount of approximately HK$2,830,000 (2003: HK$2,830,000) to the joint venture party, the Group is entitled to all of the profits and bears all of the losses of Henggang.

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

19. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	–	–
Share of net assets	128,876	143,592
Less: Impairment loss	(100,029)	(113,016)
	28,847	30,576
Amounts due from associates	8,373	5,005
	37,220	35,581

19. INTERESTS IN ASSOCIATES (cont'd)

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

b) The following is a list of the principal associates at 31 December 2004:

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

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

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

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20. OTHER RECEIVABLES

	Group 2004 HK$'000	Group 2003 HK$'000
Other receivables	96,339	96,339
Less: Impairment loss	(96,339)	(96,339)
	–	–

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

21. TRADE RECEIVABLES

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

	Group 2004 HK$'000	Group 2003 HK$'000
Current to 30 days	41,248	42,703
31 to 60 days	2,693	3,479
61 to 90 days	3	444
More than 90 days	11	4
	43,955	46,630

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

22. INVENTORIES

	Group 2004 HK$'000	Group 2003 HK$'000
Raw materials	15,139	13,014
Work in progress	5,094	7,202
Finished goods	3,088	1,443
	23,321	21,659

As at 31 December 2004, all inventories are stated at cost.

23. AMOUNTS DUE FROM/(TO) A SUBSIDIARY

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

24. AMOUNT DUE TO A SHAREHOLDER, PROBEST

The amount due to Probest is unsecured, bearing interest at a rate per annum equivalent to 1% over Hong Kong prime rate and has no fixed repayment terms. In the opinion of the directors of the Company, the amount due to Probest will not be repayable within the next 12 months.

Details of the subsequent restructuring for the amounts due to Probest are set out in note 35(b) to the financial statements.

25. AMOUNTS DUE TO ASSOCIATES

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

26. TRADE PAYABLES

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

	2004 HK$'000	2003 HK$'000
Current to 30 days	14,010	24,205
31 to 60 days	992	602
61 to 90 days	379	188
More than 90 days	1,680	997
	17,061	25,992

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27. PROMISSORY NOTE

	Group and Company	
	2004	2003
	HK$'000	HK$'000
Interest repayable on demand	12,058	1,527
Principal repayable:		
Within 1 year	88,000	25,500
Payable after 1 year but within 2 years	75,000	62,500
After 2 years but within 5 years	–	75,000
Total	175,058	164,527
Amount due to Probest under promissory note	175,058	164,527
Portion classified as current liabilities	(100,058)	(27,027)
Non-current portion	75,000	137,500

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

Details of the subsequent restructuring for the amounts due to Probest are set out in note 35(b) to the financial statements.

28. PROVISION FOR LONG SERVICE PAYMENTS

	Group	
	2004	2003
	HK$'000	HK$'000
At 1 January	490	712
Amount utilised during the year	(111)	(222)
At 31 December	379	490
Portion classified as current liabilities	–	–
Non-current portion	379	490

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

29. DEFERRED TAXATION

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

	Group		Company	
	2004	2003	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000
Tax losses	125,157	129,931	32,046	33,902

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

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

30. ISSUED CAPITAL

	2004	2003
	HK$'000	HK$'000
Authorised:		
300,000,000,000 ordinary shares of HK$0.01 each	3,000,000	3,000,000
Issued and fully paid:		
3,124,862,734 ordinary shares of HK$0.01 each	31,249	31,249

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31. SHARE OPTION SCHEME

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

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

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

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

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

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

No share options have been granted during the year and no share options were outstanding as at the balance sheet date.

32. RESERVES

a) Group

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

b) Company

	Share premium amount HK$'000	Special reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2003	715,132	–	(1,299,513)	(584,381)
Issue of new shares	8,704	–	–	8,704
Share issue expenses	(374)	–	–	(374)
Capital Reorganisation	–	341,800	102,377	444,177
Net profit for the year	–	–	34,535	34,535
At 31 December 2003 and at 1 January 2004	723,462	341,800	(1,162,601)	(97,339)
Net profit for the year	–	–	188	188
At 31 December 2004	723,462	341,800	(1,162,413)	(97,151)

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33. OPERATING LEASE COMMITMENTS

At 31 December 2004, the Group and the Company had commitments for future minimum lease under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	Group		Company	
	2004	2003	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	1,323	1,004	–	912
In the second to fifth year inclusive	–	–	–	–
	1,323	1,004	–	912

The Group leases certain of its office properties and warehouses under operating lease arrangements. Leases for office properties and warehouses are negotiated for terms ranging from 1 to 2 years.

34. RELATED AND CONNECTED PARTY TRANSACTIONS

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

		Group	
		2004	2003
	Notes	HK$'000	HK$'000
Sales of finished goods to associates	(i)	10,224	8,390
Purchases of raw materials and finished goods from associates	(ii)	14,807	12,755
Management fee income from an associate	(iii)	585	2,346
Interest expense charged by a shareholder, Probest		13,567	15,076
Annual rental to a joint venture partner	(iv)	2,830	2,830
Amount due to a shareholder, Probest	24	46,594	43,558
Promissory note payable to Probest	27	163,000	163,000
Loan principal and interests waived by Probest	10(ii)	–	73,506
Disposal of 30% equity interest in Profitown to Probest	10(i)	–	3,000

34. RELATED AND CONNECTED PARTY TRANSACTIONS (Cont'd)

Notes:

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

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

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

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

35. POST BALANCE SHEET EVENTS

(a) On 20 January 2005, a conditional sale and purchase agreement (as amended by the supplemental agreement dated 13 April 2005) ("Share Disposal Agreement") was made between Probest Holdings Inc ("Probest") which is an intermediate holding company of the Company, Rich Global Investments Limited ("Rich Global") and Kingsway Lion Spur Technology Limited ("Kingsway Lion") which are subsidiaries of SW Kingsway Capital Holdings Limited, and an independent third party, China Time Investment Holdings Limited ("China Time"), pursuant to which Probest, Rich Global and Kingsway Lion agreed to dispose of 1,437,396,440, 156,283,205 and 281,238,000 existing issued shares of the Company, representing approximately 60% of the existing issued share of the Company, to China Time at the considerations of HK$43,121,893, HK$4,688,496 and HK$8,437,140, respectively.

Upon completion of the Share Disposal Agreement, Probest will hold approximately 5% of the existing issued shares of the Company which in turn owns 70% issued capital of Profitown. Probest currently holds 30% issued capital of Profitown at the balance sheet date.

(b) On 20 January 2005, Probest, the Company and Profitown entered into a conditional loan restructuring agreement ("Loan Restructuring Agreement"), pursuant to which Probest conditionally agreed to waive an outstanding principal of the Debt under the promissory note due by the Company to Probest, as referred to note 27 above, over and above the Remaining Debt of HK$112,167,732 (as of 18 April 2005) due and owing by Profitown to the Company ("Profitown/Swank Loan"), the interest and the default interest on the Debt for the period from 5 November 2003 up to and inclusive of date of the Share Disposal Agreement as referred to (a) above, in the amount of approximately HK$12,669,995 and any further interest which may be accrued on the Debt up to and inclusive of the effective date when the conditions of the Loan Restructuring Agreement are fulfilled.

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35. POST BALANCE SHEET EVENTS (cont'd)

(b) As part of the Loan Restructuring Agreement and on its effective date when all the stipulated conditions are fulfilled, Profitown will issue and deliver a new Promissory Note to Probest, in consideration of which the Company undertakes to waive a sum equivalent to the Remaining Debt (which amounts to HK$112,167,732 as of 18 April 2005) from Profitown/Swank Loan. In addition, the Company will execute a guarantee in favour of Probest ("Swank Guarantee") that if and whenever Profitown defaults for any reason in payment of the principal sum due under the Promissory Note to be issued to Probest, the Company will upon demand by Probest unconditionally pay and satisfy all the interest which Profitown is liable to pay under the new Promissory Note on and after such default. The obligations of the Company under the Swank Guarantee are unsecured and will cease to be effective if the Put Option as referred to (c) below, is exercised and the transaction contemplated under the Put Option is completed.

As at 18 April 2005, the principal amount, interests and default interests of the Debt to be waived by Probest amounts to approximately HK$66 million.

(c) Both before and immediately after completion of the said Share Disposal Agreement (referred to in note (a) above), Profitown will be held as to 30% by Probest and as to 70% by the Company. On completion, the Company, Probest and its holding company Tomorrow International Holdings Limited, and Profitown will enter into a shareholder agreement to regulate the management of Profitown ("Profitown Shareholders Agreement"). Pursuant to principal terms of the Profitown Shareholders Agreement, the Company will have the right to request Probest or an independent third party procured by Probest to purchase (the "Put Option") all (but not part of only) of its shares, being 70% of all the existing issued shares of Profitown exercisable at any time before the expiry of 30 months from the Completion Date of the Share Disposal Agreement at a price equal to the net tangible asset value of Profitown as at the date of exercise of such put option attributable to such shares and such purchaser will assume all the liabilities due from the Company to any member of the Profitown Group incurred prior to the date of Profitown Shareholders Agreement at nil consideration. If the net tangible asset value of Profitown as determined on the same basis and accounting policies adopted by Profitown in its latest audited accounts shall fall below zero during the 30-month period from the Completion Date, Probest will indemnify Profitown on demand for the deficit in the event that such deficit exceeds the outstanding principal amount of the new Promissory Note due to Probest and the interest accrued. The Put Option and such indemnity by Probest will cease and Probest shall have no further obligations in respect thereto if (i) the aggregate shareholding of China Time in the Company falls below 51%; (ii) there is any change to the majority of the board of directors of China Time since the date of and as disclosed in the Share Disposal Agreement; and (iii) Mr. Wang An Kang cease to be the legal and beneficial owner of at least 75% of and in China Time.

The further details and conditions for completion, where appropriate, of the said Share Disposal Agreement, Loan Restructuring Agreement and Shareholder Agreement are set out in the joint announcement dated 18 April 2005 made by Tomorrow International Holdings Limited, the Company and China Time.

36. PARENT ENTERPRISES

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