NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2006

1. GENERAL

The Company is 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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information on page 2 of this Annual Report.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are set out in note 37.

The consolidated financial statements are presented in Hong Kong dollars which is different from the functional currency of the Company, which is in United States dollars, as directors of the Company consider that Hong Kong dollar is the most appropriate presentation currency in view of its place of listing.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("INTs") ("new HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material financial impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2009.
[3] Effective for annual periods beginning on or after 1st March, 2006.
[4] Effective for annual periods beginning on or after 1st May, 2006.
[5] Effective for annual periods beginning on or after 1st June, 2006.
[6] Effective for annual periods beginning on or after 1st November, 2006.
[7] Effective for annual periods beginning on or after 1st March, 2007.
[8] Effective for annual periods beginning on or after 1st January, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment property, which is measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

3. Significant Accounting Policies *(continued)*

Basis of consolidation (continued)

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalty arrangement that is based on sales is recognised by reference to the underlying arrangement.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill (continued)

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year when the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised but not yet impaired is included in the determination of the amount of profit or loss on disposal.

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment, other than buildings under construction, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Buildings under construction represents property, plant and equipment in the course of construction for production or for its own use purposes. Buildings under construction is carried at cost less any recognised impairment loss. Buildings under construction is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Prepaid lease payment

The prepaid lease payments which represent upfront payment for leasehold land are initially recognised at cost and released to consolidated income statement over the lease term on a straight-line basis.

Investment property

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets

Intangible assets represent trademarks with indefinite useful lives and are carried at cost less any subsequent accumulated impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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 impairment loss is recognised as income immediately.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment losses (other than goodwill and indefinite life intangibles)

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those 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. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into two categories, including "loans and receivables" and "available-for-sale investments". All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

***Financial assets** (continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors, loan receivable and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in profit or loss in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities (including creditors and accrued charges and loan from a minority shareholder) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of the consideration received is recognised in profit or loss.

For financial liabilities, they are removed from the Group's consolidated balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. Significant Accounting Policies *(continued)*

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 profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 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.

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 profits 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 realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. Significant Accounting Policies *(continued)*

Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit costs

Payments to the defined contribution retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Equity settled share-based payment transactions

Share options granted to directors and employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share options reserve.

The Group has applied HKFRS 2 "Share-based payments" to share options granted on or after 1st January, 2005. The above policy is applied to all equity-settled share-based payments that were granted after 7th November, 2002 and vested after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted after 7th November, 2002 and vested before 1st January, 2005, no amount has been recognised in the consolidated financial statements in respect of the equity-based payments.

4. Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, management has made the following estimations that have effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimating uncertainty at the balance sheet date, that have a significant risk of giving rise to a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of debtors

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 19.

5. Financial Instruments

a. Financial risk management objectives and policies

The Group's major financial instruments include debtors, loan receivables, available-for-sale investments, creditors, bank deposits and loan from a minority shareholder. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

5. FINANCIAL INSTRUMENTS *(continued)*

a. Financial risk management objectives and policies (continued)

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk.

Certain debtors, deposits, loan receivables and available-for-sale investments and creditors of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's bank balances have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are with short maturity periods.

The Group currently does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Credit risk

As at 31st December, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and

- the amount disclosed in note 34.

The Group's credit risk is primarily attributable to its debtors and loan receivable. The amounts presented in the consolidated balance sheet are net of allowances for doubtful debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2006

5. Financial Instruments *(continued)*

a. Financial risk management objectives and policies (continued)

Credit risk (continued)

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk for bank deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The directors consider that the carrying amounts of financial assets and financial liabilities in the consolidated financial statements approximate their fair values.

6. Segment Information

Revenue

Revenue 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 (the "PRC").

6. 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, 2006

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	708,957	291,866	69,925	28,212	1,098,960
Result					
Segment result	149,340	63,900	18,581	4,158	235,979
Unallocated income					20,956
Unallocated corporate expenses					(76,853)
Interest income on bank deposits					1,012
Finance costs					(49)
Profit before taxation					181,045
Taxation					(17,676)
Profit for the year					163,369

6. SEGMENT INFORMATION *(continued)*

Geographical segments (continued)

At 31st December, 2006

Balance sheet

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Assets					
Segment assets	272,638	109,253	28,171	38,913	448,975
Unallocated corporate assets					563,866
					1,012,841
Unallocated corporate liabilities					258,491

Other information

	Unallocated and consolidated HK$'000
Capital expenditure of property, plant and equipment	146,708
Depreciation of property, plant and equipment	56,531
Release of prepaid lease payments	900

6. SEGMENT INFORMATION *(continued)*

Geographical segments (continued)

For the year ended 31st December, 2005

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	464,088	232,167	65,537	29,832	791,624
Result					
Segment result	94,663	44,475	14,364	4,597	158,099
Unallocated income					3,136
Unallocated corporate expenses					(56,463)
Interest income on bank deposits					1,194
Finance costs					(21)
Profit before taxation					105,945
Taxation					(10,217)
Profit for the year					95,728

6. SEGMENT INFORMATION *(continued)*

Geographical segments (continued)

At 31st December, 2005

Balance sheet

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *HK$'000*
Assets					
Segment assets	195,316	85,464	19,579	30,524	330,883
Unallocated corporate assets					479,522
					810,405
Unallocated corporate liabilities					183,940

Other information

	Unallocated and consolidated *HK$'000*
Capital expenditure of property, plant and equipment	92,541
Depreciation of property, plant and equipment	49,105
Release of prepaid lease payments	970

7. Other Income

Included in other income are:

	2006	2005
	HK$'000	*HK$'000*
Sales of scrap materials	**12,861**	6,333
Compensation from customers	**5,444**	412
Increase in fair value of investment property	**1,200**	400
Interest income on bank deposits	**1,012**	1,194
Property rental income less negligible outgoings	**290**	286
Dividend income from available-for-sale investments	**940**	416
Net gain on disposal of prepaid lease payments and property, plant and equipment	**18,045**	–
Royalty income on intangible assets	**1,873**	–
Net foreign exchange gains	**–**	1,564

8. Income Statement Classification

Included in cost of sales is an amount of HK$15,645,000 (2005: HK$3,342,000) in respect of a write-down of raw materials, work in progress and finished goods to their estimated net realisable values.

9. Finance Costs

	2006	2005
	HK$'000	*HK$'000*
Interest on bank borrowing wholly repayable within five years	**15**	21
Imputed interest on loan from a minority shareholder of a subsidiary	**34**	–
	49	21

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2006

10. TAXATION

	2006 **HK$'000**	2005 HK$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	**16,822**	7,541
– Under(over)provision in respect of prior years	**1,109**	(614)
	17,931	6,927
Deferred taxation *(note 29)*		
– Current year	**1,356**	3,290
– Overprovision in respect of prior year	**(1,611)**	–
	(255)	3,290
	17,676	10,217

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 of the Company, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both years.

10. TAXATION *(continued)*

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

	2006 **HK$'000**	2005 HK$'000
Profit before taxation	**181,045**	105,945
Tax at the applicable rate of 17.5% (2005: 17.5%)	**31,683**	18,540
Tax effect of expenses not deductible for tax purpose	**2,789**	1,619
Tax effect of income not taxable for tax purpose	**(2,874)**	(1,652)
Tax effect of Hong Kong Profits Tax on 50:50 apportionment basis	**(16,554)**	(8,114)
Overprovision in respect of prior years	**(502)**	(614)
Tax effect of tax losses and other deductible temporary differences for current year not recognised	**1,922**	282
Utilisation of tax losses and other deductible temporary differences for prior years previously not recognised	**(69)**	(231)
Others	**1,281**	387
Taxation for the year	**17,676**	10,217

11. Profit for the Year

	2006 *HK$'000*	2005 *HK$'000*
Profit for the year has been arrived at after charging:		
Auditor's remuneration	**1,408**	1,289
Cost of inventories recognised as an expense	**783,330**	569,555
Depreciation of property, plant and equipment	**56,531**	49,105
Impairment loss on goodwill	**1,274**	–
Impairment loss recognised in respect of available-for-sale investments	**7,500**	–
Loss on disposal of property, plant and equipment	**4,680**	1,400
Net foreign exchange loss	**5,476**	–
Operating lease rentals in respect of rented premises	**6,485**	7,218
Release of prepaid lease payments	**900**	970
Staff costs:		
Directors' emoluments *(note 12)*	**2,907**	2,585
Other staff		
– Salaries and other allowances	**206,023**	148,848
– Retirement benefit scheme contributions	**1,118**	1,010
Total staff costs	**210,048**	152,443

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2005: seven) directors were as follows:

At 31st December, 2006

	Fee HK$'000	Other emoluments: Salaries and other benefits HK$'000 (Note a)	Performance related incentive bonus HK$'000 (Note b)	Contributions to retirement benefits scheme HK$'000 (Note a)	Total HK$'000
Executive directors:					
Ng Hoi Ying, Michael	–	–	226	6	232
Hui Pui Woon	–	761	–	35	796
Ng Kim Ying	–	195	–	9	204
Lee Wai Chung	–	1,012	200	47	1,259
	–	1,968	426	97	2,491
Independent non-executive directors:					
Francis George Martin	144	–	–	–	144
Wong Chi Wai	136	–	–	–	136
Chung Hil Lan Eric	136	–	–	–	136
	416	–	–	–	416
Total emoluments	416	1,968	426	97	2,907

12. Directors' Emoluments *(continued)*

At 31st December, 2005

		Other emoluments			
	Fee HK$'000	**Salaries and other benefits** HK$'000 (Note a)	**Performance related incentive bonus** HK$'000 (Note b)	**Contributions to retirement benefits scheme** HK$'000 (Note a)	**Total** HK$'000
Executive directors:					
Ng Hoi Ying, Michael	–	–	133	8	141
Hui Pui Woon	–	761	–	35	796
Ng Kim Ying	–	195	–	10	205
Lee Wai Chung	–	925	92	42	1,059
	–	1,881	225	95	2,201
Independent non-executive directors:					
Francis George Martin	144	–	–	–	144
Wong Chi Wai	120	–	–	–	120
Chung Hil Lan Eric	120	–	–	–	120
	384	–	–	–	384
Total emoluments	384	1,881	225	95	2,585

12. DIRECTORS' EMOLUMENTS *(continued)*

Notes:

(a) During the years ended 31st December, 2006 and 31st December, 2005, Mr. Ng Hoi Ying, Michael, an executive director, waived emoluments as follows:

	2006 **HK$'000**	2005 HK$'000
Amounts waived in respect of emoluments for the current year		
Salaries and other benefits	**1,235**	1,235
Retirement benefit scheme contributions	**51**	49
	1,286	1,284

(b) The performance related incentive payment is determined by reference to the financial performance of the Group and the performance of the individual director for the two years ended 31st December, 2006 and 31st December, 2005 respectively.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2005: one) was an executive director of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining four (2005: four) individuals were as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**3,212**	3,047
Contributions to retirement benefits schemes	**146**	288
Performance related incentive payments	**589**	138
	3,947	3,473

13. EMPLOYEES' EMOLUMENTS *(continued)*

Their emoluments were within the following bands:

	2006 No. of employees	2005 No. of employees
Nil to HK$1,000,000	**2**	4
HK$1,000,001 to HK$1,500,000	**2**	–

14. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Dividend recognised as distribution during the year:		
Final dividend paid in respect of 2005 of 7 HK cents (2004: 9 HK cents) per share	**26,856**	34,122
Interim dividend paid in respect of 2006 of 7 HK cents (2005: 9 HK cents) per share	**26,855**	34,528
	53,711	68,650
Final dividend proposed in respect of 2006 of 7 HK cents (2005: 7 HK cents) per share	**26,856**	26,856
	80,567	95,506

The final dividend in respect of 2006 of 7 HK cents (2005: 7 HK cents) per share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share	**166,483**	95,961
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	**383,650,000**	380,692,192
Effect of dilutive potential shares in respect of share options	**–**	2,015,810
Weighted average number of shares for the purpose of diluted earnings per share	**383,650,000**	382,708,002

16. Investment Property

	HK$'000
FAIR VALUE	
At 1st January, 2005	3,200
Increase in fair value recognised in the consolidated income statement	400
At 31st December, 2005	3,600
Increase in fair value recognised in the consolidated income statement	1,200
At 31st December, 2006	4,800

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

The fair value of the Group's investment property at 31st December, 2006 have been arrived at on the basis of a valuation carried out on that day by Messrs. Vigers Appraisal & Consulting Limited, independent qualified professional valuers not connected with the Group. Messrs. Vigers Appraisal & Consulting Limited are members of the Hong Kong Institute of Surveyors ("HKIS") and Royal Institution of Chartered Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation which conforms to the HKIS Valuation Standards on Properties (First Edition 2005) published by the HKIS, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interest held under operating leases to earn rentals is measured using the fair value model and is classified and accounted for as investment property.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings 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
COST							
At 1st January, 2005	140,867	40,725	279,412	38,070	8,047	4,498	511,619
Exchange adjustments	154	81	245	32	8	82	602
Additions	2,610	6,727	47,269	4,904	227	30,804	92,541
Disposals	(1,450)	(877)	(7,051)	(1,180)	(417)	–	(10,975)
Reclassification	5,726	–	–	–	–	(5,726)	–
At 31st December, 2005	147,907	46,656	319,875	41,826	7,865	29,658	593,787
Exchange adjustments	8,673	2,309	17,477	1,538	252	1,236	31,485
Additions	9,371	6,688	78,453	9,444	612	42,140	146,708
Disposals	(4,232)	(2,269)	(13,885)	(2,261)	(1,251)	–	(23,898)
Reclassification	31,688	–	–	–	–	(31,688)	–
At 31st December, 2006	193,407	53,384	401,920	50,547	7,478	41,346	748,082
DEPRECIATION AND AMORTISATION							
At 1st January, 2005	30,671	33,646	198,667	30,032	5,575	–	298,591
Exchange adjustments	18	56	181	22	8	–	285
Provided for the year	5,971	4,925	33,330	3,916	963	–	49,105
Eliminated on disposals	(638)	(742)	(6,099)	(1,072)	(388)	–	(8,939)
At 31st December, 2005	36,022	37,885	226,079	32,898	6,158	–	339,042
Exchange adjustments	2,149	2,036	12,942	1,117	212	–	18,456
Provided for the year	7,528	5,723	38,612	3,986	682	–	56,531
Eliminated on disposals	(1,114)	(2,194)	(10,395)	(1,633)	(984)	–	(16,320)
At 31st December, 2006	44,585	43,450	267,238	36,368	6,068	–	397,709
CARRYING VALUES							
At 31st December, 2006	148,822	9,934	134,682	14,179	1,410	41,346	350,373
At 31st December, 2005	111,885	8,771	93,796	8,928	1,707	29,658	254,745

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the estimated useful lives of 25 years or the term of the leases, if shorter
Leasehold improvements	Over the estimated useful lives of 3 years or the term of the lease, if shorter
Furniture, fixtures and office equipment	Over 3 to 5 years
Plant and machinery and motor vehicles	Over 5 years

The Group's property interests shown above comprise:

	Buildings		**Buildings under construction**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Properties situated on land in the PRC other than Hong Kong held under medium-term leases	**147,453**	110,370	**41,346**	29,658
Properties situated on land in Hong Kong held under medium-term leases	**1,369**	1,515	**–**	–
	148,822	111,885	**41,346**	29,658

18. PREPAID LEASE PAYMENTS

	2006 **HK$'000**	2005 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	**5,747**	5,888
Leasehold land outside Hong Kong:		
Medium-term lease	**21,050**	35,682
	26,797	41,570
Analysed for reporting purposes as:		
Current asset	**652**	972
Non-current asset	**26,145**	40,598
	26,797	41,570

19. INTANGIBLE ASSETS AND IMPAIRMENT TESTING ON INTANGIBLE ASSETS

The trademark purchased from a third party in current year is considered by the management of the Group as having an indefinite useful life.

The recoverable amount of the trademark has been determined on the basis of value in use calculations. The recoverable amount is based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years with zero growth rate, and at a discount rate of 10%. Cash flow projections during the budget period for the trademark are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

During the year ended 31st December, 2006, the trademark has been tested for impairment by comparing its carrying amount with its recoverable amount. The management of the Group determined that there is no impairment loss was charged for the current year.

20. Loan Receivable

	2006 **HK$'000**	2005 HK$'000
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the balance sheet date)	**2,247**	2,262
Non-current assets (receivable after 12 months from the balance sheet date)	**15,229**	17,589
	17,476	19,851

The loan receivable is secured by all financial assets of the borrower and carry interest at fixed interest rate at 5% per annum and are repayable through 9 equal annual installments of HK$2,247,000 each from 2006 to 2015.

21. Goodwill and Impairment Testing on Goodwill

	HK$'000
COST	
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	1,274
IMPAIRMENT	
At 1st January, 2005 and 31st December, 2005	–
Impairment loss recognised	1,274
At 31st December, 2006	1,274
CARRYING VALUES	
At 31st December, 2006	–
At 31st December, 2005	1,274

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill of HK$1,274,000 was wholly allocated to cash-generating unit in trading in optical frames of a subsidiary (the "Unit").

21. Goodwill and Impairment Testing on Goodwill *(continued)*

The recoverable amounts of the Unit have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years with zero growth rate, and at a discount rate of 7.75% (2005: 7.75%). Cash flow projections during the budget period for the Unit are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

Due to the effects caused by the uncertainty about the market conditions, the Group has revised its cash flow forecasts for the Unit during the year. The Unit has therefore been reduced to its recoverable amount through recognition of an impairment loan against goodwill of HK$1,274,000 for the year ended 31st December, 2006.

However, the impairment loss recognised in respect of goodwill by natures does not have any effect on the Group's cash flow.

22. Available-for-sale Investments

	2006 ***HK$'000***	2005 *HK$'000*
Equity securities, unlisted at cost	**13,358**	13,358
Less: Impairment loss recognised	**(7,500)**	–
	5,858	13,358

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated overseas. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. INVENTORIES

	2006	2005
	HK$'000	*HK$'000*
Raw materials	**61,725**	55,301
Work in progress	**111,857**	95,433
Finished goods	**11,039**	11,566
	184,621	162,300

24. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing 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$333,632,000 (2005: HK$233,670,000), an aging analysis of which at the balance sheet date is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**259,328**	180,277
1 to 90 days overdue	**74,304**	49,082
More than 90 days overdue	**–**	4,311
	333,632	233,670

25. BANK BALANCES AND CASH

Bank balances and cash comprise short-term bank deposits at prevailing market interest rates and short-term bank deposits at market rates range from 2.3% to 4.0% (2005: 1.8% to 3.5%).

26. Creditors and Accrued Charges

Included in the Group's creditors and accrued charges are trade creditors of HK$163,339,000 (2005: HK$133,818,000), an aging analysis of which at the balance sheet date is as follows:

	2006 **HK$'000**	2005 HK$'000
Current	**108,991**	90,089
1 to 90 days overdue	**52,635**	41,121
More than 90 days overdue	**1,713**	2,608
	163,339	133,818

27. Share Capital

Movements during the year in the share capital of the Company were as follows:

	Number of shares		Nominal value	
	2006	2005	**2006** **HK$'000**	2005 HK$'000
Ordinary shares of HK$0.1 each:				
Authorised:				
At beginning and end of year	**1,000,000,000**	1,000,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of the year	**383,650,000**	379,130,000	**38,365**	37,913
Issued of shares upon exercise of share options	**–**	4,520,000	**–**	452
At end of the year	**383,650,000**	383,650,000	**38,365**	38,365

28. SHARE OPTIONS

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

Old Share Option Scheme

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

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, 2005	Exercised during 2005	Lapsed during 2005	Outstanding at 31st December, 2005	Exercised during 2006	Outstanding at 31st December, 2006
Category: Directors	2,020,000	(2,020,000)	–	–	–	–
Category: Employees	2,500,000	(2,500,000)	–	–	–	–
Total all categories	4,520,000	(4,520,000)	–	–	–	–

28. Share Options *(continued)*

Old Share Option Scheme (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 2005 amounted to approximately HK$3,977,600. The closing prices of the Company's shares on the dates on which the share options were exercised during 2005 were HK$2.55 and HK$2.50.

New Share Option Scheme

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 purpose of the New Share Option Scheme is to attract and retain high calibre employees, and to motivate them towards higher levels of performance. 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.

28. SHARE OPTIONS (continued)

New Share Option Scheme (continued)

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

29. DEFERRED TAX (LIABILITIES) ASSETS

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

	Accelerated tax depreciation *HK$'000*	**Other temporary difference** *HK$'000*	**Total** *HK$'000*
At 1st January, 2005	(9,430)	(536)	(9,966)
Charge to consolidated income statement for the year	(1,583)	(1,707)	(3,290)
At 31st December, 2005	(11,013)	(2,243)	(13,256)
Charge to consolidated income statement for the year	(145)	400	255
At 31st December, 2006	(11,158)	(1,843)	(13,001)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006 ***HK$'000***	2005 *HK$'000*
Deferred tax assets	**53**	53
Deferred tax liabilities	**(13,054)**	(13,309)
	(13,001)	(13,256)

At 31st December, 2006, the Group has unused tax losses of HK$15,559,000 (2005: HK$11,875,000) 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$10,608,000 (2005: HK$9,346,000) that will expire from 2006 to 2009. Other losses may be carried forward indefinitely.

29. DEFERRED TAX (LIABILITIES) ASSETS *(continued)*

At the balance sheet date, the Group has deductible temporary differences of HK$19,921,000 (2005: HK$13,019,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

30. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured and interest-free. The minority shareholder of a subsidiary has confirmed that the principal amount of the loan is not repayable within the next twelve months from the balance sheet date. On application of HKAS 39 "Financial Instruments: Recognition and Measurement", the fair value of the loan from a minority shareholder of a subsidiary is determined based on an effective interest of 7.75% on initial recognition.

31. RETIREMENT BENEFIT SCHEME

The Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying 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 provincial governments 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.

The total cost charged to income of HK$1,215,000 (2005: HK$1,105,000) represents contributions payable to these schemes by the Group. At the balance sheet date, there was no forfeited contributions available to reduce future contributions in both years.

32. 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:

	2006 **HK$'000**	2005 HK$'000
Within one year	**5,296**	5,342
In the second to fifth year inclusive	**12,087**	10,639
Over five years	**3,021**	–
	20,404	15,981

In addition to the above, none (2005: one) of the leases of the Group are subject to contingent rents based on a fixed percentage of the annual gross turnover and receipts in excess of the minimum lease. Contingent rent of HK$65,000 for the year ended 31st December, 2005 is included in operating lease rentals in respect of rented premises in note 11.

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

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease repayments:

The Group as lessor:

	2006 **HK$'000**	2005 HK$'000
Within one year	**315**	242

Property rental income earned during the year was HK$290,000 (2005: HK$286,000). The property held at the balance sheet date has committed tenant for an average term of two years.

33. Capital Commitments

	2006 HK$'000	2005 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements:		
– buildings under construction	**56,069**	18,081
– leasehold improvements	**1,078**	961
– plant and machinery	**36,976**	9,597
– furniture, fixtures and office equipment	**–**	317
	94,123	28,956

34. Contingent Liabilities

	2006 HK$'000	2005 HK$'000
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	**9,687**	9,750

The directors consider that the fair values of these financial guarantee contract at its initial recognition is insignificant on the basis of short maturity periods and low applicable default rates. The financial guarantee contract has not been recognised in the consolidated financial statements.

35. Related Party Transactions

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006 HK$'000	2005 HK$'000
Short-term benefits	**6,611**	5,675
Post-employment benefits	**243**	383
	6,854	6,058

The remuneration of the executive directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends. The remuneration of independent non-executive directors was determined by the Remuneration Committee before the annual general meeting held on 25th May, 2006 and thereafter recommended by the board of directors and approved by the shareholders of the Company at the annual general meeting.

36. SUMMARISED BALANCE SHEET OF THE COMPANY

	2006 **HK$'000**	2005 HK$'000
Investments in subsidiaries	**139,040**	139,040
Amount due from a subsidiary	**194,433**	181,113
Other current assets	**31,628**	35,955
Other current liabilities	**(3,014)**	(1,361)
	362,087	354,747
Share capital	**38,365**	38,365
Reserves	**323,722**	316,382
	362,087	354,747

37. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2006 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 Directly	Indirectly	Principal activities
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

37. 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 Directly	Indirectly	Principal activities
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
Eyeworkz Limited	Hong Kong	HK$100	–	51%	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)*	Retailing of optical products
滙駿光學城(河源)有限公司 (known as "Huijun Optical (Heyuan) Limited")	PRC	HK$48,800,000	–	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$3,000,000	–	100% *(Note 2)*	Inactive
滙龍眼鏡五金配件(河源)有限公司 (known as "Huilong Optical Manufactory (Heyuan) Limited")	PRC	HK$1,500,000	–	100% *(Note 2)*	Inactive

37. PRINCIPAL SUBSIDIARIES *(continued)*

Notes:

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, 2006 or at any time during the year.