Arts Group

Arts Optical International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 1120

Contents

Corporate Information

Board of Directors

Executive directors

NG Hoi Ying, Michael - Chairman
NG Kim Ying
LEE Wai Chung
HUI Pui Woon
(resigned on 30th November, 2007)

Independent non-executive directors

Francis George MARTIN
WONG Chi Wai
CHUNG Hil Lan Eric

Company Secretary & Qualified Accountant

LEE Wai Chung

Auditor

Deloitte Touche Tohmatsu

Legal Advisers

Allen & Overy
Conyers Dill & Pearman

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong

Unit 308, 3rd Floor, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

Principal Share Registrar

The Bank of Bermuda Limited
6 Front Street, Hamilton HM 11
Bermuda

Hong Kong Branch Share Registrar

Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
China Construction Bank Corporation
Hong Kong Branch
Chong Hing Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited

Website

www.artsgroup.com

GROUP STRUCTURE

ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

INVESTMENT HOLDING

100% — **ARTS OPTICAL COMPANY LIMITED**
TRADING IN OPTICAL FRAMES TO ORIGINAL DESIGN MANUFACTURING CUSTOMERS

100% — **ARGENT OPTICAL MANUFACTORY LIMITED**
MANUFACTURE OF OPTICAL FRAMES

100% — **EYECONCEPT LIMITED**
TRADING IN OPTICAL FRAMES UNDER OWN BRAND NAME AND LICENSED BRAND NAME

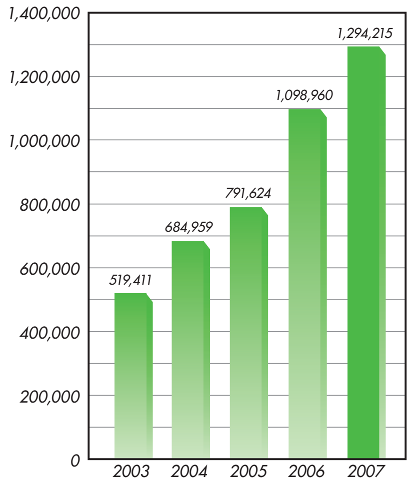
61% — **EYEWORKZ LIMITED**
TRADING IN OPTICAL FRAMES UNDER OWN BRAND NAME AND LICENSED BRAND NAMES

100% — **ARTS 1000 OPTICAL COMPANY LIMITED**
RETAILING OF OPTICAL PRODUCTS

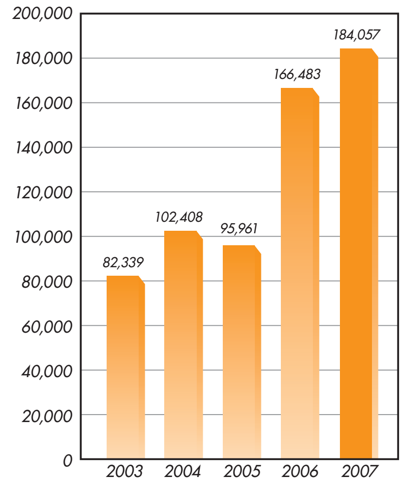
51% — **SHENZHEN NORTH OPTICAL INDUSTRIAL COMPANY LIMITED**
RETAILING OF OPTICAL PRODUCTS

FINANCIAL HIGHLIGHTS

Consolidated revenue (HK$'000)

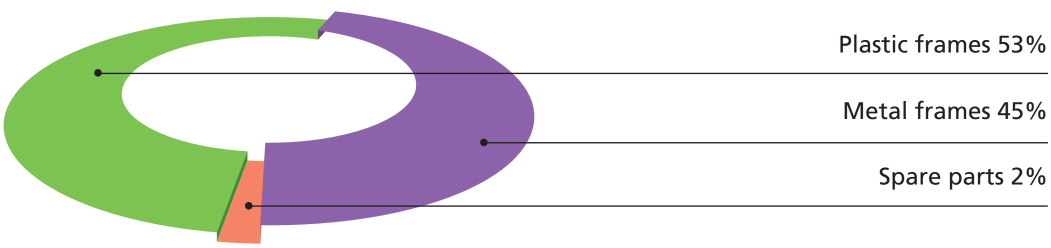


Profit attributable to equity holders of the parent (HK$'000)



Consolidated revenue by geographical locations in 2007

Revenue of ODM division by product range in 2007



CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Profitability analysis

2007 was another year of growth for the Company and its subsidiaries (together, the "Group"). Its consolidated revenue and profit attributable to the equity holders of the Company increased by 18% and 11% to HK$1,294.2 million and HK$184.1 million respectively (2006: HK$1,099.0 million and HK$166.5 million respectively) in 2007. Basic earnings per share also increased by 11% to 48.0 HK cents (2006: 43.4 HK cents) in 2007.

Although the Group continued to face acute cost challenges imposed by higher raw material costs, labour wages, record energy prices and appreciation of Renminbi, it strived to maintain its profit margin by cost synergies derived from economies of scale, improvement in operational efficiency and modest selling price adjustments. Gross profit margin (ratio of gross profit to revenue) declined slightly by 0.2% from 28.7% in 2006 to 28.5% in 2007. To maintain the profitability growth, the management succeeded in containing the increase in general expenses and as a result, total expenses to revenue ratio decreased by 1.3% from 16.1% in 2006 to 14.8% in 2007. Net profit margin (ratio of profit attributable to the equity holders of the Company to revenue) decreased by 0.9% from 15.1% in 2006 to 14.2% in 2007.

Original design manufacturing (ODM) division

Despite the slowdown in global economy arising from the sub-prime mortgage crisis in the United States (the "US") during the year, the Group managed to report a satisfactory growth of 18% of revenue generated by its core ODM division from HK$996.6 million in 2006 to HK$1,179.6 million in 2007 by leveraging on the flexibility and efficiency of its manufacturing base and its ability of quickly responding to market changes. Sales to Europe and the US registered growth rates of 15% and 27% and increased to HK$762.9 million and HK$361.8 million respectively (2006: HK$661.8 million and HK$285.7 million respectively) in 2007. From a geographical perspective, sales to Europe, US, Asia and other regions all reported growth in revenue and accounted for 65%, 30%, 3% and 2% respectively of the sales of this division in 2007 (2006: 66%, 29%, 3% and 2% respectively). Sales of sunglasses continued to exhibit a faster growth rate as compared with prescription frames and grew by 26% in 2007 to HK$559.5 million (2006: HK$444.0 million) as the demand by fashion labels for trendy sunglasses especially those made of acetate plastic materials remained strong. Sales of prescription frames also increased by 11% to HK$595.4 million in 2007 (2006: HK$534.9 million). Sales of plastic frames, metal frames and spare parts accounted for 53%, 45% and 2% respectively of the sales of the ODM division in 2007 (2006: 49%, 49% and 2% respectively).

CHAIRMAN'S STATEMENT

Distribution and retailing divisions

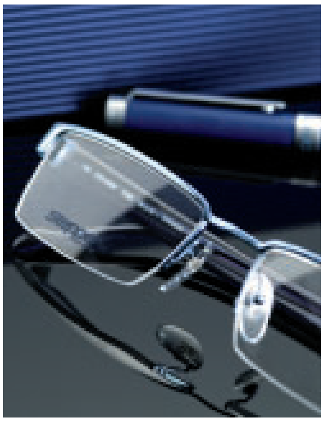
Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) increased by 11% to HK$95.7 million in 2007 (2006: HK$86.4 million). Most of the growth momentum was contributed by STEPPER eyewear (the German brand owned by the Group) as the contribution from FIORUCCI eyewear (a licensed Italian fashion brand), PANTONE UNIVERSE eyewear (a licensed American brand) and OOPZ eyewear (a house brand) was relatively limited. Sales to Europe, Asia, North America and other regions accounted for 61%, 15%, 11% and 13% respectively of the Group's revenue of distribution division in 2007 (2006: 50%, 28%, 11% and 11% respectively). Double-digit sales growth was recorded in all major markets except for Asia.

The Group had sold 4 shops and closed down 1 shop in Beijing in 2007. As at 31st December, 2007, the Group operated a total of 8 shops (31st December, 2006: 13 shops) including 3 shops in Beijing and 5 shops in Shenzhen (31st December, 2006: 8 shops and 5 shops respectively). Despite the down-sizing of the retail sales network, revenue of the retailing division increased by 18% to HK$18.9 million in 2007 (2006: HK$16.0 million). This growth was attributable to the remarkable sales performance of the flagship shop in Shenzhen after its renovation works in late 2006 and improvement in same-store sales of the remaining shops.

Financial position and liquidity

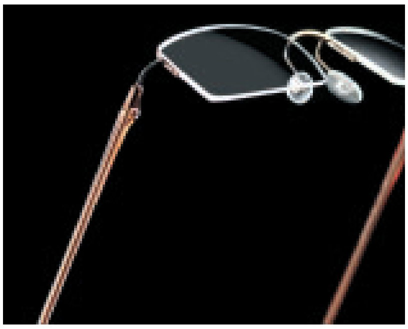
The Group generated HK$254.7 million net cash inflow from its operating activities in 2007 (2006: HK$171.6 million). Capital expenditure which was principally financed by the Group's internal resources had increased substantially to HK$190.6 million in 2007 (2006: HK$146.7 million). Dividend payments amounted to HK$57.5 million were also made during the year (2006: HK$53.7 million). The net cash position of the Group (bank and cash balance less bank borrowing, if any) increased from HK$69.1 million as at 31st December, 2006 to HK$71.6 million as at 31st December, 2007.

CHAIRMAN'S STATEMENT



The current ratio of the Group as at 31st December, 2007 was 2.1 to 1 (31st December, 2006: 2.4 to 1) with HK$679.1 million of current assets (31st December, 2006: HK$596.6 million) and HK$325.2 million of current liabilities (31st December, 2006: HK$244.8 million). The efforts of cutting down the delivery lead time by internal streamlining of the operations and installations of more advanced semi-automatic equipment resulted in a reduction of the inventory turnover period (ratio of inventory balance to cost of sales) from 86 days in 2006 to 83 days in 2007. Debtors turnover period (ratio of the trade debtor balance to sales) also decreased from 111 days in 2006 to 98 days in 2007, further shortening the working capital cycle of the Group.

The Group had 383,650,000 shares in issue as at both 31st December, 2007 and 31st December, 2006 with an equity attributable to equity holders of the Company amounting to HK$907.9 million and HK$754.2 million as at 31st December, 2007 and 31st December, 2006 respectively. Net asset value per share (equity attributable to equity holders of the Company divided by the total number of shares in issue) as at 31st December, 2007 was HK$2.37 (31st December, 2006: HK$1.97). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity attributable to equity holders of the Company) as at 31st December, 2007 were HK$16.6 million (31st December, 2006: HK$13.7 million) and 1.8% (31st December, 2006: 1.8%) respectively.



The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars and Renminbi and the exchange rates movements between these currencies were relatively stable during the period under review, except to the extent of the gradual continuous appreciation of Renminbi against US dollars and Hong Kong dollars.

Details of contingent liabilities are set out in note 37 to the consolidated financial statements.

Chairman's Statement

Employees and remuneration policies

As at 31st December, 2007, the Group employed approximately 12,000 (31st December, 2006: 11,300) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performances, experiences and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating result of the Group. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, provident fund schemes as well as a share option scheme.

Prospects

ODM division

As an internationally recognized manufacturer of quality and innovative eyewear with strong design and development capabilities, the Group has become a strategic vendor of most of the industry leaders and an integral part of their global supply chain management. Despite the soft performance of the global economy in recent months, the Group still maintains a stable order book of three months sales order. There are also signs that some of the customers who may have run down their inventory holding last year are now planning to restock.

On the cost side, our strategic priority is to minimize the negative effects arising from:

(a) rising cost pressure;

(b) implementation of the labour contract law in the People's Republic of China (the "PRC") in January 2008;

(c) shortage of supply of skilful labour and power in the PRC; and

(d) further tightening of regulations on processing trade in the PRC.

Because of the slowdown in global economy in 2007, the Group has delayed the commercial production by the new factory in Heyuan to the second half of 2008. This new production facility is designated for mass production processes whereas the existing factory in Shenzhen will focus on the manufacture of higher valued products and act as the research and development centre of the Group. Capital investment will be primarily funded by internal resources and the management continues to carefully execute the expansion plan with close monitoring of its impact on the cashflow management.

Chairman's Statement

Distribution and retailing divisions

The Group's multi-faceted expansion strategy places equal emphasis on developing the core ODM business and the high potential distribution business. The Group has merged its two distribution companies under a single umbrella in March 2008 for improving its cost effectiveness and maximizing cross selling opportunities of its portfolio of brands through an enlarged sales network comprising approximately 60 distributors in over 40 countries. The Group intends to further boost growth by continuous investment in its distribution business which will evolve as a long term growth driver of the Group.

The Group has closed its retailing business in Beijing after the disposal of the remaining 3 shops in Beijing in February 2008. The management intends to maintain the current retailing operations in Shenzhen and expects its contribution to the sales and profitability of the whole Group will remain relatively limited in view of its small scale of operations.

Summary

In view of the global economic uncertainty and the rising costs of production in the PRC, the Group believes that there will be more consolidation of the markets on both demand and supply sides. Because of its strong competitiveness and financial position as well as strategic business relations with the market leaders, the management is confident that the Group will continue to gain market share and to deliver satisfactory results in the forthcoming years.

Dividends

The directors of the Company have resolved to recommend a final dividend of 8 HK cents per share for the year ended 31st December, 2007. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 23rd May, 2008, the final dividend will be payable on 19th June, 2008 to shareholders whose names appear on the register of members of the Company on 23rd May, 2008.

Closure of Register of Members

The register of members of the Company will be closed from 21st May, 2008 to 23rd May, 2008, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 20th May, 2008 in order to qualify for the proposed final dividend mentioned above.

Chairman's Statement

Annual General Meeting

The annual general meeting of the Company will be held on Friday, 23rd May, 2008. The notice of annual general meeting will be published on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's website at www.hkexnews.hk and will be despatched to the shareholders on or about 28th April, 2008.

Appreciation

On behalf of the board of directors, I would like to express my sincere appreciation and thanks to our shareholders, customers, suppliers, bankers and staff for their effort and commitment.

Ng Hoi Ying, Michael
Chairman

Hong Kong, 15th April, 2008

BIOGRAPHICAL DETAILS OF DIRECTORS AND MANAGEMENT

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 53, is an executive director of the Company, and the founder as well as the chairman of the Group. Mr. Ng is responsible for the corporate policy making and strategic planning of the Group. He has 40 years of experience in the optical products industry. Mr. Ng won the Young Industrialist Award of Hong Kong organised by the Federation of Hong Kong Industries in 1995. Mr. Ng was admitted as Honorary Fellow of The Professional Validation Council of Hong Kong Industries in 2004. Mr. Ng was the President of the Hong Kong Optical Manufacturers Association Ltd. (the "HKOMA") during 2002 and 2006 and is currently a committee member of the HKOMA, a Director of Hong Kong Commerce and Industry Associations Limited and a Life President of the Hong Kong Wong Tai Sin Industry And Commerce Association Limited. He is also a member of The People's Political Consultative Committee of Haizhu District, Guangzhou City. Mr. Ng is the brother of Mr. Ng Kim Ying.

NG Kim Ying, aged 52, is an executive director of the Company. Mr. Ng Kim Ying joined the Group in 1985 and is responsible for the implementation and application of information technology to the business of the Group. He has 23 years of experience in the optical products industry and is the brother of Mr. Ng.

LEE Wai Chung, aged 41, is an executive director and the company secretary of the Company as well as the financial controller of the Group. Mr. Lee joined the Group in 1995 and is responsible for the Group's finance, accounting and company secretarial matters. He holds a Bachelor degree in Social Sciences from the University of Hong Kong. Mr. Lee is a Certified Public Accountant (Practising) and Certified Public Accountant in Hong Kong and the United States respectively as well as a non-practising member of the Chinese Institute of Certified Public Accountants. He has 20 years of experience in accounting and auditing.

HUI Pui Woon, aged 37, had been an executive director of the Company and the general manager (China business) of the Group during the year ended 31st December, 2007, but resigned from these positions on 30th November, 2007. Ms. Hui joined the Group in 2001 and was responsible for the formation of business strategy and management of operations of the Group's distribution and retailing businesses in China. She had 18 years of experience in conducting business in China, including 9 years in the optical products industry.

Biographical Details Of Directors And Management

Independent Non-Executive Directors

Francis George MARTIN, aged 67, is an independent non-executive director of the Company and was formerly the President of the American Chamber of Commerce in Hong Kong and the President and Chief Executive of Security Pacific Asian Bank. Mr. Martin joined the Group in 1996 and has over 40 years of experience in the financial services industry. He was awarded the "Silver Bauhinia Star" by the Government of the Hong Kong Special Administrative Region and the "To Peace and Commerce" medal by the United States Department of Commerce in 2002 and 2005 respectively.

WONG Chi Wai, aged 42, is an independent non-executive director of the Company and is a Certified Public Accountant (Practising) in Hong Kong and an associate member of The Institute of Chartered Accountants in England and Wales. Mr. Wong holds a Bachelor degree in Social Sciences from the University of Hong Kong and has also been admitted as a barrister of the High Court of Hong Kong since 1998. He has over 19 years of experience in the accountancy profession and he currently is the owner of a certified public accountants firm and an adviser to a law firm. Mr. Wong is an independent non-executive director of each of Bonjour Holdings Limited and Kin Yat Holdings Limited. He joined the Group in 2004.

CHUNG Hil Lan Eric, aged 43, is an independent non-executive director of the Company and is a Certified Public Accountant (Practising) in Hong Kong and an associate member of The Institute of Chartered Accountants in England and Wales. He holds a Bachelor degree in Social Sciences from the University of Hong Kong. Mr. Chung has over 20 years of experience in the accountancy profession and he currently is the owner of a certified public accountants firm. He joined the Group in 2004.

Senior Management

LI Chi Hung, aged 47, is the general manager of the Group's production plants in Shenzhen and Zhongshan. Mr. Li joined the Group in 1976 and assisted Mr. Ng in the establishment and expansion of the two production plants mentioned above. He is also responsible for the overall management and development of these plants and has 32 years of experience in the optical products industry.

HUNG Chao Chia, aged 55, is the deputy general manager of the Group's production plants in Shenzhen and Zhongshan. Mr. Hung joined the Group in 1988 and is responsible for the financial management and administration of the two production plants mentioned above. Mr. Hung has 30 years of experience in the optical products industry.

WONG Kwok Leung, Alan, aged 50, is the product design and development director of the Group. Mr. Wong joined the Group in 1989 and is responsible for product and technology development of the Group. Mr. Wong has 28 years of experience in production management and product development, including 24 years in the optical products industry. He holds a Master degree in Engineering Management from the University of Technology, Sydney.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 40 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 27.

An interim dividend of 8 HK cents per share amounting to HK$30,692,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 8 HK cents per share amounting to HK$30,692,000 to the shareholders on the register of members on 23rd May, 2008 and the retention of the remaining profit for the year.

INVESTMENT PROPERTY

The investment property of the Group was revalued as at 31st December, 2007 as set out in note 15 to the consolidated financial statements. The resulting surplus arising on revaluation, which amounted to HK$2,600,000, has been credited directly to the consolidated income statement.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately HK$199,660,000.

Details of this and other movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 28 to the consolidated financial statements.

Directors' Report

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31st December, 2007 were as follows:

	2007	2006
	HK$'000	*HK$'000*
Contributed surplus	**105,369**	105,369
Retained earnings	**116,400**	104,403
	221,769	209,772

Share Options

Particulars of the share option scheme (the "New Share Option Scheme") of the Company adopted at the 2003 Annual General Meeting are set out in note 29 to the consolidated financial statements. Under the New Share Option Scheme, the maximum number of shares available for issue is 37,441,000 shares. No share options have been granted under the New Share Option Scheme since its adoption.

Directors and Service Contracts

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ng Hoi Ying, Michael – *Chairman*
Ng Kim Ying
Lee Wai Chung
Hui Pui Woon *(resigned on 30th November, 2007)*

Independent non-executive directors:

Francis George Martin
Wong Chi Wai
Chung Hil Lan Eric

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Ng Kim Ying and Mr. Ng Hoi Ying, Michael will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' REPORT

DIRECTORS AND SERVICE CONTRACTS *(continued)*

No directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Each of the independent non-executive director was appointed for a term of not more than three years and subject to the retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2007, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO; or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Shares in the Company (Long Position)

Name of director	Number of issued ordinary shares held: Personal interests	Other interests	Total	Approximate percentage of issued share capital of the Company
Ng Hoi Ying, Michael	2,856,000	151,000,000 *(Note a)*	153,856,000	40.10%
Ng Kim Ying	950,000	18,500,000 *(Note b)*	19,450,000	5.07%
Lee Wai Chung	1,750,000	–	1,750,000	0.46%

Directors' Report

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures (continued)

Notes:

(a) These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Maritime Overseas Assets Limited which was wholly owned by HSBC International Trustee Limited as trustee of The Arts 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Hoi Ying, Michael.

(b) These shares were held by Universal Honour Developments Limited ("Universal Honour"). The entire issued share capital of Universal Honour was held by Rainbow City Investment Limited which was wholly owned by HSBC International Trustee Limited as trustee for The Optical 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Kim Ying.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Ratagan in trust for the Group, as at 31st December, 2007, none of the directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations.

Directors' Rights to Acquire Shares or Debentures

Other than the New Share Option Scheme disclosed under the heading "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, other than as disclosed above, none of the directors of the Company, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st December, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long Position)

Name of shareholder	Capacity	Number of issued ordinary shares held		Approximate percentage of issued share capital of the Company
Allianz SE	Held by controlled corporation	38,353,990	*(Note a)*	10.00%
Allianz Finanzbeteiligungs GmbH	Held by controlled corporation	38,353,990	*(Note a)*	10.00%
Dresdner Bank Aktiengesellschaft	Held by controlled corporation	38,353,990	*(Note a)*	10.00%
Dresdner Bank Luxembourg S.A.	Held by controlled corporation	38,353,990	*(Note a)*	10.00%
Veer Palthe Voûte NV	Beneficial owner	38,353,990	*(Note a)*	10.00%
David Michael Webb	Beneficial owner	3,224,000		0.84%
	Held by controlled corporation	19,900,000	*(Note b)*	5.19%
Preferable Situation Assets Limited	Beneficial owner	19,900,000	*(Note b)*	5.19%
Mondrian Investment Partners Limited	Beneficial owner	19,244,000		5.02%

Notes:

(a) Veer Palthe Voûte NV ("VPV") was a wholly-owned subsidiary of Dresdner Bank Luxembourg S.A. ("DB Lux") which was in turn a wholly-owned subsidiary of Dresdner Bank Aktiengesellschaft ("DBA"). DBA was 81.1% owned by Allianz Finanzbeteiligungs GmbH ("AFG") which was in turn 100% owned by Allianz SE ("Allianz"). Being the controlling corporations of VPV, DB Lux, DBA, AFG and Allianz were also deemed to be interested in the 38,353,990 shares held by VPV under Part XV of the SFO.

(b) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. David Michael Webb was deemed to be interested in the 19,900,000 shares held by PSAL under Part XV of the SFO.

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed no other person as having a notifiable interests or short positions in the issued share capital of the Company as at 31st December, 2007.

Directors' Report

Major Customers and Suppliers

For the year ended 31st December, 2007, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 56% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 14% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 31% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 13% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in any of the Group's five largest customers or suppliers mentioned above.

Convertible Securities, Options, Warrants or Similar Rights

Other than the New Share Option Scheme disclosed under the heading "Share Options" above and in note 29 to the consolidated financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st December, 2007 and there has been no exercise of any other convertible securities, options, warrants or similar rights during the year.

Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

Emolument Policy

The emolument policy of the employees of the Group is determined by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the executive directors of the Company were determined by the Remuneration Committee benchmarked against comparable companies in Hong Kong. The emoluments of the independent non-executive directors of the Company were recommended by the board of directors of the Company and approved by the shareholders at the annual general meeting.

DIRECTORS' REPORT

EMOLUMENT POLICY *(continued)*

The Company has adopted a share option scheme as an incentive to its directors and eligible employees. Details of the scheme are set out in note 29 to the consolidated financial statements.

Details of the retirement benefit schemes for all qualifying employees of the Group are set out in note 34 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float as at the date of this report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 21 to 24 of this Annual Report.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 15th April, 2008

Corporate Governance Report

Corporate Governance Practices

The board of directors of the Company (the "Board") has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices. The Company had complied with all applicable code provisions in the Code throughout the year ended 31st December, 2007, except for deviation from code provision A.2.1 of the Code only as disclosed under the paragraph "Chairman and Chief Executive Officer" below.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31st December, 2007.

Board of Directors

The Board comprises six Directors, three of which are executive Directors, namely Mr. Ng Hoi Ying, Michael (the Chairman), Mr. Ng Kim Ying and Mr. Lee Wai Chung, and three are independent non-executive Directors, namely Mr. Francis George Martin, Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric.

During the year ended 31st December, 2007, four Board meetings were held. The attendance of each Director is set out as follows:

Directors		**Attendance Record**
Mr. Ng Hoi Ying, Michael		4/4
Mr. Ng Kim Ying		4/4
Mr. Lee Wai Chung		4/4
Mr. Francis George Martin		3/4
Mr. Wong Chi Wai		4/4
Mr. Chung Hil Lan Eric		4/4
Ms. Hui Pui Woon	*(resigned on 30th November, 2007)*	2/3

Corporate Governance Report

Board of Directors *(continued)*

The Board is responsible for the formulation of the key business and strategic decisions of the Company and its subsidiaries (collectively the "Group") and monitoring the performances of the management team. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's business to the management team.

Board minutes are kept by the company secretary and are sent to the Directors for records. Each Board member is entitled to have access to Board papers and all able, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Mr. Ng Hoi Ying, Michael, the Chairman of the Board and Mr. Ng Kim Ying, an executive Director, are brothers.

Chairman and Chief Executive Officer

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and Chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the Chairman and chief executive officer since the establishment of the Group and the Company. The Board intends to maintain this structure in the future as it believes that this structure ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and management of the Company.

Appointment and Re-election of Directors

According to Bye-law 87(1) of the Bye-laws of the Company (the "Bye-laws"), at each annual general meeting of the Company, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Bye-law 87(2) of the Bye-laws further provides that the Director(s) to retire by rotation shall be those who have been longest in office since their last re-election or appointment, and as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Francis George Martin were re-elected as Directors of the Company in the annual general meeting of the Company held on 23rd May, 2007 for a term of no more than three years and subject to retirement by rotation in accordance with the Company's Bye-laws.

Mr. Ng Kim Ying and Mr. Ng Hoi Ying, Michael will retire at the forthcoming annual general meeting and will offer themselves for re-election. Their proposed term of office shall not be more than three years and is subject to retirement by rotation in accordance with the Bye-laws.

Corporate Governance Report

Remuneration Committee

A Remuneration Committee was established in 2003 and currently comprises Messrs. Francis George Martin (Chairman of the Remuneration Committee), Wong Chi Wai and Chung Hil Lan Eric, all of whom are independent non-executive Directors.

One Remuneration Committee meeting was held during the year ended 31st December, 2007 and the attendance of each committee member is set out as follows:

Directors	**Attendance Record**
Mr. Francis George Martin	1/1
Mr. Wong Chi Wai	1/1
Mr. Chung Hil Lan Eric	1/1

The major roles and functions of the Remuneration Committee are summarized as follows:

1. To determine the remuneration of the executive Directors.

2. To review the remuneration policy of the Group.

During the year ended 31st December, 2007, the Remuneration Committee has, among other things, reviewed and determined the remuneration of the executive Directors and the overall remuneration policy of the Group. The remuneration of independent non-executive Directors was recommended by the Board and approved by the shareholders of the Company at the annual general meeting.

Accountability and Audit

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31st December, 2007, the Directors have adopted suitable accounting policies which are pertinent to the Group's operation and relevant to the financial statements, have made judgements and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis.

A statement by the auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 25 to 26.

Corporate Governance Report

Auditor's Remuneration

During the year under review, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	**Fees paid/payable**
	HK$'000
Audit services	1,510
Non-audit services:	
Review on 2007 interim results	290
Tax compliance services	154
Review on 2007 preliminary annual results	13

Audit Committee

An Audit Committee has been established by the Company since 1998 to act in an advisory capacity and to make recommendations to the Board. The Committee currently comprises Messrs. Wong Chi Wai (Chairman of the Audit Committee), Chung Hil Lan Eric and Francis George Martin, all of whom are independent non-executive Directors of the Company. The duties of the Audit Committee include (but not limited to) review of the interim and annual reports of the Group as well as various auditing, financial reporting and internal control matters with the management and/or external auditor of the Company. The Audit Committee has performed the above duties during the year ended 31st December, 2007. Three Audit Committee meetings were held during the year ended 31st December, 2007 and the attendance of each member is set out as follows:

Directors	**Attendance Record**
Mr. Wong Chi Wai	3/3
Mr. Chung Hil Lan Eric	3/3
Mr. Francis George Martin	3/3

Internal Controls

It is the responsibility of the Board to ensure that the Group maintains sound and effective internal controls to safeguard the shareholders' investments and the Group's assets.

The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective check and balances.

The Board, with the assistance of RSM Nelson Wheeler Consulting Limited, assessed the effectiveness of the Group's internal control system which covered all material controls, including financial, operational and compliance controls as well as risk management functions during the year ended 31st December, 2007. No major issue raised but certain areas for improvement had been identified and appropriate measures had been taken.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF
ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 27 to 87, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15th April, 2008

Consolidated Income Statement

For the year ended 31st December, 2007

	NOTES	2007 HK$'000	2006 HK$'000
Revenue	5	**1,294,215**	1,098,960
Cost of sales		**(925,514)**	(783,330)
Gross profit		**368,701**	315,630
Other income	6	**25,203**	42,688
Distribution and selling expenses		**(48,803)**	(49,300)
Administrative expenses		**(140,710)**	(112,597)
Other expenses		**(2,161)**	(15,327)
Finance costs	8	**(399)**	(49)
Profit before taxation		**201,831**	181,045
Taxation	9	**(16,539)**	(17,676)
Profit for the year	10	**185,292**	163,369
Attributable to:			
Equity holders of the parent		**184,057**	166,483
Minority interests		**1,235**	(3,114)
		185,292	163,369
Dividends	13		
– Declared		**57,548**	53,711
– Proposed		**30,692**	26,856
		88,240	80,567
Earnings per share	14		
– Basic		**48.0 HK cents**	43.4 HK cents

Consolidated Balance Sheet

At 31st December, 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current Assets			
Investment property	15	**7,400**	4,800
Property, plant and equipment	16	**501,674**	350,373
Prepaid lease payments	17	**33,565**	26,145
Deposits paid for acquisition of property, plant and equipment		**4,783**	9,064
Intangible assets	18	**4,680**	4,680
Loan receivable	19	**14,137**	15,229
Goodwill	20	**–**	–
Available-for-sale investments	21	**5,858**	5,858
Deferred tax assets	30	**53**	53
		572,150	416,202
Current Assets			
Inventories	22	**210,980**	184,621
Debtors, deposits and prepayments	23	**353,241**	339,720
Loan receivable	19	**2,262**	2,247
Prepaid lease payments	17	**834**	652
Tax recoverable		**108**	265
Short-term bank deposit	24	**7,506**	–
Bank balances and cash	24	**100,934**	69,134
		675,865	596,639
Assets classified as held for sale	25	**3,227**	–
		679,092	596,639
Current Liabilities			
Creditors and accrued charges	26	**286,348**	234,442
Bank borrowings	27	**36,835**	–
Tax liabilities		**1,967**	10,381
		325,150	244,823
Net Current Assets		**353,942**	351,816
Total Assets less Current Liabilities		**926,092**	768,018

Consolidated Balance Sheet

At 31st December, 2007

	NOTES	2007 HK$'000	2006 HK$'000
Capital and Reserves			
Share capital	28	**38,365**	38,365
Reserves		**869,551**	715,843
Equity attributable to equity holders of the parent		**907,916**	754,208
Minority interests		**1,552**	142
Total Equity		**909,468**	754,350
Non-current Liabilities			
Deferred tax liabilities	30	**15,566**	13,054
Loan from a minority shareholder of a subsidiary	31	**1,058**	614
		16,624	13,668
		926,092	768,018

The consolidated financial statements on pages 27 to 87 were approved and authorised for issue by the Board of Directors on 15th April, 2008 and are signed on its behalf by:

Ng Hoi Ying, Michael
DIRECTOR

Ng Kim Ying
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2007

	Attributable to equity holders of the parent								
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2006	38,365	113,950	(3,269)	–	160	474,003	623,209	3,256	626,465
Exchange differences arising on translation of foreign operation recognised directly in equity	–	–	–	–	17,582	–	17,582	–	17,582
Profit (loss) for the year	–	–	–	–	–	166,483	166,483	(3,114)	163,369
Total recognised income and expense for the year	–	–	–	–	17,582	166,483	184,065	(3,114)	180,951
Dividends paid	–	–	–	–	–	(53,711)	(53,711)	–	(53,711)
Deemed contribution from a minority shareholder of a subsidiary *(note 31)*	–	–	–	645	–	–	645	–	645
At 31st December, 2006	38,365	113,950	(3,269)	645	17,742	586,775	754,208	142	754,350
Exchange differences arising on translation of foreign operation recognised directly in equity	–	–	–	–	26,821	–	26,821	175	26,996
Profit for the year	–	–	–	–	–	184,057	184,057	1,235	185,292
Total recognised income and expense for the year	–	–	–	–	26,821	184,057	210,878	1,410	212,288
Dividends paid	–	–	–	–	–	(57,548)	(57,548)	–	(57,548)
Deemed contribution from a minority shareholder of a subsidiary *(note 31)*	–	–	–	378	–	–	378	–	378
At 31st December, 2007	38,365	113,950	(3,269)	1,023	44,563	713,284	907,916	1,552	909,468

Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and the surplus account of Allied Power Inc. pursuant to the group reorganisation in 1996.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	201,831	181,045
Adjustments for:		
Finance costs	399	49
Release of prepaid lease payments	710	900
Depreciation of property, plant and equipment	68,968	56,531
Impairment loss in respect of goodwill	–	1,274
Increase in fair value of investment property	(2,600)	(1,200)
Interest income	(1,437)	(1,012)
Impairment loss in respect of available-for-sale investments	–	7,500
Dividend income from available-for-sale investments	(2,375)	(940)
Net loss (gain) on disposal of prepaid lease payments and property, plant and equipment	383	(18,045)
Operating cash flows before movements in working capital	265,879	226,102
Increase in inventories	(26,806)	(20,656)
Increase in debtors, deposits and prepayments	(13,979)	(90,089)
Increase in creditors and accrued charges	51,906	64,236
Cash generated from operations	277,000	179,593
Hong Kong Profits Tax paid	(22,284)	(7,977)
NET CASH FROM OPERATING ACTIVITIES	254,716	171,616
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(190,596)	(146,708)
Additions to prepaid lease payments	(6,533)	(962)
Purchase of intangible assets	–	(4,680)
Proceeds from disposal of property, plant and equipment	459	2,898
Proceeds from disposal of prepaid lease payments	–	38,460
Interest received	1,437	1,012
Repayment of loan receivable	1,077	2,375
Dividend received from available-for-sale investments	2,375	940
Deposits paid for acquisition of property, plant and equipment	(4,783)	(9,064)
NET CASH USED IN INVESTING ACTIVITIES	(196,564)	(115,729)

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	2007 HK$'000	2006 HK$'000
FINANCING ACTIVITIES		
Dividends paid	(57,548)	(53,711)
Interest paid	(302)	(15)
New bank loans raised	36,835	–
Advance from a minority shareholder of a subsidiary	725	1,225
NET CASH USED IN FINANCING ACTIVITIES	(20,290)	(52,501)
NET INCREASE IN CASH AND CASH EQUIVALENTS	37,862	3,386
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	69,134	65,006
Effect of foreign exchange rate changes	1,444	742
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	108,440	69,134
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Short-term bank deposit	7,506	–
Bank balances and cash	100,934	69,134
	108,440	69,134

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

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 to the 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 40.

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, the following new standard, amendment to Hong Kong Accounting Standards ("HKAS") and interpretations ("HK(IFRIC) – Int") ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

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

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) – Int 12	Service Concession Arrangements[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1st January, 2009
[2] Effective for annual periods beginning on or after 1st July, 2009
[3] Effective for annual periods beginning on or after 1st March, 2007
[4] Effective for annual periods beginning on or after 1st January, 2008
[5] Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new or revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

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 the 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.

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.

Notes To The Consolidated Financial Statements

For the year ended 31st December, 2007

3. Significant Accounting Policies *(continued)*

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Impairment testing on capitalised goodwill (continued)

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.

Investment property

An investment property is a property held to earn rentals and/or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Leasehold land and buildings

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified as prepaid lease payments under operating leases, which are carried at cost and released to consolidated income statement over the lease term on a straight-line basis.

Intangible assets

Intangible assets represent trademarks with indefinite useful lives and are carried at cost less any subsequent accumulated impairment losses (see accounting policy in respect of impairment losses on tangible and intangible assets below).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets *(continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

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 and short-term bank deposit) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets 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 (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (continued)

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade debtors, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets *(continued)*

Impairment of financial assets (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

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 designated 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 and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

For grants of share options which are conditional upon satisfying specified vesting conditions, 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). The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to share options reserve.

For share options which are vested at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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 options reserve will be transferred to retained profits.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the key assumption concerning the future, and other key source of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

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. As at 31st December, 2007, the carrying amount of trade debtors is HK$347,158,000 (net of allowance for doubtful debts of HK$18,457,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

5. 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").

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

For the year ended 31st December, 2007

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Revenue					
External sales	821,741	369,387	67,744	35,343	1,294,215
Result					
Segment result	173,394	78,525	13,984	5,339	271,242
Unallocated income					5,445
Unallocated corporate expenses					(75,894)
Interest income on bank deposits					1,437
Finance costs					(399)
Profit before taxation					201,831
Taxation					(16,539)
Profit for the year					185,292

5. SEGMENT INFORMATION *(continued)*

Geographical segments (continued)

At 31st December, 2007

Balance sheet

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *HK$'000*
Assets					
Segment assets	291,552	88,465	39,720	49,558	469,295
Unallocated corporate assets					781,947
					1,251,242
Unallocated corporate liabilities					341,774

Other information

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Capital expenditure of property, plant and equipment	-	-	-	-	199,660	199,660
Depreciation of property, plant and equipment	-	-	-	-	68,968	68,968
Release of prepaid lease payments	-	-	-	-	710	710
(Write back) allowance for doubtful debts	(1,222)	(192)	561	726	-	(127)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

5. SEGMENT INFORMATION *(continued)*

Geographical segments (continued)

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

5. 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

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital expenditure of property, plant and equipment	–	–	–	–	146,708	146,708
Depreciation of property, plant and equipment	–	–	–	–	56,531	56,531
Release of prepaid lease payments	–	–	–	–	900	900
Allowance for doubtful debts	2,243	7,069	1,344	298	–	10,954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

6. OTHER INCOME

	2007 HK$'000	2006 HK$'000
Included in other income are:		
Sales of scrap materials	**6,888**	12,861
Compensation from customers	**9,361**	5,444
Increase in fair value of investment property	**2,600**	1,200
Interest income on bank deposits	**1,437**	1,012
Property rental income less negligible outgoings	**372**	290
Dividend income from available-for-sale investments	**2,375**	940
Net gain on disposal of prepaid lease payments and property, plant and equipment	**–**	18,045
Royalty income on intangible assets	**467**	1,873

7. INCOME STATEMENT CLASSIFICATION

Included in cost of sales is an amount of HK$8,075,000 (2006: HK$15,645,000) in respect of a write-down of raw materials, work in progress and finished goods to their estimated net realisable values.

8. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on bank borrowings wholly repayable within five years	**302**	15
Imputed interest on loan from a minority shareholder of a subsidiary	**97**	34
	399	49

Notes To The Consolidated Financial Statements

For the year ended 31st December, 2007

9. Taxation

	2007 HK$'000	2006 HK$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	**16,833**	16,822
– (Over)underprovision in respect of prior years	**(2,806)**	1,109
	14,027	17,931
Deferred taxation *(note 30)*		
– Current year	**3,239**	1,356
– Overprovision in respect of prior year	**(727)**	(1,611)
	2,512	(255)
	16,539	17,676

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

PRC enterprise income tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

9. TAXATION *(continued)*

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

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	**201,831**	181,045
Tax at the applicable rate of 17.5% (2006: 17.5%)	**35,320**	31,683
Tax effect of expenses not deductible for tax purpose	**3,092**	2,789
Tax effect of income not taxable for tax purpose	**(1,181)**	(2,874)
Tax effect of Hong Kong Profits Tax on 50:50 apportionment basis	**(17,314)**	(16,554)
Overprovision in respect of prior years	**(3,533)**	(502)
Tax effect of tax losses and other deductible temporary differences for current year not recognised	**802**	1,922
Utilisation of tax losses and other deductible temporary differences for prior years previously not recognised	**(7)**	(69)
Others	**(640)**	1,281
Taxation for the year	**16,539**	17,676

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

10. PROFIT FOR THE YEAR

	2007	2006
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**1,510**	1,408
Cost of inventories recognised as an expense	**925,514**	783,330
Depreciation of property, plant and equipment	**68,968**	56,531
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	**383**	–
Net foreign exchange loss	**392**	5,476
Operating lease rentals in respect of rented premises	**6,356**	6,485
Release of prepaid lease payments	**710**	900
Staff costs:		
Directors' emoluments *(note 11)*	**3,110**	2,907
Other staff		
– Salaries and other allowances	**271,676**	206,023
– Contributions to retirement benefits schemes	**17,100**	1,118
Total staff costs	**291,886**	210,048
(Write back) allowance for doubtful debts	**(127)**	10,954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2006: seven) directors were as follows:

2007

		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	–	–	318	9	327
Ng Kim Ying	–	195	–	9	204
Lee Wai Chung	–	1,112	308	51	1,471
Hui Pui Woon	–	644	–	32	676
	–	1,951	626	101	2,678
Independent non-executive directors:					
Francis George Martin	144	–	–	–	144
Wong Chi Wai	144	–	–	–	144
Chung Hil Lan Eric	144	–	–	–	144
	432	–	–	–	432
Total emoluments	432	1,951	626	101	3,110

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

11. DIRECTORS' EMOLUMENTS *(continued)*

2006

	Fee	Other emoluments: Salaries and other benefits	Other emoluments: Performance related incentive bonus	Other emoluments: Contributions to retirement benefits scheme	Total
	HK$'000	*HK$'000* *(Note a)*	*HK$'000* *(Note b)*	*HK$'000* *(Note a)*	*HK$'000*
Executive directors:					
Ng Hoi Ying, Michael	–	–	226	6	232
Ng Kim Ying	–	195	–	9	204
Lee Wai Chung	–	1,012	200	47	1,259
Hui Pui Woon	–	761	–	35	796
	–	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

11. DIRECTORS' EMOLUMENTS *(continued)*

Notes:

(a) During the years ended 31st December, 2007 and 31st December, 2006, Mr. Ng Hoi Ying, Michael, an executive director, waived emoluments as follows:

	2007	2006
	HK$'000	*HK$'000*
Amounts waived in respect of emoluments for the current year:		
Salaries and other benefits	**1,235**	1,235
Contributions to retirement benefits scheme	**49**	51
	1,284	1,286

(b) The performance related incentive bonus 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, 2007 and 31st December, 2006 respectively.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2006: one) was an executive director of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining four (2006: four) individuals were as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other benefits	**3,439**	3,212
Contributions to retirement benefits schemes	**156**	146
Performance related incentive bonus	**883**	589
	4,478	3,947

Their emoluments were within the following bands:

	2007	2006
	No. of employees	*No. of employees*
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**4**	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

13. DIVIDENDS

	2007 HK$'000	2006 HK$'000
Dividend recognised as distribution during the year:		
Final dividend paid in respect of 2006 of 7 HK cents (2005: 7 HK cents) per share	**26,856**	26,856
Interim dividend paid in respect of 2007 of 8 HK cents (2006: 7 HK cents) per share	**30,692**	26,855
	57,548	53,711
Final dividend proposed in respect of 2007 of 8 HK cents (2006: 7 HK cents) per share	**30,692**	26,856
	88,240	80,567

The final dividend in respect of 2007 of 8 HK cents (2006: 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.

14. EARNINGS PER SHARE

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

	2007 HK$'000	2006 HK$'000
Earnings for the purpose of basic earnings per share	**184,057**	166,483
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	**383,650,000**	383,650,000

No diluted earnings per share have been presented as there were no dilutive potential ordinary shares in issue in either 2007 and 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

15. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1st January, 2006	3,600
Increase in fair value recognised in the consolidated income statement	1,200
At 31st December, 2006	4,800
Increase in fair value recognised in the consolidated income statement	2,600
At 31st December, 2007	7,400

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 and 2007 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 Hong Kong. The valuation which conforms to the HKIS Valuation Standards on Properties (First Edition 2005) published by the HKIS, was determined on the basis of capitalisation of net rental income derived from existing tenancy and 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.

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For the year ended 31st December, 2007

16. 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, 2006	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
Exchange adjustments	14,631	3,874	29,941	2,919	357	4,100	55,822
Additions	17,974	8,938	90,991	7,526	2,191	72,040	199,660
Disposals	–	(1,147)	(4,498)	(874)	(780)	(210)	(7,509)
Reclassification	1,489	–	–	–	–	(1,489)	–
Transferred to assets held for sale *(note 25)*	–	(1,608)	(1,016)	(92)	–	–	(2,716)
At 31st December, 2007	227,501	63,441	517,338	60,026	9,246	115,787	993,339
DEPRECIATION AND AMORTISATION							
At 1st January, 2006	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
Exchange adjustments	4,103	3,572	23,813	2,269	297	–	34,054
Provided for the year	8,205	6,321	48,807	4,884	751	–	68,968
Eliminated on disposals	–	(742)	(4,322)	(831)	(772)	–	(6,667)
Transferred to assets held for sale *(note 25)*	–	(1,608)	(732)	(59)	–	–	(2,399)
At 31st December, 2007	56,893	50,993	334,804	42,631	6,344	–	491,665
CARRYING VALUES							
At 31st December, 2007	170,608	12,448	182,534	17,395	2,902	115,787	501,674
At 31st December, 2006	148,822	9,934	134,682	14,179	1,410	41,346	350,373

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

The above items of property, plant and equipment other than buildings under construction 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
Plant and machinery and motor vehicles	Over 5 years
Furniture, fixtures and office equipment	Over 3 to 5 years

The Group's property interests shown above comprise:

	Buildings		Buildings under construction	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Properties situated on land in the PRC other than Hong Kong held under medium-term leases	**169,385**	147,453	**115,787**	41,346
Properties situated on land in Hong Kong held under medium-term leases	**1,223**	1,369	**–**	–
	170,608	148,822	**115,787**	41,346

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For the year ended 31st December, 2007

17. Prepaid Lease Payments

	2007 HK$'000	2006 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	**5,605**	5,747
Leasehold land outside Hong Kong:		
Medium-term lease	**28,794**	21,050
	34,399	26,797
Analysed for reporting purposes as:		
Current asset	**834**	652
Non-current asset	**33,565**	26,145
	34,399	26,797

18. Intangible Assets and Impairment Testing on Intangible Assets

The trademark purchased from a third party in 2006 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% (2006: 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, 2007, 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 for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

19. LOAN RECEIVABLE

	2007 **HK$'000**	2006 HK$'000
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the balance sheet date)	**2,262**	2,247
Non-current assets (receivable after 12 months from the balance sheet date)	**14,137**	15,229
	16,399	17,476

The loan receivable is granted to a corporate customer. The amount is secured by all assets held by the corporate and carries fixed interest rate at 5% per annum and is repayable through 8 equal annual instalments of HK$2,262,000 each from 2007 to 2015. The Group is not permitted to sell or repledge the collateral in the absence of default by the borrower.

20. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1st January, 2006, 31st December, 2006 and 31st December, 2007	1,274
IMPAIRMENT	
At 1st January, 2006	–
Impairment loss recognised	1,274
At 31st December, 2006 and 31st December, 2007	1,274
CARRYING VALUES	
At 31st December, 2006 and 31st December, 2007	–

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 of optical frames of a subsidiary (the "Unit").

Notes To The Consolidated Financial Statements

For the year ended 31st December, 2007

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

Due to the effects caused by the uncertainty about the market conditions, the Group had revised its cash flow forecasts for the Unit in 2006. The Unit had therefore been reduced to its recoverable amount through recognition of an impairment loss against goodwill of HK$1,274,000 for the year ended 31st December, 2006. However, the impairment loss recognised in respect of goodwill by nature did not have any effect on the Group's cash flow. The recoverable amounts of the Unit had been determined on the basis of value in use calculations. Their recoverable amounts were based on certain key assumptions. All value in use calculations used 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%. Cash flow projections during the budget period for the Unit were based on the expected gross margins during the budget period. Budgeted gross margins had been determined based on past performance and management's expectations for the market development.

21. Available-for-sale Investments

	2007 HK$'000	2006 HK$'000
Equity securities, unlisted at cost	**13,358**	13,358
Less: Impairment loss recognised	**(7,500)**	(7,500)
	5,858	5,858

The above unlisted investments represent 13% and 19.9% equity interests in two private entities incorporated overseas engaged in distribution of eyewear products. 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. The Group has no plan or intentions to dispose the available-for-sale investments.

22. Inventories

	2007 HK$'000	2006 HK$'000
Raw materials	**83,162**	61,725
Work in progress	**117,589**	111,857
Finished goods	**10,229**	11,039
	210,980	184,621

23. DEBTORS, DEPOSITS AND PREPAYMENTS

	2007	2006
	HK$'000	*HK$'000*
Trade debtors	**365,615**	353,228
Less: Allowance for doubtful debts	**(18,457)**	(19,596)
	347,158	333,632
Deposits and prepayments	**6,083**	6,088
Total debtors, deposits and prepayments	**353,241**	339,720

The Group's trade debtors that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2007	2006
	HK$'000	*HK$'000*
Renminbi	**52**	–
Euro	**504**	–
United States dollars	**21,095**	15,899

At the balance sheet date, an aging analysis of trade debtors net of allowance for doubtful debts are as follows:

	2007	2006
	HK$'000	*HK$'000*
Current	**272,264**	259,328
1 to 90 days overdue	**72,526**	74,304
More than 90 days overdue	**2,368**	–
	347,158	333,632

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For the year ended 31st December, 2007

23. DEBTORS, DEPOSITS AND PREPAYMENTS *(continued)*

The Group has a policy of allowing an average credit period of 30 days to 120 days to its trade debtors. No interest is charged on the trade debtors. The Group has provided fully for all receivables over 360 days because historical experience is such that receivables that are past due beyond 360 days are generally not recoverable. Trade debtors between 60 days and 360 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Before accepting any new customer, the Group carries out research on the creditability of new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed at least once a year. Trade debtors that are neither past due nor impaired have good track records with the Group.

Included in the Group's trade debtor balance are debtors with a carrying amount of HK$74,894,000 (2006: HK$74,304,000) which are past due at the reporting date for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts

	2007	2006
	HK$'000	*HK$'000*
Balance at beginning of the year	**19,596**	9,465
Increase in allowance recognised in profit or loss	**1,287**	10,954
Amounts written off against debtors	**(1,150)**	(894)
Amounts recovered during the year	**(1,414)**	–
Exchange realignment	**138**	71
Balance at end of the year	**18,457**	19,596

At 31st December, 2007, the Group discounted bills receivable of HK$1,199,000 (2006: Nil) with recourse with a bank. Accordingly, the Group continues to recognise the full carrying amount of the trade debtor and has recognised the cash received from the bank as a secured borrowing. At 31st December, 2007, the carrying amount of the associate liability amounted to HK$1,199,000 (see note 27).

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For the year ended 31st December, 2007

24. SHORT-TERM BANK DEPOSIT AND BANK BALANCES AND CASH

Short-term bank deposit and bank balances and cash comprise cash and deposits held by the Group with an original maturity of three months or less.

Bank balances and cash carry market interest rates range from 0.5% to 2.5% per annum (2006: 2.3% to 4.0%) and short-term bank deposit carry at market rates range from 2.0% to 2.5% per annum.

The Group's short-term bank deposit and bank balances and cash that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2007 ***HK$'000***	2006 *HK$'000*
Hong Kong dollars	**18,749**	3,675
Renminbi	**243**	150
Euro	**2,506**	354
United States dollars	**2,940**	2,690
Japanese Yen	**411**	385

25. ASSETS CLASSIFIED AS HELD FOR SALE

During the year, the Group entered into disposal agreements with independent third parties. The directors of the Company resolved to dispose of its retail shops selling optical products in Beijing. The assets attributable to the retail shops in Beijing, which are expected to be sold within twelve months from the balance sheet date, have been classified as assets held for sale and are presented separately in the balance sheet. Subsequent to the balance sheet date, the disposal of retail shops were completed. The net proceeds of disposal exceed the net carrying amount of the relevant assets and accordingly, no impairment loss has been recognised.

The major classes of assets related to the retail shops in Beijing classified as assets held for sale are as follows:

	2007 ***HK$'000***
Property, plant and equipment	317
Inventories	2,416
Deposits and prepayments	494
Total assets classified as held for sale	3,227

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26. CREDITORS AND ACCRUED CHARGES

	2007 **HK$'000**	2006 HK$'000
Trade creditors	**179,403**	163,339
Other creditors and accrued charges	**106,945**	71,103
	286,348	234,442

The Group's trade and other creditors that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2007 **HK$'000**	2006 HK$'000
Hong Kong dollars	**77,339**	68,709
Renminbi	**11,904**	8,877
Euro	**23,913**	18,630
United States dollars	**2,053**	1,302
Japanese Yen	**11,048**	5,679

At the balance sheet date, an aging analysis of trade creditors are as follows:

	2007 **HK$'000**	2006 HK$'000
Current	**118,146**	108,991
1 to 90 days overdue	**52,120**	52,635
More than 90 days overdue	**9,137**	1,713
	179,403	163,339

The average credit period on purchase of goods is 60 days to 120 days. No interest is charged on the trade creditors. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

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27. Bank Borrowings

	2007 HK$'000	2006 HK$'000
The bank borrowings, which are due within one year, comprise:		
Unsecured bank loans	23,223	–
Discounted bills receivable with full recourse	1,199	–
Trust receipt loan	12,413	–
	36,835	–

All of the Group's bank borrowings are variable-rate borrowings which carry interest at LIBOR plus certain basis points and subject to cash flow interest rate risk.

The effective interest rates at the balance sheet date on the borrowings of the Group were as follows:

	HK$	US$
2007		
Unsecured bank loans	5.67%	7.70%
Discounted bills receivable with full recourse	–	6.52%
Trust receipt loan	5.08%	–

The Group's borrowings that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2007 HK$'000	2006 HK$'000
Hong Kong dollars	20,154	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

27. BANK BORROWINGS *(continued)*

As at the balance sheet date, the Group has the following undrawn borrowing facilities:

	2007 **HK$'000**	2006 *HK$'000*
Floating rate – expiring within one year	**133,690**	112,475

The facilities expiring within one year are annual facilities subject to review at various dates during 2008.

28. SHARE CAPITAL

The share capital of the Company was as follows:

	Number of shares 2007 & 2006	**Nominal value 2007 & 2006** ***HK$'000***
Ordinary shares of HK$0.1 each:		
Authorised:		
At beginning and end of year	**1,000,000,000**	**100,000**
Issued and fully paid:		
At beginning and end of year	**383,650,000**	**38,365**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29. 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 in relation to share option scheme. All the share options granted under the Old Share Option Scheme have been exercised or have lapsed before 1st January, 2007.

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.

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

30. 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$'000*	Revaluation of investment property *HK$'000*	Other temporary difference *HK$'000*	Total *HK$'000*
At 1st January, 2006	(10,890)	(123)	(2,243)	(13,256)
(Charge) credit to consolidated income statement for the year	65	(210)	400	255
At 31st December, 2006	(10,825)	(333)	(1,843)	(13,001)
(Charge) credit to consolidated income statement for the year	(3,139)	(455)	1,082	(2,512)
At 31st December, 2007	(13,964)	(788)	(761)	(15,513)

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:

	2007 ***HK$'000***	2006 *HK$'000*
Deferred tax assets	**53**	53
Deferred tax liabilities	**(15,566)**	(13,054)
	(15,513)	(13,001)

At 31st December, 2007, the Group has unused tax losses of HK$13,974,000 (2006: HK$13,127,000) 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$9,474,000 (2006: HK$10,608,000) that will expire from 2008 to 2012. Other losses may be carried forward indefinitely.

30. Deferred Tax (Liabilities) Assets *(continued)*

At the balance sheet date, the Group has deductible temporary differences of HK$23,612,000 (2006: HK$19,921,000). 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.

31. 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 repayable in 2017. 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.

32. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank borrowings and loan from a minority shareholder of a subsidiary in notes 27 and 31 respectively, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits as disclosed in consolidated statement of changes in equity.

The directors of the Company review the capital structure periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**473,938**	421,332
Available-for-sale financial assets	**5,858**	5,858
Financial liabilities		
Amortised cost	**299,358**	216,053

(b) Financial risk management objectives and polices

The Group's major financial instruments include debtors, loan receivables, available-for-sale investments, creditors, short-term bank deposits and bank balances, bank borrowings and loan from a minority shareholder. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

The Group does not enter into or trade in derivative financial instruments either for hedging or speculative purposes.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

33. FINANCIAL INSTRUMENTS (continued)

(c) Foreign currency risk management

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 3% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 21% of costs are denominated in the group entity's functional currency. The Group also has bank balances and borrowings denominated in foreign currency balances. Details of foreign currency balances are detailed in notes 23, 24, 26 and 27.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**18,749**	3,675	**97,493**	68,709
Renminbi	**295**	150	**11,904**	8,877
Euro	**3,010**	354	**23,913**	18,630
United States dollars	**24,035**	18,589	**2,053**	1,302
Japanese Yen	**411**	385	**11,048**	5,679

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

33. FINANCIAL INSTRUMENTS *(continued)*

(c) Foreign currency risk management (continued)

Foreign currency sensitivity

The Group is mainly exposed to the effects of fluctuation in currency of Renminbi, Euro and Japanese Yen. The Hong Kong dollars ("HKD") and Untied States dollars ("USD") denominated monetary items arose from group entities with functional currency of USD and HKD respectively. As HKD is pegged to USD, the directors of the Company consider that the foreign currency exposure is limited.

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items (other than those denominated in HKD and USD) and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where the functional currencies of the relevant group entities strengthen against the relevant foreign currencies. For a 5% weakening of the functional currencies of the relevant group entities, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	Profit for the year	
	2007	2006
	HK$'000	*HK$'000*
Renminbi	**537**	392
Euro	**965**	829
Japanese Yen	**485**	240

33. FINANCIAL INSTRUMENTS *(continued)*

(d) Interest rate risk management

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances and borrowings (see note 27 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's borrowings.

Interest rate risk sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments (including bank balances and borrowings) at the balance sheet date. A 50 basis point increase or decrease in interest rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2007 would increase/decrease by HK$336,000 (2006: increase/decrease by HK$346,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and borrowings.

(e) Credit risk management

As at 31st December, 2007, 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 provided 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 of contingent liabilities in relation to the financial guarantees provided by the Group as disclosed in note 37.

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For the year ended 31st December, 2007

33. FINANCIAL INSTRUMENTS (continued)

(e) Credit risk management (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, taking into account any change in the credit quality of the trade debtors from the date credit was initially granted up to the reporting date. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The loan receivable exposes the Group to concentration of credit risk on the counterparty. The Group considers the concentration risk is low as the corporate customer has good reputation.

The credit risk for bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on the loan receivable and liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse geographical areas.

(f) Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings.

As at 31st December, 2007, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK$4,500,000 (2006: HK$4,900,000) and HK$129,190,000 (2006: HK$107,575,000) respectively. Details of which are set out in note 27.

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33. FINANCIAL INSTRUMENTS (continued)

(f) Liquidity risk management (continued)

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 3 months HK$'000	3 months to 1 year HK$'000	1 year to 5 years HK$'000	5+ years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007							
Non-derivative financial liabilities							
Trade and other creditors	-	179,435	82,030	-	-	261,465	261,465
Bank borrowings – variable rate	6.33	37,418	-	-	-	37,418	36,835
Loan from a minority shareholder of a subsidiary	7.75	-	-	-	1,950	1,950	1,058
		216,853	82,030	-	1,950	300,833	299,358

	Weighted average effective interest rate %	Less than 3 months HK$'000	3 months to 1 year HK$'000	1 year to 5 years HK$'000	5+ years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2006 HK$'000
2006							
Non-derivative financial liabilities							
Trade and other creditors	-	164,701	50,738	-	-	215,439	215,439
Loan from a minority shareholder of a subsidiary	7.75	-	-	-	1,225	1,225	614
		164,701	50,738	-	1,225	216,664	216,053

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

33. FINANCIAL INSTRUMENTS *(continued)*

(g) Fair value of financial instruments

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 recorded at amortised cost in the consolidated financial statements approximate their fair values.

34. RETIREMENT BENEFITS SCHEMES

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 Schemes 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.

In addition to the MPF Scheme, the Group voluntarily set up a retirement benefit scheme in Hong Kong for selected employees in the PRC in 2007. The Group made a lump sum contribution of HK$14,840,000 to this scheme in respect of the past services of up to five years provided by the selected PRC employees. This retirement benefit scheme is registered with the Mandatory Provident Fund Schemes Authority under the Occupational Retirement Schemes Ordinance. The assets of the retirement benefit scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the retirement benefit scheme, only the employer is required to make contributions to the scheme at the amounts specified in the rules. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

34. RETIREMENT BENEFITS SCHEMES *(continued)*

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 state-managed retirement schemes 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$17,201,000 (2006: HK$1,215,000) 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.

35. 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:

	2007 ***HK$'000***	2006 *HK$'000*
Within one year	**3,458**	5,296
In the second to fifth year inclusive	**6,080**	12,087
Over five years	**2,046**	3,021
	11,584	20,404

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 two years and rentals are fixed for an average of two years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

35. OPERATING LEASE ARRANGEMENTS *(continued)*

The Group as lessor:

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

	2007	2006
	HK$'000	*HK$'000*
Within one year	**382**	315

Property rental income earned during the year was HK$372,000 (2006: HK$290,000). The property held at the balance sheet date has committed tenant for term of one year with fixed rentals.

36. CAPITAL COMMITMENTS

	2007	2006
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements		
– buildings under construction	**27,146**	56,069
– leasehold improvements	**1,125**	1,078
– plant and machinery	**8,450**	36,976
	36,721	94,123

37. CONTINGENT LIABILITIES

	2007	2006
	HK$'000	*HK$'000*
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	**9,750**	9,687

The directors considers that the fair values of this financial guarantee contract at its initial recognition and 31st December, 2006 and 2007 are insignificant on the basis of short maturity periods and low applicable default rates. The Group has not recognised any deferred income in the consolidated financial statements in relation to the abovementioned guarantee as its fair value is considered not significant.

Notes To The Consolidated Financial Statements

For the year ended 31st December, 2007

38. Related Party Transactions

Compensation of key management personnel

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

	2007	2006
	HK$'000	*HK$'000*
Short-term benefits	**7,331**	6,611
Post-employment benefits	**257**	243
	7,588	6,854

The remuneration of 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 approved by the shareholders of the Company at the annual general meeting.

39. Summarised Balance Sheet of the Company

	2007	2006
	HK$'000	*HK$'000*
Investments in subsidiaries	**139,040**	139,040
Amount due from a subsidiary	**206,587**	194,433
Other current assets	**30,596**	31,628
Other current liabilities	**(2,139)**	(3,014)
	374,084	362,087
Share capital	**38,365**	38,365
Reserves	**335,719**	323,722
	374,084	362,087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

40. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2007 and 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				Principal activities
			2007		2006		
			Directly	Indirectly	Directly	Indirectly	
Allied Power Inc.	British Virgin Islands	C$50,000	100%	-	100%	–	Investment holding
Able Rich Enterprises Limited	British Virgin Islands	US$1	-	100%	–	100%	Investment holding
Argent Optical Manufactory Limited	Hong Kong/ PRC	HK$100,000	-	100%	–	100%	Manufacture of optical frames
Artland Technology Limited	British Virgin Islands	US$1	-	100%	–	100%	Investment holding
Arts 1000 Optical Company Limited	British Virgin Islands/PRC	US$1	-	100%	–	100%	Retailing of optical products
Arts Optical Company Limited	Hong Kong	HK$1,000,000	-	100%	–	100%	Trading in optical frames
Eyeconcept Limited	Hong Kong	HK$100	-	100%	–	100%	Trading in optical frames
Eyeworkz Limited	Hong Kong	HK$100	-	61%	–	51%	Trading in optical frames
Sin Dak Industrial Limited	Hong Kong	HK$40,000	-	100%	–	100%	Property holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

40. 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 2007 Directly	2007 Indirectly	2006 Directly	2006 Indirectly	Principal activities
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)*	–	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$97,800,000	-	100% *(Note 2)*	–	100% *(Note 2)*	Inactive
滙聯眼鏡製造廠(河源)有限公司 (known as "Huilian Optical Manufactory (Heyuan) Limited")	PRC	HK$10,000,000	-	100% *(Note 2)*	–	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$10,000,000	-	100% *(Note 2)*	–	100% *(Note 2)*	Inactive

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, 2007 or at any time during the year.

Financial Summary

Results

	Year ended 31st December,				
	2003 HK$'000	2004 HK$'000 (restated)	2005 HK$'000	2006 HK$'000	**2007 HK$'000**
REVENUE	519,411	684,959	791,624	1,098,960	**1,294,215**
PROFIT BEFORE TAXATION	91,509	111,955	105,945	181,045	**201,831**
TAXATION	(9,544)	(9,195)	(10,217)	(17,676)	**(16,539)**
PROFIT FOR THE YEAR	81,965	102,760	95,728	163,369	**185,292**
MINORITY INTERESTS	374	(352)	233	3,114	**(1,235)**
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	82,339	102,408	95,961	166,483	**184,057**

Assets and Liabilities

	At 31st December,				
	2003 HK$'000	2004 HK$'000 (restated)	2005 HK$'000	2006 HK$'000	**2007 HK$'000**
TOTAL ASSETS	695,000	735,563	810,405	1,012,841	**1,251,242**
TOTAL LIABILITIES	(113,845)	(139,807)	(183,940)	(258,491)	**(341,774)**
	581,155	595,756	626,465	754,350	**909,468**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	578,018	592,267	623,209	754,208	**907,916**
MINORITY INTERESTS	3,137	3,489	3,256	142	**1,552**
	581,155	595,756	626,465	754,350	**909,468**

Note: The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1st January, 2005. Financial information for 2004 has been restated for these new and revised policies in accordance with the transitional provisions. Financial information for earlier years have not been adjusted to take into account of the effect on the adoption of these new and revised HKFRSs as the directors considered that it is not practicable to do so.