Annual Report 2010

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
NG Kim Ying
LEE Wai Chung

Independent non-executive directors

Francis George MARTIN
WONG Chi Wai
CHUNG Hil Lan Eric

COMPANY SECRETARY

LEE Wai Chung

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISERS

Latham & Watkins
Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

WEBSITE

www.artsgroup.com

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

HSBC Securities Services (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

Australia and New Zealand Banking Group Limited
Hong Kong Branch
Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Chong Hing Bank Limited
Dah Sing Bank, Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

Group Structure

Arts Optical International Holdings Limited

Investment holding

Arts Optical Company Limited
Trading in optical frames to original design manufacturing customers
100%

Argent Optical Manufactory Limited
Manufacture of optical frames
100%

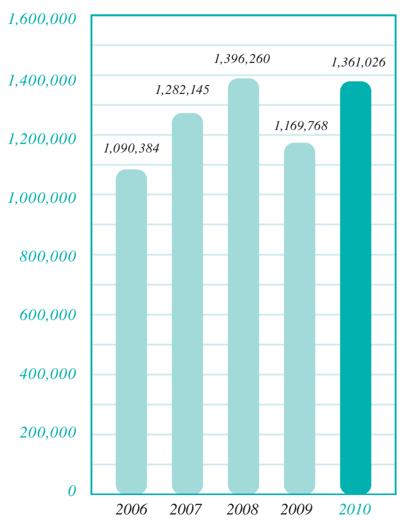
Stepper Eyewear Limited
Trading in optical frames under own brand names
85%

Eyeconcept Limited
Trading in optical frames under own brand names and licensed brand names
85%

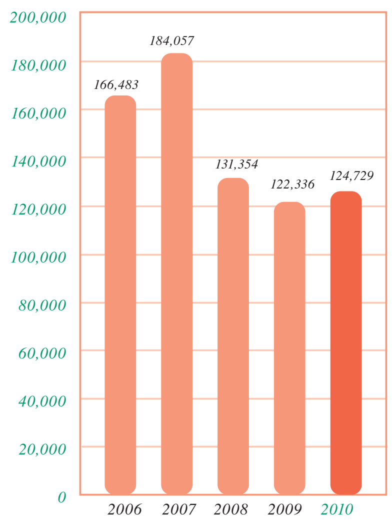
Shenzhen North Optical Industrial Company Limited
Retailing of optical products
51%

Financial Highlights

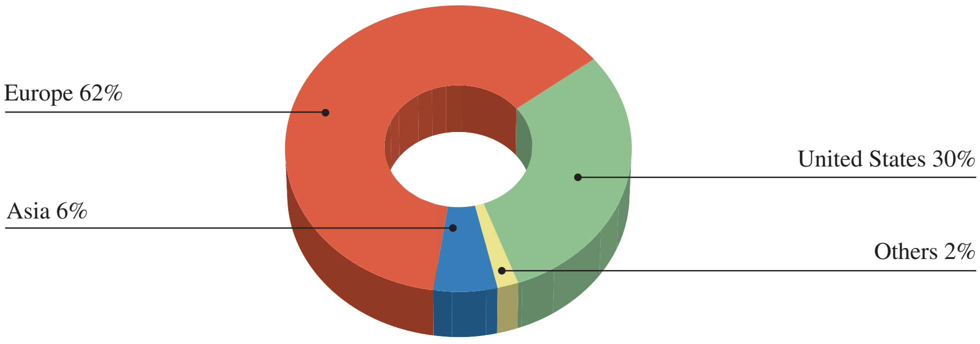
Consolidated revenue *(HK$'000)*



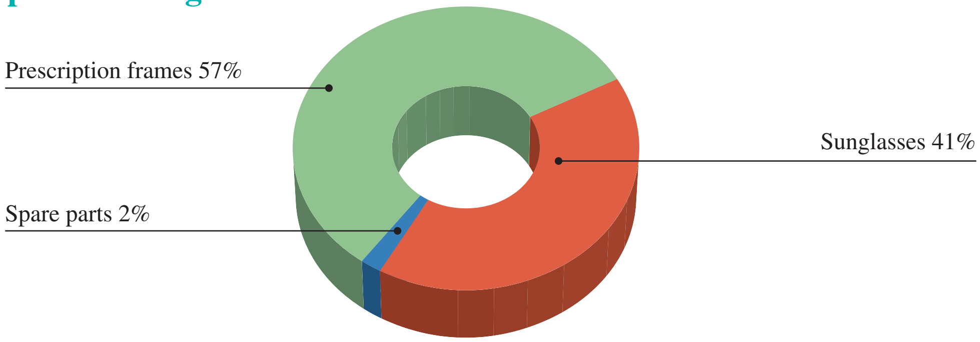
Profit attributable to owners of the Company *(HK$'000)*



Consolidated revenue by geographical locations in 2010



Revenue of ODM division by product range in 2010



Chairman's Statement

BUSINESS REVIEW

Profitability analysis

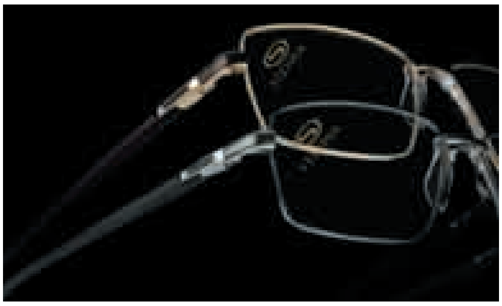
The general market sentiment continued to improve gradually throughout 2010 and the Group's consolidated revenue increased by 16% to HK$1,361.0 million (2009: HK$1,169.8 million) whereas the profit attributable to owners of the Company increased by 2% to HK$124.7 million (2009: HK$122.3 million) in 2010. Basic earnings per share also increased correspondingly by 2% to 32.5 HK cents (2009: 31.9 HK cents) in the year under review.

As reported in our interim results, the gross profit margin of the Group was under pressure as a result of adverse movements in its various major cost components. In order to maintain its competitiveness in the increasingly tight labour market in mainland China, the Group had raised the wages of its workers in mainland China twice in 2010. Higher labour costs coupled with rising material costs, the accelerating inflationary environment in mainland China and the continuous appreciation of Renminbi dragged down the gross profit ratio (being the ratio of gross profit to revenue) of the Group from 24.8% in 2009 to 24.1% in 2010. Although the Group successfully contained its total expenses-to-revenue ratio (being the ratio of the total of distribution and selling expenses, administrative expenses, other expenses and finance costs to revenue) at 15.0% this year (2009: 15.6%), the net profit ratio (being the ratio of profit attributable to owners of the Company to revenue) nevertheless decreased from 10.5% in 2009 to 9.2% in of 2010 because of the decline in the gross profit ratio.

Original design manufacturing (ODM) division

Since the decline of 17% in sales in 2009, sales to ODM customers increased by 16% from HK$1,064.2 million in 2009 to HK$1,238.5 million in 2010, primarily driven by the rebound in sales of sunglasses by 37% after a drop of 37% in 2009. Sales of prescription frames grew modestly by 6% in 2010 after a flat sales performance in the previous year. Being a discretionary spending item, sales of sunglasses were more volatile and closely tied to the global economic performance as compared with prescription frames. Sales of prescription frames, sunglasses and spare parts accounted for 57%, 41% and 2% respectively of the revenue of this division in 2010 (2009: 63%, 35% and 2% respectively).

Chairman's Statement



Geographically, Europe, the United States (the "US"), Asia and other regions accounted for 62%, 32%, 4% and 2% respectively (2009: 64%, 31%, 3% and 2% respectively) of the revenue of the ODM division in 2010. Turnover was up by 12% in Europe, comparatively lower than the 24% rise in the US market as sales to the European market was affected by the sovereign debt crisis in Europe in the first half of 2010. Sales to Asian emerging countries also grew faster than western developed countries, driving up the sales to Asia by 46% in 2010.

Distribution and retailing divisions

Leveraging on an extensive global distribution network of more than 30 distributors, sales of the Group's distribution division picked up again in 2010 after a marginal decline of 3% in 2009. Revenue from the distribution division increased by 18% from HK$100.5 million in 2009 to HK$118.1 million in the year under review. Sales were up by 24% in Europe, 17% in Asia and 15% in North America in 2010. Sales to other regions were down by 7% due to the tightening of credit granted to customers. Sales to Europe, Asia, North America and other regions accounted for 59%, 26%, 5% and 10% respectively of the revenue of the distribution division in 2010 (2009: 56%, 26%, 5% and 13% respectively).

The retailing division of the Group operated a total of 3 shops in Shenzhen in both 2009 and 2010. Revenue of this division decreased by 14% from HK$5.1 million in 2009 to HK$4.4 million in 2010 as the main entrance of one of the shops was blocked by the construction of a Metro station throughout 2010.

Financial position and liquidity

Working capital management

In view of the drastic contraction in market demand for eyewear products since late 2008, aggressive action was taken by the management in 2009 to cut down the working capital requirement (being the net increase in inventory and debtors balances less increase in creditors balances) substantially by HK$114.6 million. As the market stabilized and started to recover gradually since mid-2009, the Group carefully raised its production capacity utilization, resulting in an increase in working capital requirements by HK$78.8 million in 2010. Inventory turnover period (being the ratio of inventory balance to cost of sales) increased accordingly from 62 days in 2009 to 70 days in 2010. Debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) also increased slightly from 98 days to 101 days. The current ratio (being the ratio of total current assets to total current liabilities) of the Group remained fairly stable at 2.6 to 1 as at 31st December, 2010 (31st December, 2009: 2.7 to 1).

Chairman's Statement

Cash flows

Although the profit attributable to owners of the Company increased slightly from HK$122.3 million in 2009 to HK$124.7 million in 2010, the net cash generated from operating activities decreased substantially from HK$332.7 million in 2009 to HK$139.7 million in 2010, principally due to the effects of changes in working capital requirements as explained above. As the management made adjustments to the capital expenditure plan in 2009 and postponed part of the investments to 2010, capital expenditure increased substantially from HK$44.6 million in 2009 to HK$160.9 million (including HK$54.1 million of net cash outflow on acquisition of subsidiaries with property interests in mainland China) in 2010. Total dividend payments of HK$51.9 million were made in 2010 (2009: HK$50.0 million). The net cash position of the Group (being the total of short-term bank deposits as well as bank balances and cash less bank borrowings) decreased from HK$305.9 million as at 31st December, 2009 to HK$239.6 million as at 31st December, 2010.

Gearing position

The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$13.4 million as at 31st December, 2010 (31st December, 2009: HK$12.7 million). The Group continued to keep a low gearing position throughout the year under review. The debt to equity ratio (expressed as a percentage of total long term liabilities over equity attributable to owners of the Company) declined slightly from 1.2% as at 31st December, 2009 to 1.1% as at 31st December, 2010.

Net book value

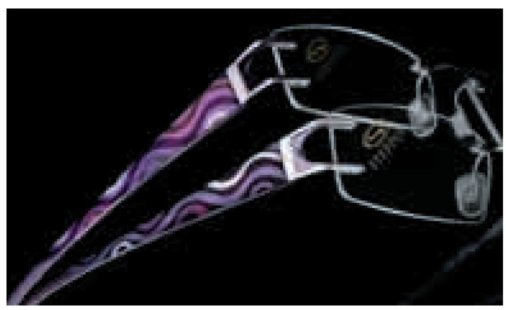
The Group had 383,650,000 shares in issue as at both 31st December, 2010 and 31st December, 2009 with an equity attributable to owners of the Company amounting to HK$1,172.3 million and HK$1,071.5 million as at 31st December, 2010 and 31st December, 2009 respectively. Net asset value per share (being equity attributable to owners of the Company divided by the total number of shares in issue) as at 31st December, 2010 was HK$3.06 (31st December, 2009: HK$2.79).

STEPPER EYEWEAR

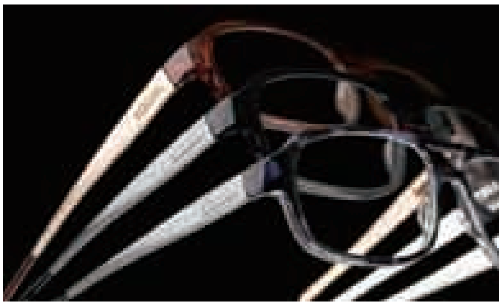
FUSION by Stepper

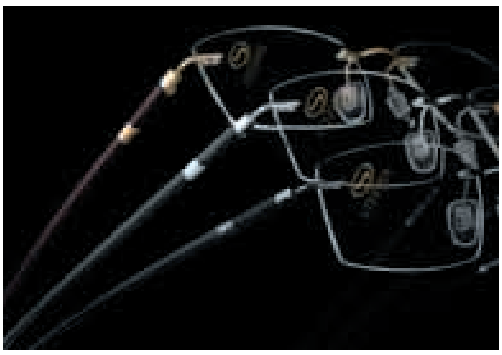
PANTONE UNIVERSE EYEWEAR

FIORUCCI eyewear



Chairman's Statement





Foreign currency exposure

The Group was exposed to the continuous appreciation of Renminbi against both US dollars and Hong Kong dollars. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollars, Hong Kong dollars or Renminbi and the exchange rate movements between US dollars and Hong Kong dollars were relatively stable during the year under review.

Contingent liabilities

Details of contingent liabilities are set out in note 35 to the consolidated financial statements.

PROSPECTS

ODM division

The Group's ODM division currently maintains a stable order book of around three months sales order on hand. Despite the volatile global economic environment and low business visibility, customers are generally optimistic about the business outlook in 2011. The main theme of our work in 2011 is to tackle challenges on our margin. The minimum wages of Zhongshan has risen by 20% since 1st March, 2011 whereas the minimum wages of Shenzhen will also rise by 20% on 1st April, 2011. This will put further pressure on labour costs of our factories in these two cities. Gradual appreciation of Renminbi, the increase in raw material costs and relatively higher inflationary environment in mainland China continue to put our operating margin under pressure. Modest price adjustments to our products, manufacture of higher margin products such as our house brands and licensed brands products as well as internal streamlining of our operations to improve our operational efficiency will be implemented to alleviate the cost pressure. Any capacity expansion will be critically evaluated so that our bargaining power on the prices of our products will be preserved.

Chairman's Statement

Production facilities

In June 2010, the Group received a letter from the Land Preparation and Resettlements Bureau of Tiyuxinchen District, Shenzhen requesting the Group to prepare for the relocation of its factory in Shenzhen. In July 2010, the Group acquired the land use rights of or the rights to use four parcels of land in Shenzhen and Huiyang and the buildings constructed thereon. We have already relocated one production line to this new site where new industrial buildings are being constructed. We are also in the process of developing an environmental protection facility in another factory site in Heyuan. These developments will provide us with more flexibility in the master factory relocation plan. We will manage the relocation plan in phases to make sure that our operations will not be disrupted and we anticipate that the whole process will take about five years to complete.

The 26th Summer Universiade will be held in Shenzhen in August this year. The management is closely evaluating the impact of this event on our production planning and will take appropriate measures such as rescheduling of holidays for the workers to make sure that our production capability as well as delivery services to our customers will not be affected.

Distribution and retailing divisions

The Group continues to make strategic investments in its distribution division. We will create and formulate a new advertising and brand strategy for our owned German brand "STEPPER". Our enterprises resources planning system will also be upgraded so that our forecasting, production planning and inventory management capabilities will be further enhanced. More inter-active events will be held with our distributors to identify any cross-selling opportunities.

We expect relatively limited contribution from the retailing division in 2011 as there will not be any significant change in its operating scale.

DIVIDENDS

The Board has resolved to recommend a final dividend of 7 HK cents per share for the year ended 31st December, 2010. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 23rd May, 2011, the final dividend will be payable on 8th June, 2011 to shareholders whose names appear on the register of members of the Company on 23rd May, 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18th May, 2011 to 23rd May, 2011, 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 Hong Kong branch share registrar, 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 17th May, 2011 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 23rd May, 2011. 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 HKExnews website at www.hkexnews.hk and will be despatched to the shareholders on or about 15th April, 2011.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2010, the Group employed approximately 11,800 (31st December, 2009: 10,300) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market salaries while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results 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.

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, 30th March, 2011

Biographical Details of Directors and Management

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 56, 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 43 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. He was admitted as an 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 currently is 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 the brother of Mr. Ng Kim Ying.

NG Kim Ying, aged 55, 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 26 years of experience in the optical products industry and is the brother of Mr. Ng.

LEE Wai Chung, aged 44, 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 an overseas non-practising member of the Chinese Institute of Certified Public Accountants. He is also an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators and a fellow member of the Association of Chartered Certified Accountants. Mr. Lee has 23 years of experience in accounting and auditing.

Biographical Details of Directors and Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Francis George MARTIN, aged 70, 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 44, is an independent non-executive director of the Company and 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 23 years of experience in the accountancy profession and 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 45, is an independent non-executive director of the Company and a Certified Public Accountant (Practising) in Hong Kong and an associate member of The Institute of Chartered Accountants in England and Wales. Mr. Chung holds a Bachelor degree in Social Sciences from the University of Hong Kong. He has 23 years of experience in the accountancy profession and is the owner of a certified public accountants firm. Mr. Chung joined the Group in 2004.

SENIOR MANAGEMENT

LI Chi Hung, aged 50, 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 35 years of experience in the optical products industry.

HUNG Chao Chia, aged 58, 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 33 years of experience in the optical products industry. He is a member of the Committee of the Chinese People's Political Consultative Conference of Zijin County, Heyuan City of Guangdong Province and the chairman of Shenzhen Optics & Optoelectronic Manufacturers Association.

WONG Kwok Leung, Alan, aged 53, 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 31 years of experience in production management and product development, including 27 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, 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 37 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2010 are set out in the consolidated statement of comprehensive income on page 26.

An interim dividend of 6.5 HK cents per share amounting to HK$24,938,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 7 HK cents per share amounting to HK$26,856,000 to the shareholders on the register of members on 23rd May, 2011 and the retention of the remaining profit for the year.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately HK$134,694,000.

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 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st December, 2010 were as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Contributed surplus	**105,369**	105,369
Retained earnings	**30,373**	81,632
	135,742	187,001

Directors' Report

SHARE OPTIONS

Particulars of the share option scheme (the "Share Option Scheme") of the Company adopted at the annual general meeting held on 28th May, 2003 are set out in note 27 to the consolidated financial statements. Under the Share Option Scheme, the maximum number of shares available for issue is 37,441,000 shares. No share options have been granted under the 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
Ng Kim Ying
Lee Wai Chung

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.

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 directors was appointed for a term of not more than three years and is 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 independent.

Directors' Report

CONNECTED TRANSACTION AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of the connected transaction entered into by the Group during the year are set out in notes 32 and 36 to the consolidated financial statements.

Save as disclosed above, 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, 2010, 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 (the "Model Code"), were as follows:

Shares in the Company (Long Positions)

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	1,150,000	15,500,000 *(Note b)*	16,650,000	4.34%
Lee Wai Chung	2,750,000	–	2,750,000	0.72%

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 ("HSBCITL") 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 HSBCITL as trustee of The Optical 2007 Trust, a discretionary trust, the beneficiaries of which included Mr. Ng Kim Ying.

Save as disclosed above, as at 31st December, 2010, none of the directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the 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.

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, 2010, 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:

Directors' Report

SUBSTANTIAL SHAREHOLDERS (continued)

Shares in the Company (Long Positions)

Name of shareholder	Capacity	Number of issued ordinary shares held		Approximate percentage of issued share capital of the Company
HSBC International Trustee Limited	Trustee	187,182,000	*(Note a)*	48.79%
Maritime Overseas Assets Limited	Held by controlled corporation	151,000,000	*(Note a)*	39.36%
Ratagan International Company Limited	Beneficial owner	151,000,000	*(Note a)*	39.36%
Mondrian Investment Partners Limited	Investment manager	26,874,000		7.00%
FMR LLC	Investment manager	23,034,000	*(Note b)*	6.00%
David Michael Webb	Beneficial owner	3,224,000		0.84%
	Held by controlled corporation	19,178,000	*(Note c)*	4.99%

Notes:

(a) HSBC International Trustee Limited ("HSBCITL") was the trustee of both The Arts 2007 Trust and The Optical 2007 Trust. The Arts 2007 Trust was a discretionary trust and the beneficiaries of which included Mr. Ng Hoi Ying, Michael. Under The Arts 2007 Trust, 151,000,000 shares of the Company 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 HSBCITL. The Optical 2007 Trust was a discretionary trust and the beneficiaries of which included Mr. Ng Kim Ying. Under The Optical 2007 Trust, 15,500,000 shares of the Company 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 also wholly-owned by HSBCITL.

(b) FMR LLC was deemed to be interested in 23,034,000 shares of the Company through its controlled corporations, Fidelity Management & Research Company which was interested in 19,934,000 shares of the Company, and Fidelity Management Trust Company and Pyramis Global Advisors LLC, which were interested in 3,100,000 shares of the Company.

(c) These shares were directly held by Preferable Situation Assets Limited ("PSAL"). Mr. David Michael Webb was deemed to be interested in the 19,178,000 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 notifiable interests or short positions in the issued share capital of the Company as at 31st December, 2010.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2010, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 53% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 15% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 29% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 12% 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) have 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 Share Option Scheme disclosed under the heading "Share Options" above and in note 27 to the consolidated financial statements, the Company had no outstanding convertible securities, options, warrants or similar rights as at 31st December, 2010 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.

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.

Directors' Report

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.

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 27 to the consolidated financial statements.

Details of the retirement benefit schemes for all qualifying employees of the Group are set out in note 31 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 20 to 23 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, 30th March, 2011

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 "CG 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 CG Code throughout the year ended 31st December, 2010, except for deviation from code provision A.2.1 of the CG Code 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 (the "Model Code") as set out in Appendix 10 to the Listing Rules 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, 2010.

BOARD OF DIRECTORS

The Board comprises six Directors, three of whom are executive Directors, namely Mr. Ng Hoi Ying, Michael, 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, 2010, five Board meetings were held. The attendance of each Director is set out as follows:

Directors	**Attendance Record**
Ng Hoi Ying, Michael	5/5
Ng Kim Ying	5/5
Lee Wai Chung	5/5
Francis George Martin	5/5
Wong Chi Wai	5/5
Chung Hil Lan Eric	5/5

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 of the Company and are sent to the Directors for records. Each Board member is entitled to have access to Board papers and are 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 an executive director and Mr. Ng Kim Ying, an executive director, are brothers.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG 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 the management of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has not established a Nomination Committee. The duties and functions of the Nomination Committee recommended in the CG Code are performed by the Board collectively with no Director being involved in fixing his own terms of appointment and no independent non-executive Director being involved in assessing his own independence. The Board takes into account criteria such as expertise, experience, integrity and commitment in the appointment of new 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. Lee Wai Chung and Mr. Wong Chi Wai were re-elected as Directors in the annual general meeting of the Company held on 29th May, 2009 for a term of no more than three years and are subject to retirement by rotation in accordance with the Bye-laws. Mr. Chung Hil Lan Eric and Mr. Francis George Martin were re-elected as Directors in the annual general meeting of the Company held on 28th May, 2010 for a term of no more than three years and are subject to retirement by rotation in accordance with the 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 has been established by the Company since 2003 and currently comprises Mr. Francis George Martin (chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors.

One Remuneration Committee meeting was held during the year ended 31st December, 2010 and the attendance of each committee member is set out as follows:

Directors	**Attendance Record**
Francis George Martin	1/1
Wong Chi Wai	1/1
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, 2010, the Remuneration Committee has, among other things, reviewed and determined the remuneration of the executive Directors with reference to their performance 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, 2010, 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 its reporting responsibilities is included in the Independent Auditor's Report on pages 24 to 25.

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	1,580
Non-audit services:	
Review on 2010 interim results	310
Tax compliance services	133
Review on 2010 preliminary annual results	13

AUDIT COMMITTEE

An Audit Committee has been established by the Company since 1998 to act in an advisory capacity and make recommendations to the Board. The Audit Committee currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Francis George Martin, all of whom are independent non-executive Directors. The duties of the Audit Committee include (but are 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, 2010. Three Audit Committee meetings were held during the year ended 31st December, 2010 and the attendance of each committee member is set out as follows:

Directors	**Attendance Record**
Wong Chi Wai	3/3
Chung Hil Lan Eric	3/3
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, 2010. No major issue had been 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 to as the "Group") set out on pages 26 to 89, which comprise the consolidated statement of financial position as at 31st December, 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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, 2010 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

30th March, 2011

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2010

	Notes	2010 HK$'000	2009 HK$'000
Revenue	5	**1,361,026**	1,169,768
Cost of sales		**(1,032,533)**	(879,381)
Gross profit		**328,493**	290,387
Other income	6	**12,717**	23,574
Other gains and losses	7	**4,325**	1,107
Distribution and selling expenses		**(22,170)**	(23,770)
Administrative expenses		**(180,519)**	(157,069)
Other expenses		**(955)**	(930)
Finance costs	8	**(398)**	(831)
Profit before tax		**141,493**	132,468
Income tax expense	9	**(15,972)**	(9,793)
Profit for the year	10	**125,521**	122,675
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		**27,936**	1,939
Total comprehensive income for the year		**153,457**	124,614
Profit for the year attributable to:			
Owners of the Company		**124,729**	122,336
Non-controlling interests		**792**	339
		125,521	122,675
Total comprehensive income attributable to:			
Owners of the Company		**152,628**	124,275
Non-controlling interests		**829**	339
		153,457	124,614
Earnings per share	14		
– Basic		**32.5 HK cents**	31.9 HK cents

Consolidated Statement of Financial Position

At 31st December, 2010

	Notes	31.12.2010 HK$'000	31.12.2009 HK$'000 (restated)	1.1.2009 HK$'000 (restated)
Non-current Assets				
Investment property	15	**–**	–	7,300
Property, plant and equipment	16	**588,187**	528,890	574,401
Prepaid lease payments	17	**53,057**	28,848	29,548
Deposits paid for acquisition of property, plant and equipment		**3,348**	1,298	6,338
Intangible assets	18	**4,680**	4,680	4,680
Loan receivable	19	**7,900**	10,114	12,361
Available-for-sale investments	20	**5,858**	5,858	5,858
Deferred tax assets	28	**188**	181	–
		663,218	579,869	640,486
Current Assets				
Inventories	21	**197,181**	148,335	188,317
Debtors, deposits and prepayments	22	**378,788**	316,127	394,457
Loan receivable	19	**2,257**	2,248	2,248
Prepaid lease payments	17	**1,328**	744	744
Tax recoverable		**2,999**	54	188
Short-term bank deposits	23	**145,266**	118,906	–
Bank balances and cash	23	**120,184**	222,850	141,239
		848,003	809,264	727,193
Current Liabilities				
Creditors and accrued charges	24	**293,284**	260,579	264,300
Bank borrowings	25	**25,833**	35,833	84,657
Tax liabilities		**1,954**	4,841	725
		321,071	301,253	349,682
Net Current Assets		**526,932**	508,011	377,511
Total Assets less Current Liabilities		**1,190,150**	1,087,880	1,017,997

Consolidated Statement of Financial Position

At 31st December, 2010

	Notes	31.12.2010 HK$'000	31.12.2009 HK$'000 (restated)	1.1.2009 HK$'000 (restated)
Capital and Reserves				
Share capital	26	**38,365**	38,365	38,365
Reserves		**1,133,929**	1,033,094	958,694
Equity attributable to owners of the Company		**1,172,294**	1,071,459	997,059
Non-controlling interests		**4,407**	3,711	3,447
Total Equity		**1,176,701**	1,075,170	1,000,506
Non-current Liabilities				
Deferred tax liabilities	28	**13,449**	12,710	17,491
		1,190,150	1,087,880	1,017,997

The consolidated financial statements on pages 26 to 89 were approved and authorised for issue by the Board of Directors on 30th March, 2011 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, 2010

	Attributable to owners of the Company							
	Share capital	Share premium	Special reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2009	38,365	113,950	(3,269)	60,923	787,090	997,059	3,447	1,000,506
Profit for the year	–	–	–	–	122,336	122,336	339	122,675
Exchange differences arising on translation of foreign operations	–	–	–	1,939	–	1,939	–	1,939
Total comprehensive income for the year	–	–	–	1,939	122,336	124,275	339	124,614
Dividends paid *(note 13)*	–	–	–	–	(49,875)	(49,875)	–	(49,875)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	(75)	(75)
At 31st December, 2009	38,365	113,950	(3,269)	62,862	859,551	1,071,459	3,711	1,075,170
Profit for the year	–	–	–	–	124,729	124,729	792	125,521
Exchange differences arising on translation of foreign operations	–	–	–	27,899	–	27,899	37	27,936
Total comprehensive income for the year	–	–	–	27,899	124,729	152,628	829	153,457
Dividends paid *(note 13)*	–	–	–	–	(51,793)	(51,793)	–	(51,793)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	(133)	(133)
At 31st December, 2010	38,365	113,950	(3,269)	90,761	932,487	1,172,294	4,407	1,176,701

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 Statement of Cash Flows

For the year ended 31st December, 2010

	Note	2010 HK$'000	2009 HK$'000 (restated)
OPERATING ACTIVITIES			
Profit before tax		**141,493**	132,468
Adjustments for:			
Finance costs		**398**	831
Release of prepaid lease payments		**977**	700
Depreciation of property, plant and equipment		**98,079**	95,886
Allowance for inventories		**–**	9,904
Allowance for doubtful debts		**1,707**	1,246
Interest income		**(1,380)**	(1,231)
Dividend income from available-for-sale investments		**(943)**	(273)
Net loss on disposal of property, plant and equipment		**9**	128
Loss on disposal of investment property		**–**	21
Operating cash flows before movements in working capital		**240,340**	239,680
(Increase) decrease in inventories		**(46,967)**	31,146
(Increase) decrease in debtors, deposits and prepayments		**(65,392)**	76,078
Increase (decrease) in creditors and accrued charges		**32,833**	(3,721)
Cash generated from operations		**160,814**	343,183
Income taxes paid		**(21,072)**	(10,505)
NET CASH FROM OPERATING ACTIVITIES		**139,742**	332,678
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(103,417)**	(43,294)
Proceeds from disposal of partial interests in a subsidiary		**–**	990
Acquisition of subsidiaries	32	**(54,136)**	–
Net proceeds from disposal of investment property		**–**	7,279
Interest received		**1,380**	1,231
Repayment of loan receivable		**2,205**	2,247
Dividend received from available-for-sale investments		**943**	273
Deposits paid for acquisition of property, plant and equipment		**(3,348)**	(1,298)
NET CASH USED IN INVESTING ACTIVITIES		**(156,373)**	(32,572)

Consolidated Statement of Cash Flows

For the year ended 31st December, 2010

	2010 *HK$'000*	2009 *HK$'000* (restated)
FINANCING ACTIVITIES		
Dividends paid to owners of the Company	**(51,793)**	(49,875)
Dividends paid to non-controlling shareholders of a subsidiary	**(133)**	(75)
Interest paid	**(398)**	(831)
New bank borrowings raised	**3,879**	11,606
Repayment of bank borrowings	**(13,879)**	(60,430)
NET CASH USED IN FINANCING ACTIVITIES	**(62,324)**	(99,605)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(78,955)**	200,501
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**341,756**	141,239
Effect of foreign exchange rate changes	**2,649**	16
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**265,450**	341,756
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Short-term bank deposits	**145,266**	118,906
Bank balances and cash	**120,184**	222,850
	265,450	341,756

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

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 principal subsidiaries (the "Group") are set out in note 37.

The consolidated financial statements are presented in Hong Kong dollars which is different from the functional currency of the Company, which is in United States dollars, as directors of the Company (the "Directors") consider that Hong Kong dollars 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")/CHANGES IN ACCOUNTING POLICIES

New and revised Standards, Amendments and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HK – Int 4 (Revised)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to HKAS 17 "Leases"

As part of "Improvements to HKFRSs" issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st January, 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payment to property, plant and equipment retrospectively. This resulted in prepaid lease payments with the carrying amounts of HK$5,463,000 and HK$5,321,000 as at 1st January, 2009 and 31st December, 2009 respectively being reclassified to property, plant and equipment.

Summary of the effect of the changes in accounting polices

The effects of changes in accounting policies described above on the consolidated statement of financial position of the Group as at 1st January, 2009 and 31st December, 2009 are as follows:

	As at 1.1.2009 (originally stated)	**Adjustments**	**As at 1.1.2009 (restated)**	**As at 31.12.2009 (originally stated)**	**Adjustments**	**As at 31.12.2009 (restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	568,938	5,463	574,401	523,569	5,321	528,890
Prepaid lease payments						
– non-current	34,869	(5,321)	29,548	34,027	(5,179)	28,848
– current	886	(142)	744	886	(142)	744
Total effects on net assets	604,693	–	604,693	558,482	–	558,482

As at 31st December, 2010, leasehold land that qualifies for finance lease classification with the carrying amount of HK$5,179,000 has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES (continued)

Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"

Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" ("HK – Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK – Int 5 for the first time in the current year. HK – Int 5 requires retrospective application.

In order to comply with the requirements set out in HK – Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans was determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK – Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK$35,833,000 and HK$25,833,000 have been reclassified from non-current liabilities to current liabilities as at 1st January, 2009 and 31st December, 2009 respectively. As at 31st December, 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of HK$15,833,000 have been classified as current liabilities. The application of HK – Int 5 has had no impact on the reported profit or loss for the current and prior years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES (continued)

Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" (continued)

Summary of the effect of the changes in accounting polices

The effects of changes in accounting policies described above on the consolidated statement of financial position of the Group as at 1st January, 2009 and 31st December, 2009 are as follows:

	As at 1.1.2009 (originally stated)	**Adjustments**	**As at 1.1.2009 (restated)**	**As at 31.12.2009 (originally stated)**	**Adjustments**	**As at 31.12.2009 (restated)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank borrowings due within one year	48,824	35,833	84,657	10,000	25,833	35,833
Bank borrowings due after one year	35,833	(35,833)	–	25,833	(25,833)	–
Total effects on net assets	84,657	–	84,657	35,833	–	35,833

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see notes 25 and 30(b) for details).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES (continued)

New and revised Standards, Amendments and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 7 (Amendment)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets[5]
HKAS 24 (as revised in 2009)	Related Party Disclosures[6]
HKAS 32 (Amendment)	Classification of Rights Issues[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1st July, 2010 or 1st January, 2011, as appropriate
[2] Effective for annual periods beginning on or after 1st July, 2010
[3] Effective for annual periods beginning on or after 1st July, 2011
[4] Effective for annual periods beginning on or after 1st January, 2013
[5] Effective for annual periods beginning on or after 1st January, 2012
[6] Effective for annual periods beginning on or after 1st January, 2011
[7] Effective for annual periods beginning on or after 1st February, 2010

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")/CHANGES IN ACCOUNTING POLICIES (continued)

New and revised Standards, Amendments and Interpretations issued but not yet effective (continued)

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31st December, 2013. The application of the new standard will affect the classification and measurement of the Group's available-for-sale investments and may affect the classification and measurement of other financial assets. At the date of this report, the Directors are in the process of assessing the potential financial impact to the Group.

The Directors anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis and in accordance with in the accounting policies set out below.

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 statement of comprehensive income 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1st January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

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 sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective 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 on initial recognition.

Dividend income from investments is recognised when the Group's 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.

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. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties 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 at fair value 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 is determined as the difference between the net disposal proceeds and the carrying amount of the asset is included in the consolidated statement of comprehensive income in the year in which the item is derecognised.

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 lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

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 profit or loss in the period when the asset is derecognised.

Impairment losses on tangible and intangible assets

At the end of the reporting period, 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. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in the consolidated statement of financial position 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 that are 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale investments.

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 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 to the net carrying amount on initial recognition.

Interest 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. Subsequent to initial recognition, loans and receivables (including debtors, loan receivable, bank balances and short-term bank deposits) 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).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. For 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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (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 the end of the reporting period. 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 affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

Financial liabilities (including creditors and accrued charges, and bank borrowings) 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.

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 contract 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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 statement of comprehensive income 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 the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (exchange reserve).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

From 1st January, 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make 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 are the key assumptions concerning the future, and other key source of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year:

Estimated impairment of debtors

When there is objective evidence of impairment, the Group estimated impairment loss taking 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, 2010, the carrying amount of trade debtors is HK$369,790,000 net of allowance for doubtful debts of HK$18,092,000 (31st December, 2009: HK$312,654,000 net of allowance for doubtful debts of HK$24,732,000).

Determination of net realisable value of inventories

The cost of inventories is written down to net realisable value when the cost of inventories is not recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. Also, the cost of inventories may not be recoverable if the estimated costs to be incurred to make the sale have increased. When the net realisable value of an item of inventory is less than the carrying amount, the excess is written off immediately in the consolidated statement of comprehensive income. As at 31st December, 2010, the carrying amount of inventories is HK$197,181,000 net of allowance for inventories of HK$72,256,000 (31st December, 2009: HK$148,335,000 net of allowance for inventories of HK$95,938,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

5. SEGMENT INFORMATION

The information reported to the Group's chief operating decision maker (i.e. Executive Directors) for the purposes of resource allocation and assessment of performance is focused on geographical markets, based on the location of customers. Thus, the Group is currently organised into four segments which are sales of optical products to customers located in Europe, the United States, Asia and other regions.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31st December, 2010

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	**839,210**	**405,124**	**81,971**	**34,721**	**1,361,026**
Result					
Segment profit	**107,698**	**53,019**	**13,377**	**4,248**	**178,342**
Unallocated income					**1,525**
Unallocated corporate expenses					**(39,356)**
Interest income on bank deposits					**1,380**
Finance costs					**(398)**
Profit before tax					**141,493**

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

5. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the year ended 31st December, 2009

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	739,004	327,765	63,584	39,415	1,169,768
Result					
Segment profit	106,654	44,340	11,941	3,893	166,828
Unallocated income					854
Unallocated corporate expenses					(35,614)
Interest income on bank deposits					1,231
Finance costs					(831)
Profit before tax					132,468

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, investment income, royalty income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

Total segment assets and liabilities are not disclosed as they are not regularly reviewed by the chief operating decision maker.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

5. SEGMENT INFORMATION (continued)

Other segment information

2010

Amounts included in the measure to segment profit:

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Adjustments *HK$'000* *(Note)*	Consolidated *HK$'000*
Depreciation of property, plant and equipment	**38,057**	**19,821**	**2,184**	**1,033**	**36,984**	**98,079**
(Write back) allowance for doubtful debts	**(176)**	**2,314**	**140**	**(571)**	**–**	**1,707**

2009 (restated)

Amounts included in the measure to segment profit:

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Adjustments *HK$'000* *(Note)*	Consolidated *HK$'000*
Depreciation of property, plant and equipment	41,819	19,825	1,956	1,546	30,740	95,886
Allowance (write back) for doubtful debts	6,649	(5,228)	(92)	(83)	–	1,246
Allowance for inventories	6,313	2,359	545	687	–	9,904

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit and not allocated to any reportable segment included release of prepaid lease payments and loss on disposal of property, plant and equipment.

Note: The reconciling item to adjust expenditure for the Group head office's corporate assets, which are not included in segment information.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

5. SEGMENT INFORMATION (continued)

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets other than loan receivable, available-for-sale investments and deferred tax assets.

	Revenue from external customers Year ended		**Non-current assets**	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000* (restated)
Hong Kong	**–**	–	**6,786**	7,247
People's Republic of China (excluding Hong Kong) (the "PRC")	**–**	–	**637,806**	551,789
United States	**405,124**	327,765	**4,680**	4,680
Italy	**583,922**	485,204	**–**	–
Other countries	**371,980**	356,799	**–**	–
	1,361,026	1,169,768	**649,272**	563,716

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2010	2009
	HK$'000	*HK$'000*
Customer A[1]	**207,420**	157,960
Customer B[2]	**168,897**	160,817
Customer C[2]	**158,841**	130,097

1 Revenue from the United States

2 Revenue from Europe

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

6. OTHER INCOME

	2010	2009
	HK$'000	*HK$'000*
Included in other income are:		
Sales of scrap materials	**5,633**	5,387
Compensation from customers	**3,523**	14,353
Interest income on bank deposits	**1,380**	1,231
Dividend income from available-for-sale investments	**943**	273
Royalty income on intangible assets	**581**	581

7. OTHER GAINS AND LOSSES

	2010	2009
	HK$'000	*HK$'000*
Net loss on disposal of property, plant and equipment	**(9)**	(128)
Net foreign exchange gains	**4,334**	1,256
Loss on disposal of investment property	**–**	(21)
	4,325	1,107

8. FINANCE COSTS

	2010	2009
	HK$'000	*HK$'000*
Interest on bank borrowings wholly repayable within five years	**398**	831

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For the year ended 31st December, 2010

9. INCOME TAX EXPENSE

	2010 **HK$'000**	2009 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**15,191**	16,264
– Underprovision in respect of prior year	**5**	–
	15,196	16,264
PRC Enterprise Income Tax		
– Current year	**44**	11
– Overprovision in respect of prior year	**–**	(1,520)
	44	(1,509)
Deferred taxation *(note 28)*		
– Current year	**732**	(4,962)
	15,972	9,793

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries was increased from 15% to 20% and 22% for the years ended 31st December, 2009 and 31st December, 2010 respectively and will increase progressively to 25% in the next two years in the Shenzhen Special Economic Zone or reduced from 33% to 25% outside the Shenzhen Special Economic Zone, from 1st January, 2008 onwards. PRC Enterprise Income Tax is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

In relation to 50:50 appointment basis, a portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the Directors, that portion of the Group's profit is not 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, 2010

9. INCOME TAX EXPENSE (continued)

Income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2010	2009
	HK$'000	*HK$'000*
Profit before tax	**141,493**	132,468
Tax at the applicable rate of 16.5%	**23,346**	21,857
Tax effect of expenses not deductible for tax purpose	**2,625**	2,505
Tax effect of income not taxable for tax purpose	**(2,585)**	(2,340)
Tax effect of Hong Kong Profits Tax on 50:50 apportionment basis	**(10,004)**	(11,158)
Under(over)provision in respect of prior year	**5**	(1,520)
Tax effect of tax losses and other deductible temporary differences for current year not recognised	**1,408**	636
Utilisation of tax losses and other deductible temporary differences for prior years previously not recognised	**(44)**	(216)
Effect of different tax rates of subsidiaries operating in the PRC	**5**	33
Others	**1,216**	(4)
Income tax expense for the year	**15,972**	9,793

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

10. PROFIT FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
		(restated)
Profit for the year has been arrived at after charging:		
Auditor's remuneration	**1,580**	1,480
Cost of inventories recognised as an expense	**1,032,533**	869,477
Depreciation of property, plant and equipment	**98,079**	95,886
Operating lease rentals in respect of rented premises	**4,354**	4,656
Release of prepaid lease payments	**977**	700
Staff costs:		
Directors' emoluments *(note 11)*	**2,467**	2,339
Other staff		
– Salaries and other allowances	**414,398**	325,695
– Contributions to retirement benefit schemes	**3,659**	3,592
Total staff costs	**420,524**	331,626
Allowance for inventories	**–**	9,904
Allowance for doubtful debts, net	**1,707**	1,246

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For the year ended 31st December, 2010

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the six (2009: six) directors were as follows:

2010

	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*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note a)	*(Note b)*	*(Note a)*	
Executive directors:					
Ng Hoi Ying, Michael	–	–	225	7	232
Ng Kim Ying	–	195	–	9	204
Lee Wai Chung	–	1,287	253	59	1,599
	–	1,482	478	75	2,035
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	1,482	478	75	2,467

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

11. DIRECTORS' EMOLUMENTS (continued)

2009

		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	–	–	198	7	205
Ng Kim Ying	–	195	–	9	204
Lee Wai Chung	–	1,228	213	57	1,498
	–	1,423	411	73	1,907
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	1,423	411	73	2,339

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

11. DIRECTORS' EMOLUMENTS (continued)

Notes:

(a) During the years ended 31st December, 2010 and 31st December, 2009, Mr. Ng Hoi Ying, Michael, an executive director, waived emoluments as follows:

	2010	2009
	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 benefit scheme	**50**	50
	1,285	1,285

(b) The performance related incentive bonus is determined by the Remuneration Committee of the Company with reference to the financial performance of the Group and the performance of the individual director for each of the year ended 31st December, 2010 and 31st December, 2009 respectively.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2009: 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 (2009: four) individuals were as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	**3,981**	3,788
Contributions to retirement benefits scheme	**180**	173
Performance related incentive bonus	**716**	590
	4,877	4,551

The emoluments for each of these individuals were all within HK$1,000,001 to HK$1,500,000.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

13. DIVIDENDS

	2010 **HK$'000**	2009 HK$'000
Dividend recognised as distribution during the year:		
Final dividend paid in respect of 2009 of 7.0 HK cents (2009: 6.5 HK cents in respect of 2008) per share	**26,855**	24,937
Interim dividend paid in respect of 2010 of 6.5 HK cents (2009: 6.5 HK cents in respect of 2009) per share	**24,938**	24,938
	51,793	49,875

A final dividend in respect of 2010 of 7.0 HK cents (2009: 7.0 HK cents) per share has been proposed by the Directors 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:

	2010 **HK$'000**	2009 HK$'000
Earnings for the purpose of basic earnings per share	**124,729**	122,336
	Number of shares	
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 potential ordinary shares in issue during 2010 and 2009.

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For the year ended 31st December, 2010

15. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1st January, 2009	7,300
Disposal	(7,300)
At 31st December, 2009 and 31st December, 2010	–

The investment property which was disposed of in 2009 is situated on land in Hong Kong held under a medium-term lease.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land *HK$'000*	Buildings *HK$'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, 2009, as originally stated	–	267,598	77,157	600,799	67,369	10,125	143,171	1,166,219
Effects of changes in accounting policies	7,841	–	–	–	–	–	–	7,841
At 1st January, 2009 (restated)	7,841	267,598	77,157	600,799	67,369	10,125	143,171	1,174,060
Exchange adjustments	–	403	107	616	28	16	216	1,386
Additions	–	–	24,118	12,887	2,763	482	9,382	49,632
Disposals	–	–	(94)	(1,577)	(362)	(662)	–	(2,695)
Reclassification	–	(1,345)	1,345	373	–	(373)	–	–
At 31st December, 2009 (restated)	7,841	266,656	102,633	613,098	69,798	9,588	152,769	1,222,383
Exchange adjustments	–	11,467	4,994	26,084	2,535	376	7,331	52,787
Additions	–	14,341	5,686	38,965	4,445	1,594	39,684	104,715
Acquired on acquisition of subsidiaries	–	18,209	–	–	–	–	11,770	29,979
Disposals	–	–	–	(770)	(152)	–	–	(922)
Reclassification	–	8,613	1,551	–	–	–	(10,164)	–
At 31st December, 2010	7,841	319,286	114,864	677,377	76,626	11,558	201,390	1,408,942

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Buildings under construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
DEPRECIATION AND AMORTISATION								
At 1st January, 2009 as originally stated	–	70,758	61,576	412,341	45,379	7,227	–	597,281
Effects of changes in accounting policies	2,378	–	–	–	–	–	–	2,378
At 1st January, 2009 (restated)	2,378	70,758	61,576	412,341	45,379	7,227	–	599,659
Exchange adjustments	–	101	87	322	(7)	12	–	515
Provided for the year (restated)	142	10,669	11,397	65,352	7,467	859	–	95,886
Eliminated on disposals	–	–	(94)	(1,449)	(362)	(662)	–	(2,567)
Reclassification	–	–	–	373	–	(373)	–	–
At 31st December, 2009 (restated)	2,520	81,528	72,966	476,939	52,477	7,063	–	693,493
Exchange adjustments	–	3,597	3,421	20,910	1,908	260	–	30,096
Provided for the year	142	11,603	16,747	61,277	7,321	989	–	98,079
Eliminated on disposals	–	–	–	(763)	(150)	–	–	(913)
Reclassification	–	3,865	(3,865)	–	–	–	–	–
At 31st December, 2010	2,662	100,593	89,269	558,363	61,556	8,312	–	820,755
CARRYING VALUES								
At 31st December, 2010	5,179	218,693	25,595	119,014	15,070	3,246	201,390	588,187
At 31st December, 2009 (restated)	5,321	185,128	29,667	136,159	17,321	2,525	152,769	528,890
At 1st January, 2009 (restated)	5,463	196,840	15,581	188,458	21,990	2,898	143,171	574,401

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

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:

Leasehold land	Over the remaining term of the leases
Buildings	Over the estimated useful lives of 25 years or the lease term of the land on which the buildings are located, 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

At 31st December, 2010, leasehold land with carrying value of HK$5,179,000 (31st December, 2009: HK$5,321,000) is situated in Hong Kong under medium-term lease and held under a finance lease.

The Group is in the process of obtaining the property ownership certificates in respect of certain buildings located in the PRC with carrying value of HK$18,162,000 at 31st December, 2010 (31st December, 2009: Nil).

The Group's property interests shown above comprise:

	Buildings			Buildings under construction		
	31.12.2010	31.12.2009	1.1.2009	**31.12.2010**	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*	*HK$'000*
Properties situated on land in the PRC held under medium-term operating leases	**217,908**	184,197	195,763	**201,390**	152,769	143,171
Properties situated on land in Hong Kong held under medium-term finance leases	**785**	931	1,077	**–**	–	–
	218,693	185,128	196,840	**201,390**	152,769	143,171

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

17. PREPAID LEASE PAYMENTS

	31.12.2010 HK$'000	31.12.2009 HK$'000 (restated)	1.1.2009 HK$'000 (restated)
The Group's prepaid lease payments comprise:			
Leasehold land outside Hong Kong:			
Medium-term lease	**54,385**	29,592	30,292
Analysed for reporting purposes as:			
Non-current asset	**53,057**	28,848	29,548
Current asset	**1,328**	744	744
	54,385	29,592	30,292

The Group is in the process of obtaining the land use right certificates in respect of certain leasehold land located in the PRC with carrying value of HK$24,322,000 at 31st December, 2010 (31st December, 2009: Nil).

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 4% (2009: 4%). The cash flow projections beyond the 5-year period are extrapolated using a zero growth rate. 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, 2010, 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.

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For the year ended 31st December, 2010

19. LOAN RECEIVABLE

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount analysed for reporting purposes:			
Non-current assets (receivable after 12 months from the end of the reporting period)	**7,900**	10,114	12,361
Current assets (receivable within 12 months from the end of the reporting period)	**2,257**	2,248	2,248
	10,157	12,362	14,609

The loan receivable is granted to a corporate customer. The amount is secured by all assets held by the corporate customer and carries fixed interest rate at 5% per annum and is repayable through 18 (31st December, 2009: 22) quarterly instalments of approximately USD72,500 each from 2011 to 2015 (31st December, 2009: repayable from 2010 to 2015). The Group is not permitted to sell or repledge the collateral in the absence of default by the borrower. Repayments have been made by this corporate customer in accordance with the loan agreement.

20. AVAILABLE-FOR-SALE INVESTMENTS

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Equity securities, unlisted at cost	**13,358**	13,358	13,358
Less: Impairment loss recognised	**(7,500)**	(7,500)	(7,500)
	5,858	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 the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors 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.

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21. INVENTORIES

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	**71,885**	52,715	70,392
Work in progress	**114,702**	89,061	107,535
Finished goods	**10,594**	6,559	10,390
	197,181	148,335	188,317

22. DEBTORS, DEPOSITS AND PREPAYMENTS

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Trade debtors	**387,882**	337,386	416,155
Less: Allowance for doubtful debts	**(18,092)**	(24,732)	(27,430)
	369,790	312,654	388,725
Receivable from disposal of partial interests in a subsidiary	**–**	–	990
Bills receivable	**4,992**	–	–
Deposits and prepayments	**4,006**	3,473	4,742
Total debtors, deposits and prepayments	**378,788**	316,127	394,457

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

	31.12.2010	31.12.2009
	HK$'000	*HK$'000*
Renminbi	**2,803**	5,028
Euro	**1,241**	(280)
United States dollars	**18,565**	16,922

Notes to the Consolidated Financial Statements

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22. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

The following is an aged analysis of trade debtors net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	31.12.2010 *HK$'000*	31.12.2009 *HK$'000*	1.1.2009 *HK$'000*
0 – 90 days	**319,791**	254,164	318,458
91 – 180 days	**44,766**	54,697	70,267
More than 180 days	**5,233**	3,793	–
	369,790	312,654	388,725

The following is an aged analysis of bills receivable presented based on the invoice date at the end of the reporting period.

	31.12.2010 *HK$'000*	31.12.2009 *HK$'000*	1.1.2009 *HK$'000*
0 – 90 days	**4,852**	–	–
91 – 180 days	**140**	–	–
	4,992	–	–

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 past due beyond 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 and subsequent settlement.

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 aggregate carrying amount of HK$48,536,000 (31st December, 2009: HK$55,153,000) 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.

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For the year ended 31st December, 2010

22. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Aging of trade debtors which are past due but not impaired

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Overdue:			
1 – 90 days	**48,536**	55,153	78,374

Aging of bills receivable which are past due but not impaired

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
Overdue:			
1 – 90 days	**1,346**	–	–

Movement in the allowance for doubtful debts

	2010	2009
	HK$'000	*HK$'000*
At 1st January	**24,732**	27,430
Impairment losses recognised on receivables	**2,454**	6,649
Amounts written off as uncollectible	**(8,440)**	(3,944)
Reversal of impairment loss on amounts recovered during the year	**(747)**	(5,403)
Exchange realignment	**93**	–
At 31st December	**18,092**	24,732

In determining the recoverability of a trade debtor, the Group considers any change in the credit quality of the trade debtor from the date credit was initially granted up to the end of each reporting period. The Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts were individually impaired trade receivables with an aggregate balance of HK$18,092,000 (31st December, 2009: HK$24,732,000) which are in severe financial difficulties and therefore the Directors considered that they are irrecoverable.

At 31st December, 2009 and 31st December, 2010, the Group did not have any discounted bills receivable with the banks.

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23. SHORT-TERM BANK DEPOSITS AND BANK BALANCES AND CASH

At 31st December, 2010, short-term bank deposits comprised deposits held by the Group with an original maturity of three months or less.

Bank balances and cash carry market interest rates which range from 0.001% to 0.36% (2009: 0.001% to 0.36%) per annum and short-term bank deposits carried at market rates which range from 0.11% to 2.25% in 2010 (2009: 0.02% to 1.98%) per annum.

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

	2010 ***HK$'000***	2009 *HK$'000*
Hong Kong dollars	**20,845**	45,327
Renminbi	**50,654**	74
Euro	**20,625**	3,773
United States dollars	**374**	927
Japanese Yen	**312**	250

24. CREDITORS AND ACCRUED CHARGES

	31.12.2010 ***HK$'000***	31.12.2009 *HK$'000*	1.1.2009 *HK$'000*
Trade creditors	**158,709**	136,485	147,455
Other creditors and accrued charges	**134,575**	124,094	116,845
	293,284	260,579	264,300

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For the year ended 31st December, 2010

24. CREDITORS AND ACCRUED CHARGES (continued)

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:

	2010	2009
	HK$'000	*HK$'000*
Hong Kong dollars	**73,050**	63,266
Renminbi	**16,363**	12,351
Euro	**12,839**	13,496
United States dollars	**1,440**	3,432
Japanese Yen	**5,725**	5,550

The following is an aged analysis of trade creditors presented based on the invoice date at the end of the reporting period.

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
0 – 60 days	**113,423**	96,641	82,119
61 – 120 days	**43,150**	36,917	59,817
More than 120 days	**2,136**	2,927	5,519
	158,709	136,485	147,455

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

25. BANK BORROWINGS

	31.12.2010	31.12.2009	1.1.2009
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
Carrying amount of the unsecured bank borrowings repayable *(Note)*:			
On demand or within one year, contain a repayment on demand clause	**10,000**	10,000	48,824
Carrying amount of unsecured bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**15,833**	25,833	35,833
	25,833	35,833	84,657

Note: The amounts due are based on scheduled repayment dates set out in the loan agreement.

All of the Group's bank borrowings are variable-rate borrowings which carry interest at Hong Kong Interbank Offered Rate ("HIBOR") plus certain basis points and subject to cash flow interest rate risk.

The effective interest rates per annum at the end of the reporting period on the bank borrowings of the Group were as follows:

	2010	2009
Variable-rate borrowings	**1.35%**	1.24%

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

25. BANK BORROWINGS (continued)

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

	2010	2009
	HK$'000	*HK$'000*
Hong Kong dollars	**25,833**	35,833

As at the end of the reporting period, the Group has the following undrawn short-term borrowing facilities:

	2010	2009
	HK$'000	*HK$'000*
Floating rate – expiring within one year	**216,230**	242,897

The facilities expiring within one year are annual facilities subject to review at various dates during 2011.

26. SHARE CAPITAL

The share capital of the Company was as follows:

	Number of shares 31.12.2010 & 31.12.2009	Nominal value 31.12.2010 & 31.12.2009 *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

For the year ended 31st December, 2010

27. 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 was terminated and a new share option scheme (the "Share Option Scheme") was adopted in order to comply with the amendments to Chapter 17 of the Listing Rules in relation to share option scheme.

Under the Share Option Scheme, the board of Directors 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 Share Option Scheme is to attract and retain high calibre employees, and to motivate them towards higher levels of performance. The 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 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 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 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 Share Option Scheme since its adoption.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

28. 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, 2009	(13,591)	(730)	(3,170)	(17,491)
Credit to profit or loss	4,078	730	154	4,962
At 31st December, 2009	(9,513)	–	(3,016)	(12,529)
Credit (charge) to profit or loss	7	–	(739)	(732)
At 31st December, 2010	(9,506)	–	(3,755)	(13,261)

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

	31.12.2010 ***HK$'000***	31.12.2009 *HK$'000*	1.1.2009 *HK$'000*
Deferred tax assets	**188**	181	–
Deferred tax liabilities	**(13,449)**	(12,710)	(17,491)
	(13,261)	(12,529)	(17,491)

At 31st December, 2010, the Group has unused tax losses of HK$10,173,000 (31st December, 2009: HK$8,844,000) 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$7,623,000 (31st December, 2009: HK$6,044,000) that will expire from 2011 to 2015 (31st December, 2009: expire from 2010 to 2014). Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of HK$23,582,000 (31st December, 2009: HK$16,645,000). 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

29. 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 net debt, which includes bank borrowings disclosed in note 25, and equity attributable to owners of the Company, comprising issued share capital and reserves, as disclosed in the consolidated statement of changes in equity.

The Directors review the capital structure periodically. As part of this review, the Directors 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.

30. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31.12.2010 ***HK$'000***	31.12.2009 *HK$'000*	1.1.2009 *HK$'000*
Financial assets			
Loans and receivables (including cash and cash equivalents)	**651,314**	667,749	547,246
Available-for-sale financial assets	**5,858**	5,858	5,858
Financial liabilities			
Amortised cost	**284,702**	265,026	324,736

(b) Financial risk management objectives and policies

The Group's major financial instruments include debtors, loan receivable, available-for-sale investments, short-term bank deposits and bank balances, creditors and accrued charges, and bank borrowings. 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 derivative financial instruments either for hedging or speculative purposes.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk

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

(i) Foreign currency risk management

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 2% (2009: 2%) of the Group's sales are denominated in currencies other than the functional currency of the Group, whilst almost 21% (2009: 23%) of costs are denominated in the Group's functional currency. The Group also has trade and other debtors, short-term bank deposits, bank balances, trade and other creditors and bank borrowings denominated in foreign currency balances. Details of foreign currency balances are detailed in notes 22, 23, 24 and 25.

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

	Assets		Liabilities	
	31.12.2010	31.12.2009	**31.12.2010**	31.12.2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**20,954**	45,332	**98,883**	99,099
Renminbi	**53,460**	5,103	**16,363**	12,351
Euro	**21,887**	3,520	**12,839**	13,496
United States dollars	**19,720**	17,849	**1,440**	3,432
Japanese Yen	**312**	250	**5,725**	5,550

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 United 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 consider that the foreign currency exposure is limited.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Foreign currency risk management (continued)

Foreign currency sensitivity (continued)

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% (2009: 5%) 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% (2009: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the functional currencies of the relevant group entities strengthen against the relevant foreign currencies. For a 5% (2009: 5%) weakening of the functional currencies of the relevant group entities, there would be an equal and opposite impact on the post-tax profit, and the balances below would be negative.

	(Decrease) increase in profit for the year (post-tax)	
	31.12.2010	31.12.2009
	HK$'000	*HK$'000*
Renminbi	**(1,699)**	339
Euro	**(403)**	460
Japanese Yen	**243**	245

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed rate loan receivable (see note 19 for details of this loan receivable).

The Group's cash flow interest rate risk relates primarily to variable-rate short-term bank deposits, bank balances and borrowings (see note 25 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's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's borrowings.

Interest rate risk sensitivity

Sensitivity analysis on short-term bank deposits and bank balances is not presented as the management considers that the Group's exposure to interest rate fluctuation is insignificant.

The sensitivity analysis below has been determined based on the exposure to interest rates for borrowings at the end of the reporting period. The analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2009: 50 basis point) represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2010 would decrease/increase by HK$129,000 (2009: decrease/increase by HK$179,000). This is mainly attributable to the Group's exposure to interest rates on its borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk inherent in the financial liabilities as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk management

As at 31st December, 2010, 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 statement of financial position; and

- the amount of contingent liabilities in relation to the financial guarantees issued by the Group as disclosed in note 35.

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 the end of the reporting period 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 consider that the Group's credit risk is significantly reduced.

The loan receivable exposes the Group to concentration of credit risk on a single 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

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 also monitors the utilisation of bank borrowings.

As at 31st December, 2010, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK$4,600,000 (31st December, 2009: HK$4,600,000) and HK$211,630,000 (31st December, 2009: HK$238,297,000) respectively.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. 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 tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amounts is derived from interest rate curve at the end of the reporting period.

	Weighted average effective interest rate	On demand or less than 3 months	3 months to 1 year	Total discounted cash flows	Carrying amount at 31.12.2010
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2010					
Non-derivative financial liabilities					
Creditors and accrued charges	–	158,754	100,115	258,869	258,869
Bank borrowings – variable rate	1.35	25,833	–	25,833	25,833
Financial guarantee contract	–	9,729	–	9,729	–
		194,316	100,115	294,431	284,702

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk management (continued)

	Weighted average effective interest rate %	On demand or less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	Total discounted cash flows *HK$'000*	Carrying amount at 31.12.2009 *HK$'000*
2009 (restated)					
Non-derivative financial liabilities					
Creditors and accrued charges	–	136,521	92,672	229,193	229,193
Bank borrowings – variable rate	1.24	35,833	–	35,833	35,833
Financial guarantee contract	–	9,688	–	9,688	–
		182,042	92,672	274,714	265,026

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 3 months" time band in the above maturity analysis. As at 31st December, 2010 and 31st December, 2009, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$25,833,000 and HK$35,833,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The Directors believe that the outstanding bank borrowing at 31st December, 2010 will be fully repaid by July 2013 in accordance with the scheduled repayment dates set out in the loan agreement. On that basis, the aggregate principal and interest cash outflows will amount to HK$26,298,000 (31st December, 2009: HK$36,648,000) for financial liabilities of the Group as at 31st December, 2010.

The amount included above for financial guarantee contract is the maximum amount the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

30. FINANCIAL INSTRUMENTS (continued)

(c) Fair values of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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.

31. RETIREMENT BENEFIT 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 rules 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 since 2007 for the benefits of those selected PRC employees who have provided over five years of services to the Group. During the year ended 31st December, 2010, the cost charged to the consolidated statement of comprehensive income of HK$2,066,000 (2009: HK$2,080,000) represents contributions payable to this scheme by the Group in respect of services provided by the selected PRC employees in 2010. 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 rules 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.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

31. RETIREMENT BENEFIT SCHEMES (continued)

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

The total cost charged to the consolidated statement of comprehensive income of HK$3,734,000 (2009: HK$3,665,000) represents contributions payable to these schemes by the Group. At the end of reporting period, there was no forfeited contribution available to reduce future contributions in both years.

32. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

On 21st June, 2010, the Group received a letter dated 8th June, 2010 from the Land Preparation and Resettlements Bureau of Tiyuxincheng District, Shenzhen (the "Letter") informing it that the location of its existing production facility situated at Longgang District, Shenzhen City was the subject of special planning for redevelopment and the Group was required to prepare for relocation of its existing production facility. Although the Letter did not specify the time frame for the relocation, the Directors expected that the relocation would take approximately five years to complete.

On 2nd July, 2010, Allied Power Inc. ("API"), a wholly-owned subsidiary of the Company, entered into a share purchase agreement with Mr. Ng Hoi Ying, Michael ("Mr. Ng"), an executive director and controlling shareholder of the Company, pursuant to which Mr. Ng agreed to sell, and API agreed to purchase, the entire issued share capital of Art Talent Industrial Limited ("Art Talent") and take an assignment of the benefit of the shareholder loans owed to Mr. Ng respectively by Art Talent and its wholly-owned subsidiary, Hongmao Metal Products (Shenzhen) Co. Ltd. ("Hongmao"), for a total cash consideration of HK$55,000,000. The transaction was completed on 5th July, 2010 and the consideration was funded by the Group's internal resources. Art Talent, through Hongmao, owns the land use rights of or has the rights to use four parcels of land in Shenzhen and Huiyang and the buildings constructed thereon. The acquisitions were made as the Group would be required to prepare for relocation of its existing production facility and the acquisitions, which did not constitute acquisition of business, were regarded as acquisition of assets and liabilities. Upon completion of the acquisition, Art Talent and Hongmao have became wholly-owned subsidiaries of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

32. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES (continued)

The net assets of Art Talent and its subsidiary at the date of acquisition were as follows:

	HK$'000
Net assets acquired:	
Prepaid lease payments	24,029
Property, plant and equipment	29,979
Bank balances	864
Other receivables	128
	55,000
Net cash outflow arising on acquisition:	
Cash consideration	(55,000)
Bank balances acquired	864
	(54,136)

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

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

	2010 *HK$'000*	2009 *HK$'000*
Within one year	**2,178**	3,181
In the second to fifth year inclusive	**3,884**	5,454
	6,062	8,635

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

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34. CAPITAL COMMITMENTS

	2010	2009
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements:		
– buildings under construction	**22,685**	1,675
– leasehold improvements	**4,375**	13,825
– plant and machinery	**13,660**	3,404
– furniture, fixtures and equipment	**534**	306
	41,254	19,210

35. CONTINGENT LIABILITIES

	2010	2009
	HK$'000	*HK$'000*
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	**9,729**	9,688

The Directors consider that the fair value of this financial guarantee contract at its initial recognition and carrying amount at 31st December, 2009 and 31st December, 2010 are insignificant and of low applicable default risk. 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, 2010

36. RELATED PARTY TRANSACTIONS

Other than the related party transaction as stated in note 32, the Group also had the following transactions with related parties during the year.

Compensation of key management personnel

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

	2010	2009
	HK$'000	*HK$'000*
Short-term benefits	**7,965**	7,466
Post-employment benefits	**289**	278
	8,254	7,744

The remuneration of executive directors and key executives was determined by the Remuneration Committee having regard to the performance of individuals and market trends. The remuneration of independent non-executive directors was recommended by the board of Directors and approved by the shareholders of the Company at the annual general meeting.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2010

37. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2010 and 2009 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
			2010		2009		
			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
Art Talent Industrial Limited	Hong Kong	HK$100	**–**	**100%**	–	–	Investment holding
Arts Optical Company Limited	Hong Kong	HK$1,000,000	**–**	**100%**	–	100%	Trading in optical frames
Sin Dak Industrial Limited	Hong Kong	HK$40,000	**–**	**100%**	–	100%	Property holding
Stepper Eyewear Limited (formerly known as Eyeconcept Limited)	Hong Kong	HK$100	**–**	**85%**	–	85%	Trading in optical frames
深圳北方光學實業有限公司 (Shenzhen North Optical Industrial Company Limited)	PRC	HK$17,675,600	**–**	**51%** *(Note 1)*	–	51% *(Note 1)*	Retailing of optical products
宏懋金屬製品（深圳）有限公司 (known as "Hongmao Metal Products (Shenzhen) Company Limited")	PRC	HK$35,000,000	**–**	**100%** *(Note 2)*	–	–	Property holding

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37. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2010 Directly	2010 Indirectly	2009 Directly	2009 Indirectly	Principal activities
滙駿光學城（河源）有限公司 (known as "Huijun Optical (Heyuan) Limited")	PRC	HK$125,000,000	**–**	**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, 2010 or at any time during the year.

Financial Summary

RESULTS

	Year ended 31st December,				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(restated)	(restated)	(restated)		
REVENUE	1,090,384	1,282,145	1,396,260	1,169,768	**1,361,026**
PROFIT BEFORE TAX	181,045	201,831	145,116	132,468	**141,493**
INCOME TAX EXPENSE	(17,676)	(16,539)	(13,441)	(9,793)	**(15,972)**
PROFIT FOR THE YEAR	163,369	185,292	131,675	122,675	**125,521**
PROFIT FOR THE YEAR ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	166,483	184,057	131,354	122,336	**124,729**
NON-CONTROLLING INTERESTS	(3,114)	1,235	321	339	**792**
	163,369	185,292	131,675	122,675	**125,521**

ASSETS AND LIABILITIES

	At 31st December,				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
TOTAL ASSETS	1,012,841	1,251,242	1,367,679	1,389,133	**1,511,221**
TOTAL LIABILITIES	(258,491)	(341,774)	(367,173)	(313,963)	**(334,520)**
	754,350	909,468	1,000,506	1,075,170	**1,176,701**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	754,208	907,916	997,059	1,071,459	**1,172,294**
NON-CONTROLLING INTERESTS	142	1,552	3,447	3,711	**4,407**
	754,350	909,468	1,000,506	1,075,170	**1,176,701**

Note: In order to conform with current year's presentation, sales rebates of HK$8,576,000, HK$12,070,000 and HK$13,942,000 included in distribution and selling expenses have been reclassified to revenue in the years ended 31st December, 2006, 31st December, 2007 and 31st December, 2008 respectively.