2013 ANNUAL REPORT

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

WONG Chi Wai
CHUNG Hil Lan Eric
LAM Yu Lung

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

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 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

At 31st December, 2013

Arts Optical International Holdings Limited

Investment holding

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

Argent Optical Manufactory Limited
Manufacture of optical frames and sunglasses
100%

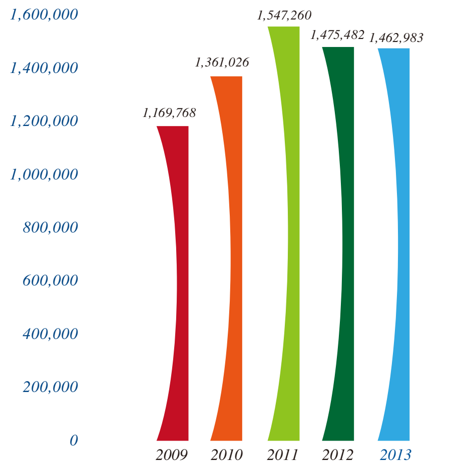
Stepper Eyewear Limited
Trading in optical frames and sunglasses under own and licensed brand names
80%

Eyeconcept Limited
Trading in optical frames and sunglasses under own and licensed brand names
88%

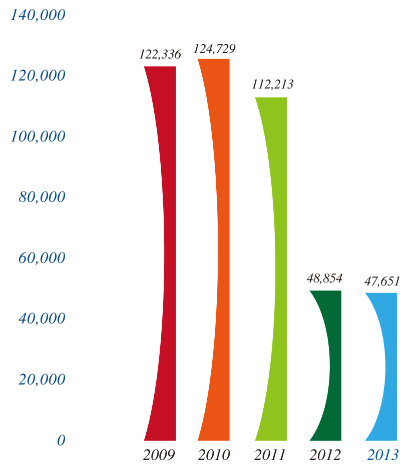
Apex City Industrial Limited
Trading in optical frames and sunglasses under own and licensed brand names
100%

Financial Highlights

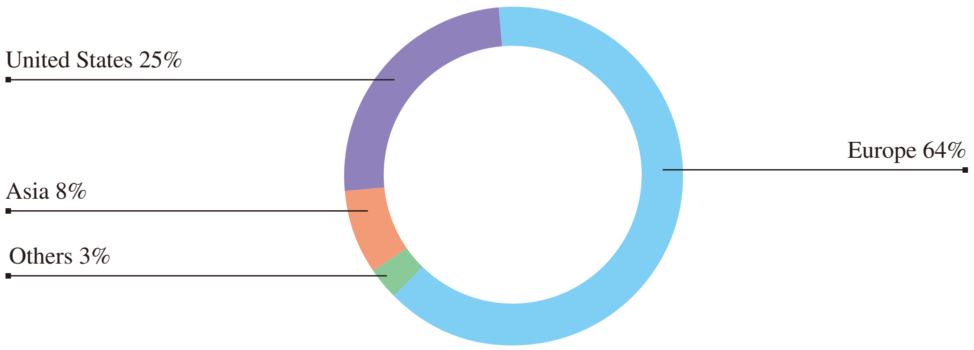
Consolidated revenue *(HK$'000)*



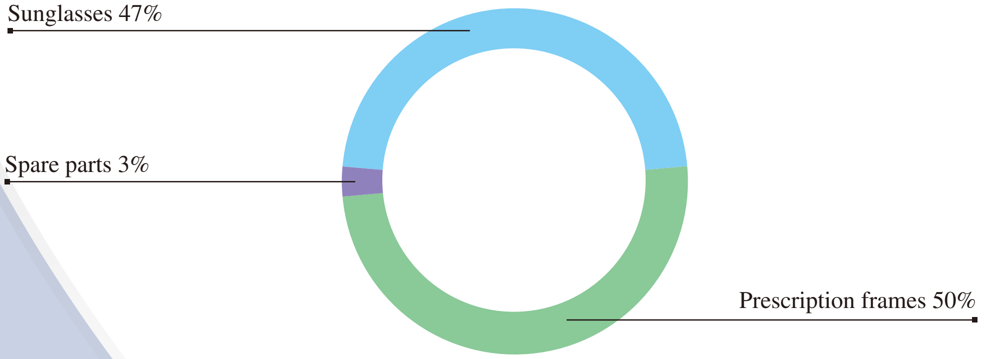
Profit attributable to owners of the Company *(HK$'000)*



Consolidated revenue by geographical locations in 2013



Revenue of ODM division by product range in 2013



Chairman's Statement

BUSINESS REVIEW

Profitability analysis

The Group's consolidated revenue remained fairly stable in 2013 and decreased by less than 1% to HK$1,463.0 million (2012: HK$1,475.5 million). Both profit attributable to owners of the Company and basic earnings per share decreased by 2% to HK$47.7 million and 12.4 HK cents respectively in the year under review (2012: HK$48.9 million and 12.7 HK cents).

Higher labour costs and continued appreciation of Renminbi continued to put pressure on the gross margin of the Group. The statutory minimum wages in Shenzhen City, Zhongshan City and Heyuan City, where the Group's manufacturing facilities were located, were raised by 6.7%, 19.1% and 18.8% respectively in 2013. The Renminbi also appreciated by almost 3% against both United States ("US") dollar and Hong Kong dollar throughout 2013. Despite this, the Group managed to keep its gross profit ratio (being the ratio of gross profit to revenue) stable at 18.5% in 2013 (2012: 18.5%) through improvement in operational efficiency, modest price adjustments and increase in sales of higher margin house brand and licensed brand products. Because of the increase in depreciation charge after the production plants in Heyuan City started operations in late 2012, 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) increased by 0.9% from 16.5% to 17.4%. The Group recorded a net after-tax gain of HK$19.3 million on disposal of two wholly-owned subsidiaries holding two pieces of unutilised land in Heyuan City during the year. Accordingly, the net profit ratio (being the ratio of profit attributable to owners of the Company to revenue) remained flat at 3.3% in both 2013 and 2012. The net profit ratio of 2013 would have decreased to 1.9% if this gain was excluded.

Original design manufacturing (ODM) division

Revenue generated by the ODM division contributed 90% to the consolidated revenue of the Group in both 2013 and 2012. Market sentiment in the two principal markets of the ODM division, namely Europe and the US remained soft in 2013. Sales to ODM customers decreased by 2% from HK$1,331.1 million in 2012 to HK$1,311.0 million in 2013. The geographical sales mix of the Group remained fairly stable in 2013. Sales to Europe, the US, Asia and other regions accounted for 66%, 28%, 5% and 1% respectively of the revenue of the ODM division in 2013 (2012: 67%, 27%, 4% and 2% respectively). The Group continued to maintain a balanced sales mix between prescription frames and sunglasses. Sales of prescription frames, sunglasses and spare parts accounted for 50%, 47% and 3% respectively of the revenue of this division in 2013 (2012: 48%, 50% and 2% respectively).

Chairman's Statement

Distribution and retailing divisions

Revenue generated by sale of house brand and licensed brand products through the designated distributors of the distribution division accounted for 10% of the consolidated revenue of the Group in both 2013 and 2012. Revenue of the distribution division increased modestly by 6% from HK$140.1 million in 2012 to HK$148.5 million in 2013. Decline in sales to the European markets was offset by the increase in sales to the emerging markets in Asia and South America. Sales to Europe, Asia, North America and other regions accounted for 48%, 28%, 7% and 17% respectively of the revenue of the distribution division in 2013 (2012: 54%, 24%, 8% and 14% respectively).

The retailing division continued to contribute less than 1% to the consolidated revenue of the Group. Revenue of this division decreased from HK$4.3 million in 2012 to HK$3.5 million in 2013 as the Group only operated one shop in Shenzhen City in 2013 after the closure of two shops in 2012.

Financial position and liquidity

Cash flows

The cash inflow generated by the Group's operating activities decreased from HK$153.9 million in 2012 to HK$113.4 million in 2013 as a result of decline in profitability and increase in working capital during the year under review. On the other hand, capital expenditure decreased significantly from HK$206.5 million in 2012 to HK$66.2 million in 2013 as the Group completed the acquisition of an office premise in Hong Kong with a total cost of HK$99.0 million in 2012. Total amount of dividend payments was also reduced from HK$40.9 million in 2012 to HK$20.2 million in 2013 because of the decline in profitability of the Group. Accordingly 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) increased from HK$126.6 million as at 31st December, 2012 to HK$169.5 million as at 31st December, 2013.

Working capital management

As production activity is normally at the peak level before Chinese New Year and the Chinese New Year of 2014 was closer to the financial year end date of 2013, inventory balances increased by 6% from HK$196.5 million as at 31st December, 2012 to HK$208.1 million as at 31st December, 2013. Inventory

Chairman's Statement

turnover period (being the ratio of inventory balances to cost of sales) increased from 60 days in 2012 to 64 days in 2013. Total amount of debtors and bills receivable balances increased slightly by 2% from HK$406.3 million as at 31st December, 2012 to HK$413.3 million as at 31st December, 2013 and the debtors turnover period (being the ratio of the total of trade debtors and bills receivable to revenue) also increased from 101 days in 2012 to 103 days in 2013. Despite this, the Group's financial position remained strong and liquid. The current ratio (being the ratio of total current assets to total current liabilities) of the Group increased from 2.2 to 1.0 as at 31st December, 2012 to 2.5 to 1.0 as at 31st December, 2013 as a result of the increase in net cash position of the Group.

Gearing position

The gearing position of the Group remained low throughout 2013. The debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained stable at less than 1% as at both 31st December, 2013 and 31st December, 2012. The non-current liabilities of the Group comprised only deferred taxation which amounted to HK$10.1 million as at 31st December, 2013 (31st December, 2012: HK$8.4 million).

Net asset value

The Group had 383,650,000 shares in issue as at both 31st December, 2013 and 31st December, 2012 with an equity attributable to owners of the Company amounting to HK$1,316.4 million and HK$1,273.3 million as at 31st December, 2013 and 31st December, 2012 respectively. Net asset value per share (being the equity attributable to owners of the Company divided by the total number of shares in issue) as at 31st December, 2013 was HK$3.43 (31st December, 2012: HK$3.32).

Foreign currency exposure

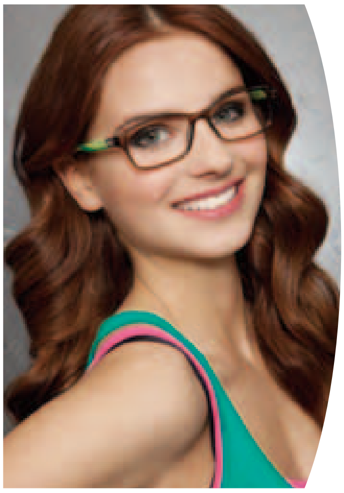
The Group was exposed to the continuous appreciation of Renminbi against both US dollar and Hong Kong dollar. Save as above, the Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either US dollar, Hong Kong dollar or Renminbi and exchange rate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

Chairman's Statement

PROSPECTS

The global economic environment remains volatile with low business visibility. Concerns over the effects of withdrawal of quantitative easing policy by the US Federal Reserve, the extreme weather conditions in Northern Hemisphere in the past few months and the recent geo-political tensions in Europe affect the procurement confidence of customers. On the other hand, customers are placing more emphasis on the reliability of the supply chain and are consolidating the vendor portfolio into a smaller number of larger key vendors. The Group benefits from this trend and its core ODM division currently maintains a stable order book of around three months' sales order on hand.

On the costs side, there are no signs of abatement in the upward trend of labour costs in China. The statutory minimum wage of Shenzhen City has been raised by 13% since February, 2014 and it is anticipated that other cities where the Group's manufacturing facilities are located will also raise their respective statutory minimum wages in the near future. Although the pace of appreciation of Renminbi is slowing down in the first quarter of 2014, the market consensus is that the currency will gradually appreciate in the long term. The Group continues to tackle these challenges by enhancing the flexibility in our production scale, streamlining our operations and modest price adjustments.



Revenue contributed by the distribution division has increased by 41% and 393% over the past five years and ten years respectively. The Group will continue to leverage on its extensive global distributor network developed over the past ten years, further invest in acquiring or developing new brands and expand the distributor network.

The factory relocation plan from Long Gang Area, Shenzhen City to Pingdi Town, Shenzhen City and Heyuan City are being executed in phases. The Group has submitted its redevelopment plan of the piece of land occupied by its existing factory in Long Gang Area with a site area of approximately 60,000 square metres to the relevant bureau of the Shenzhen municipal government for its approval and is evaluating various options of realizing the full potential value of this piece of land.

Chairman's Statement

The Group remains alert to further difficulties and challenges that may arise in the global operating environment and will address the various challenges in coming years with financial discipline. The Group is steadfast in its strategy to invest in the future and position itself to seize opportunities that emerge in these challenging times.

DIVIDENDS

The Board has resolved to recommend a final dividend of 2.5 HK cents per share for the year ended 31st December, 2013 (2012: 2.5 HK cents per share). Subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 23rd May, 2014 (the "AGM"), the final dividend will be payable on or about 16th June, 2014 to shareholders whose names appear on the register of members of the Company on 30th May, 2014.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the final dividend, the register of members of the Company will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the AGM:

Latest time to lodge transfer documents for registration	4:30 p.m. on 19th May, 2014
Closure of register of members	20th May, 2014 to 23rd May, 2014 (both dates inclusive)
Record date	23rd May, 2014

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 p.m. on 28th May, 2014
Closure of register of members	29th May, 2014 to 30th May, 2014 (both dates inclusive)
Record date	30th May, 2014

During the above closure periods, no transfer of shares will be effected. To be eligible to attend and vote at the AGM, and to qualify for the final dividend, all properly completed transfer forms 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 (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effective from 31st March, 2014) for registration no later than the aforementioned latest time.

Chairman's Statement

ANNUAL GENERAL MEETING

The notice of AGM will be despatched to the shareholders of the Company and will also be available on the Company's website at www.artsgroup.com and Hong Kong Exchanges and Clearing Limited's HKExnews website at www.hkexnews.hk in mid-April, 2014.

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, 28th March, 2014

Biographical Details of Directors and Management

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 59, 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 46 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 58, 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 29 years of experience in the optical products industry and is the brother of Mr. Ng.

LEE Wai Chung, aged 47, 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 obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. 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 26 years of experience in the accountancy profession.

INDEPENDENT NON-EXECUTIVE DIRECTORS

WONG Chi Wai, aged 47, is an independent non-executive director, the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Wong currently also serves as an independent non-executive director for Bonjour Holdings Limited, Kin Yat Holdings Limited and China Ludao Technology Company Limited, all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also an independent non-executive director of South West Eco Development Limited which is listed on the Growth Enterprise Market of the Stock Exchange. Mr. Wong obtained a Bachelor degree in Social Sciences from and was awarded a Post-graduate Certificate in Laws by the University of Hong Kong in 1988 and 1993 respectively. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Wong has also been admitted as a barrister of the High Court of Hong Kong since 1998. He has 26 years of experience in the accountancy profession and is currently the owner of Albert Wong & Co., a certified public accountants firm in Hong Kong. Mr. Wong joined the Group in 2004.

Biographical Details of Directors and Management

CHUNG Hil Lan Eric, aged 48, is an independent non-executive director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Chung obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Chung has 26 years of experience in the accountancy profession and is currently the owner of Eric H.L. Chung & Co., a certified public accountants firm in Hong Kong. He joined the Group in 2004.

LAM Yu Lung, aged 49, is an independent non-executive director, the chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Lam obtained a Bachelor degree in Social Sciences from the University of Hong Kong in 1988. He is a practising certified public accountant in Hong Kong and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Lam has 26 years of experience in the accountancy profession and is currently a owner of Tse & Lam Certified Public Accountants, a certified public accountants firm in Hong Kong. He joined the Group in 2011.

SENIOR MANAGEMENT

LI Chi Hung, aged 53, is the general manager of the Group's production plants in Shenzhen, Heyuan and Zhongshan. Mr. Li joined the Group in 1976 and assisted Mr. Ng in the establishment and expansion of the production plants mentioned above. He is also responsible for the overall management and development of these plants and has 38 years of experience in the optical products industry.

HUNG Chao Chia, aged 61, is the deputy general manager of the Group's production plants in Shenzhen, Heyuan and Zhongshan. Mr. Hung joined the Group in 1988 and is responsible for the financial management and administration of the production plants mentioned above. Mr. Hung has 36 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 56, 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 34 years of experience in production management and product development, including 30 years in the optical products industry. He obtained a Master degree in Engineering Management from the University of Technology, Sydney in 2006.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2013.

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, 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 29.

An interim dividend of 2.5 HK cents per share amounting to HK$9,591,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 2.5 HK cents per share amounting to HK$9,591,000 to the shareholders on the register of members on 30th May, 2014 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$66,397,000.

Details of this and other movements in property, plant and equipment of the Group during the year are set out in note 15 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, 2013 were as follows:

	2013 ***HK$'000***	2012 *HK$'000*
Contributed surplus	**105,369**	105,369
Retained earnings	**13,750**	22,697
	119,119	128,066

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. The Share Option Scheme expired on 27th May, 2013 and no new share option scheme has been adopted by the Company.

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:

Wong Chi Wai
Chung Hil Lan Eric
Lam Yu Lung

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Ng Hoi Ying, Michael and Mr. Lam Yu Lung 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' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

As at 31st December, 2013, 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)

	Number of issued ordinary shares held				Approximate percentage of issued share capital of the Company
Name of director	**Personal interests**	**Family interests**	**Other interests**	**Total**	
Ng Hoi Ying, Michael	2,856,000	5,656,000	151,000,000 *(Note a)*	159,512,000	41.58%
Ng Kim Ying	1,150,000	5,000,000	15,500,000 *(Note b)*	21,650,000	5.64%
Lee Wai Chung	2,750,000	–	–	2,750,000	0.72%

Notes:

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

(b) These shares were directly held by Universal Honour Developments Limited which was wholly-owned by Mr. Ng Kim Ying.

Save as disclosed above, as at 31st December, 2013, 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' Report

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, 2013, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Shares in the Company (Long 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	169,862,000	*(Note a)*	44.28%
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%
FMR LLC	Investment manager	38,365,000	*(Note b)*	10.00%
David Michael Webb	Beneficial owner	6,889,000		1.80%
	Held by controlled corporation	23,877,000	*(Note c)*	6.22%
Preferable Situation Assets Limited	Beneficial owner	23,877,000	*(Note c)*	6.22%

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

(a) HSBC International Trustee Limited ("HSBCITL") was the trustee of The Arts 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.

(b) FMR LLC was deemed to be interested in 38,365,000 shares of the Company through its controlled corporations, Fidelity Management & Research Company which was interested in 33,970,640 shares of the Company, and Fidelity Management Trust Company and Pyramis Global Advisors LLC, which were interested in 4,394,360 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 23,877,000 shares of the Company 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, 2013.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2013, 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 31% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 16% 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

The Company had no outstanding convertible securities, options, warrants or similar rights as at 31st December, 2013 and there has been no exercise of any other convertible securities, options, warrants or similar rights during the year.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries has 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.

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 (the "Board") and approved by the shareholders at the annual general meeting.

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 19 to 26 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, 28th March, 2014

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") has adopted the code provisions set out in the Corporate Governance Code (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 set out in the CG Code throughout the year ended 31st December, 2013, 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, 2013.

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 of whom are independent non-executive Directors, namely Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung.

During the year ended 31st December, 2013, four Board meetings and one general meeting were held. The attendance of each Director is set out as follows:

	Attendance Record	
Directors	**Board meetings**	**General meeting**
Ng Hoi Ying, Michael	4/4	1/1
Ng Kim Ying	4/4	1/1
Lee Wai Chung	4/4	1/1
Wong Chi Wai	4/4	1/1
Chung Hil Lan Eric	4/4	1/1
Lam Yu Lung	4/4	1/1

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.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

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

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skill. The company secretary of the Company (the "Company Secretary") also updates the Directors on the latest development of the Listing Rules and other applicable regulatory requirements.

The Directors participated in the following trainings during the year ended 31 December, 2013:

Directors	**Types of training**
Ng Hoi Ying, Michael	C
Ng Kim Ying	C
Lee Wai Chung	A,C
Wong Chi Wai	A,B,C
Chung Hil Lan Eric	A,C
Lam Yu Lung	A,C

A: attending seminars and/or conferences
B: giving talks at seminars
C: reading newspapers and journals relating to directors' duties and responsibilities as well as update on the Listing Rules and other applicable regulatory requirements

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.

Corporate Governance Report

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to Bye-law 87(1) of the Bye-laws of the Company (the "Bye-laws"), at each annual general meeting of the Company, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Bye-law 87(2) of the Bye-laws further provides that the Director(s) to retire by rotation shall be those who have been longest in office since their last re-election or appointment, and as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. According to Bye-law 86(2), any Director appointed by the Board to fill a casual vacancy shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

Mr. Ng Hoi Ying, Michael and Mr. Lam Yu Lung who were re-elected as Directors in the annual general meeting of the Company held on 23rd May, 2011 and 23rd May, 2012 respectively 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.

Mr. Lee Wai Chung and Mr. Wong Chi Wai were re-elected as Directors in the annual general meeting of the Company held on 23rd May, 2012 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. Ng Kim Ying were re-elected as Directors in the annual general meeting of the Company held on 23rd May, 2013 for a term of no more than three years and are subject to retirement by rotation in accordance with the Bye-laws.

BOARD COMMITTEES

To enhance the effectiveness of the management of the Company, the Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee various aspects of the Company's affairs.

AUDIT COMMITTEE

An Audit Committee has been established by the Company since 1998 and currently comprises Mr. Wong Chi Wai (chairman of the Audit Committee), Mr. Chung Hil Lan Eric and Mr. Lam Yu Lung, 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, 2013. Three Audit Committee meetings were held during the year ended 31st December, 2013 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
Lam Yu Lung	3/3

Corporate Governance Report

REMUNERATION COMMITTEE

A Remuneration Committee has been established by the Company since 2003 and currently comprises Mr. Chung Hil Lan Eric (chairman of the Remuneration Committee), Mr. Wong Chi Wai and Mr. Lam Yu Lung, all of whom are independent non-executive Directors.

One Remuneration Committee meeting was held during the year ended 31st December, 2013 and the attendance of each committee member is set out as follows:

Directors	**Attendance Record**
Chung Hil Lan Eric	1/1
Wong Chi Wai	1/1
Lam Yu Lung	1/1

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

1. To determine the remuneration of the executive Directors and senior management.

2. To review the remuneration policy of the Group.

During the year ended 31st December, 2013, the Remuneration Committee has, among other things, reviewed and determined the remuneration of the executive Directors and senior management with reference to their performance and the overall remuneration policy of the Group and approved the terms of executive Directors' service contracts. 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.

As at 31st December, 2013, the Group employed approximately 9,800 (31st December, 2012: 10,200) 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 coverage, subsidised educational and training programmes as well as provident fund schemes.

Corporate Governance Report

NOMINATION COMMITTEE

A Nomination Committee has been established by the Company since 2012 and currently comprises Mr. Lam Yu Lung (chairman of the Nomination Committee), Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, all of whom are independent non-executive Directors. The duties of the Nomination Committee include (but are not limited to) reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors, making recommendations to the Board on the appointment or re-appointment of Directors and determining the policy, nomination procedures and process and criteria for the nomination of Directors. The Nomination Committee has performed the above duties during the year ended 31st December, 2013.

The Nomination Committee has adopted a board diversity policy in 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Two Nomination Committee meetings were held during the year ended 31st December, 2013 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Lam Yu Lung	2/2
Wong Chi Wai	2/2
Chung Hil Lan Eric	2/2

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

1. To develop and review the Group's policies and practices on corporate governance and make recommendations;

2. To review and monitor the training and continuous professional development of Directors and senior management;

3. To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);

4. To develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

5. To review the Group's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

Corporate Governance Report

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, 2013, 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 27 to 28.

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 2013 interim results	320
Tax compliance services	148
Review on 2013 preliminary annual results	13

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 Royal Assets Advisory 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, 2013. No major issue had been raised but certain areas for improvement had been identified and appropriate measures had been taken.

COMPANY SECRETARY

Mr. Lee Wai Chung was appointed as the Company Secretary since 1996. There was no non-compliance with requirements of professional qualifications and professional training under the Listing Rules during the year ended 31st December, 2013.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to the Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company carrying the right of voting at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to the Bye-law 59, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Making Enquiry to the Board

Shareholders may send written enquiries, either by post, by facsimile or by email, together with his/her contact details, addressing to the head office of the Company at the following address or facsimile number or via email:

Arts Optical International Holdings Limited
Unit 308, 3/F, Sunbeam Centre
27 Shing Yip Street, Kwun Tong
Kowloon, Hong Kong

Facsimile number: (852) 2195 8928
Email: desmond@artsgroup.com
Attention: Company Secretary

All enquiries shall be collected by the Company Secretary who shall report to the executive Directors periodically on the enquiries collected. The executive Directors shall review the enquiries and assign different kinds of enquiries to appropriate division head/manager for answering. After receiving the answers of all enquiries from the relevant division head/manager, the Company Secretary will collect the answers for the executive Directors' review and approval. The Company Secretary shall then be authorized by the executive Directors to reply all enquiries in writing.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the Company Secretary at the head office address of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/ business and its supporting documents.

Corporate Governance Report

INVESTOR RELATIONS

Constitutional Documents

There was no change to the Company's Memorandum of Association and Bye-laws during the year ended 31st December, 2013. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is posted on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Shareholders Communication Policy

The Company has adopted a Shareholders Communication Policy since 2012 with the objective of ensuring that the Company shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company in order to enable the shareholders to exercise their rights in an informed manner, and to allow the shareholders and the investment community to engage actively with the Company.

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 29 to 97, which comprise the consolidated statement of financial position as at 31st December, 2013, and the consolidated statement of profit or loss and other 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, 2013, 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

28th March, 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31st December, 2013

	Notes	2013 HK$'000	2012 HK$'000
Revenue	5	**1,462,983**	1,475,482
Cost of sales		**(1,191,604)**	(1,202,087)
Gross profit		**271,379**	273,395
Other income	6	**18,889**	23,788
Other gains and losses	7	**3,687**	2,403
Gain on disposal of subsidiaries	32	**19,814**	–
Distribution and selling expenses		**(22,511)**	(28,707)
Administrative expenses		**(229,998)**	(213,170)
Other expenses		**(867)**	(1,142)
Finance costs	8	**(1,293)**	(1,070)
Share of (loss) profit of a joint venture		**(78)**	171
Profit before tax		**59,022**	55,668
Income tax expense	9	**(10,108)**	(5,316)
Profit for the year	10	**48,914**	50,352
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**20,639**	3,943
Release of exchange reserve upon disposal of subsidiaries		**(7,282)**	–
		13,357	3,943
Total comprehensive income for the year		**62,271**	54,295
Profit for the year attributable to:			
Owners of the Company		**47,651**	48,854
Non-controlling interests		**1,263**	1,498
		48,914	50,352
Total comprehensive income attributable to:			
Owners of the Company		**61,029**	52,808
Non-controlling interests		**1,242**	1,487
		62,271	54,295
Earnings per share	14		
– Basic		**12.4 HK cents**	12.7 HK cents

Consolidated Statement of Financial Position

At 31st December, 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current Assets			
Property, plant and equipment	15	**745,286**	762,197
Prepaid lease payments	16	**57,601**	65,423
Deposits paid for acquisition of property, plant and equipment		**359**	537
Intangible assets	17	**4,680**	4,680
Interest in a joint venture	18	**4,825**	4,797
Loan receivable	19	**13,067**	3,388
Available-for-sale investment	20	**5,858**	5,858
Deferred tax assets	28	**114**	188
		831,790	847,068
Current Assets			
Inventories	21	**208,148**	196,537
Debtors, deposits and prepayments	22	**422,589**	413,475
Loan to a joint venture	18	**739**	–
Loan receivable	19	**1,125**	2,248
Prepaid lease payments	16	**1,420**	1,578
Tax recoverable		**–**	1,953
Short-term bank deposits	23	**14,357**	34,703
Bank balances and cash	23	**197,010**	143,082
		845,388	793,576
Current Liabilities			
Creditors and accrued charges	24	**298,750**	301,406
Bank borrowings	25	**41,884**	51,195
Tax liabilities		**3,275**	535
		343,909	353,136
Net Current Assets		**501,479**	440,440
Total Assets less Current Liabilities		**1,333,269**	1,287,508

Consolidated Statement of Financial Position

At 31st December, 2013

	Notes	2013 HK$'000	2012 HK$'000
Capital and Reserves			
Share capital	26	**38,365**	38,365
Reserves		**1,278,019**	1,234,947
Equity attributable to owners of the Company		**1,316,384**	1,273,312
Non-controlling interests		**6,800**	5,829
Total Equity		**1,323,184**	1,279,141
Non-current Liabilities			
Deferred tax liabilities	28	**10,085**	8,367
		1,333,269	1,287,508

The consolidated financial statements on pages 29 to 97 were approved and authorised for issue by the Board of Directors on 28th March, 2014 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, 2013

	Attributable to owners of the Company							Non-controlling interests	Total
	Share capital	Share premium	Special reserve	Other reserve	Exchange reserve	Retained profits	Total		
	HK$'000	*HK$'000*	*HK$'000* *(Note a)*	*HK$'000* *(Note b)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2012	38,365	113,950	(3,269)	680	116,632	992,907	1,259,265	4,484	1,263,749
Profit for the year	–	–	–	–	–	48,854	48,854	1,498	50,352
Exchange differences arising on translation of foreign operations	–	–	–	–	3,954	–	3,954	(11)	3,943
Total comprehensive income for the year	–	–	–	–	3,954	48,854	52,808	1,487	54,295
Dividends paid *(note 13)*	–	–	–	–	–	(40,283)	(40,283)	–	(40,283)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	(608)	(608)
Disposal of partial interests in subsidiaries without losing control	–	–	–	1,522	–	–	1,522	466	1,988
At 31st December, 2012	38,365	113,950	(3,269)	2,202	120,586	1,001,478	1,273,312	5,829	1,279,141
Profit for the year	–	–	–	–	–	47,651	47,651	1,263	48,914
Exchange differences arising on translation of foreign operations	–	–	–	–	20,660	–	20,660	(21)	20,639
Release upon disposal of subsidiaries *(note 32)*	–	–	–	–	(7,282)	–	(7,282)	–	(7,282)
Total comprehensive income for the year	–	–	–	–	13,378	47,651	61,029	1,242	62,271
Dividends paid *(note 13)*	–	–	–	–	–	(19,182)	(19,182)	–	(19,182)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	(1,008)	(1,008)
Disposal of partial interest in a subsidiary without losing control	–	–	–	1,225	–	–	1,225	737	1,962
At 31st December, 2013	38,365	113,950	(3,269)	3,427	133,964	1,029,947	1,316,384	6,800	1,323,184

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2013

Notes:

(a) 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.

(b) Other reserve arose from the acquisition of additional interest in a subsidiary from non-controlling interests and the disposal of partial interests in subsidiaries to non-controlling interests and a third party without losing control.

During the year ended 31st December, 2012, the Group disposed of 2% equity interest in a non-wholly owned subsidiary, Stepper Eyewear Limited, to non-controlling interests at a cash consideration of HK$1,961,784. The difference of HK$1,273,391 between the cash consideration received and the net assets attributable to the 2% equity interest in Stepper Eyewear Limited disposed of amounting to HK$688,393 at the date of disposal has been recognised directly in other reserve.

During the year ended 31st December, 2012, the Group disposed of 25% equity interest in a non-wholly owned subsidiary, 深圳北方光學實業有限公司 (Shenzhen North Optical Industrial Company Limited), to a third party at a cash consideration of HK$26,345. The difference of HK$248,217 between the cash consideration received and the net liabilities attributable to the 25% equity interest in Shenzhen North Optical Industrial Company Limited disposed of amounting to HK$221,872 at the date of disposal has been recognised directly in other reserve. After disposal, the Group retains 26% equity interest in Shenzhen North Optical Industrial Company Limited. The Group has the power to appoint the majority of the members of the board of directors which governs the financial and operating policies of this entity and therefore continues to account this entity as its subsidiary.

During the year ended 31st December, 2013, the Group disposed of 2% equity interest in a non-wholly owned subsidiary, Stepper Eyewear Limited, to non-controlling interests at a cash consideration of HK$1,961,784. The difference of HK$1,225,053 between the cash consideration received and the net assets attributable to the 2% equity interest in Stepper Eyewear Limited disposed of amounting to HK$736,731 at the date of disposal has been recognised directly in other reserve.

Consolidated Statement of Cash Flows

For the year ended 31st December, 2013

	Notes	**2013** **HK$'000**	2012 HK$'000
OPERATING ACTIVITIES			
Profit before tax		**59,022**	55,668
Adjustments for:			
Finance costs		**1,293**	1,070
Release of prepaid lease payments		**1,438**	1,489
Depreciation of property, plant and equipment		**100,817**	95,958
Allowance for inventories		**1,236**	5,284
Allowance for doubtful debts		**2,022**	7,659
Gain on disposal of subsidiaries	32	**(19,814)**	–
Interest income		**(564)**	(1,347)
Dividend income from available-for-sale investment		**(689)**	(1,030)
Net loss (gain) on disposal of property, plant and equipment		**20**	(1,351)
Share of loss (profit) of a joint venture		**78**	(171)
Operating cash flows before movements in working capital		**144,859**	163,229
Increase in inventories		**(12,749)**	(5,609)
(Increase) decrease in debtors, deposits and prepayments		**(12,439)**	15,481
Decrease in creditors and accrued charges		**(2,656)**	(14,061)
Cash generated from operations		**117,015**	159,040
Income taxes paid		**(3,623)**	(5,095)
NET CASH FROM OPERATING ACTIVITIES		**113,392**	153,945
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(65,860)**	(193,158)
Addition to prepaid lease payments		**–**	(12,815)
Investment in a joint venture		**–**	(1,017)
Amounts advanced to a joint venture		**(1,081)**	(3,537)
Repayment of loan to a joint venture		**342**	–
Proceeds from disposal of property, plant and equipment		**2**	1,369
Interest received		**564**	1,347
Addition of loan receivable	19	**(9,694)**	–
Repayments of loan receivable	19	**1,138**	2,248
Dividend received from available-for-sale investment		**689**	1,030
Net proceeds from disposal of subsidiaries	32	**21,035**	–
Deposits paid for acquisition of property, plant and equipment		**(359)**	(537)
NET CASH USED IN INVESTING ACTIVITIES		**(53,224)**	(205,070)

Consolidated Statement of Cash Flows

For the year ended 31st December, 2013

	2013 HK$'000	2012 HK$'000
FINANCING ACTIVITIES		
Proceeds from disposal of partial interests in subsidiaries without losing control	**1,962**	1,988
Dividends paid to owners of the Company	**(19,182)**	(40,283)
Dividends paid to non-controlling shareholders of a subsidiary	**(1,008)**	(608)
Interest paid	**(1,293)**	(1,070)
New bank borrowings raised	**22,421**	70,818
Repayments of bank borrowings	**(31,732)**	(35,456)
NET CASH USED IN FINANCING ACTIVITIES	**(28,832)**	(4,611)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**31,336**	(55,736)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**177,785**	231,556
Effect of foreign exchange rate changes	**2,246**	1,965
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**211,367**	177,785
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Short-term bank deposits	**14,357**	34,703
Bank balances and cash	**197,010**	143,082
	211,367	177,785

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

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 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")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 "Consolidated Financial Statements", HKFRS 11 "Joint Arrangements", HKFRS 12 "Disclosure of Interests in Other Entities", HKAS 27 (as revised in 2011) "Separate Financial Statements" and HKAS 28 (as revised in 2011) "Investments in Associates and Joint Ventures", together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

HKFRS 10 "Consolidated Financial Statements"

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements and HK(SIC) – Int 12 "Consolidation – Special Purpose Entities". HKFRS 10 changes the definition of control such that an investor has control over an investee when: (a) it has power over the investee; (b) it is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The Directors made an assessment as at the date of initial application of HKFRS 10 (i.e. 1st January, 2013) and concluded that the application of the standard has had no significant impact on the financial results or position of the Group for the current or prior period.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

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

HKFRS 11 "Joint Arrangements"

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures", and the guidance contained in a related interpretation, HK(SIC) – Int 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers", has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed).

The Directors reviewed and assessed the classification of the Group's investment in a joint arrangement in accordance with the requirements of HKFRS 11. The Directors concluded that the Group's interest in a jointly controlled entity, which was classified under HKAS 31 and was accounted for using equity method, should be classified as a joint venture under HKFRS 11 and continues to be accounted for using the equity method.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

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

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The Group has applied the amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income". Upon the adoption of the amendments to HKAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HK(IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1st January, 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1st July, 2014.
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1st July, 2014, with limited exceptions.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

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

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The Directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's classification and measurement of available-for-sale investment which is currently stated at cost less impairment and will be measured at fair value upon application. Regarding the Group's available-for-sale investment, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The Directors anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

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 the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in joint ventures (continued)

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such charges in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in joint ventures (continued)

When a group entity transacts with a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 income can be measured reliably. Interest income 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment other than buildings under construction, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than buildings under construction, less their residual values over their estimated useful lives, 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.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. 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.

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).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. 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 are tested for impairment at least 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 immediately in profit or loss.

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 immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, 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, loans to a joint venture, short-term bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy in respect of impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy in respect of impairment of financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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.

For certain categories of financial assets, such as trade debtors, assets that are assessed not to be impaired individually are, in addition, 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 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, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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, 2013

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 debtors, 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 was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment 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 instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 (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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract issued by the Group is initially measured at its fair value and, if not designated as at fair value through profit or loss, is subsequently measured at the higher of:

(i) the amount of obligation under the contract, as 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 the revenue recognition policies.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, 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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other 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.

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries and interest in a joint venture, 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 and interest 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 each 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.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised 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) using exchange rates prevailing at the end of each 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 under the heading of exchange reserve.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs

Payments to the defined contribution retirement benefit schemes are recognised 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).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, 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.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

4. KEY SOURCES 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 on-going 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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, 2013, the carrying amount of trade debtors is HK$410,638,000 net of allowance for doubtful debts of HK$29,283,000 (2012: HK$402,893,000 net of allowance for doubtful debts of HK$30,227,000).

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 profit or loss and other comprehensive income. As at 31st December, 2013, the carrying amount of inventories is HK$208,148,000 net of allowance for inventories of HK$80,096,000 (2012: HK$196,537,000 net of allowance for inventories of HK$78,860,000).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

5. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision maker, 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 and operating segment:

For the year ended 31st December, 2013

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	**944,079**	**368,247**	**111,359**	**39,298**	**1,462,983**
Result					
Segment profit	**63,292**	**23,891**	**9,542**	**2,245**	**98,970**
Unallocated income					**20,519**
Unallocated corporate expenses					**(59,660)**
Interest income on bank deposits					**564**
Finance costs					**(1,293)**
Share of loss of a joint venture					**(78)**
Profit before tax					**59,022**

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

5. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the year ended 31st December, 2012

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	971,735	363,804	95,153	44,790	1,475,482
Result					
Segment profit	64,772	22,518	12,040	2,845	102,175
Unallocated income					2,380
Unallocated corporate expenses					(49,335)
Interest income on bank deposits					1,347
Finance costs					(1,070)
Share of profit of a joint venture					171
Profit before tax					55,668

The accounting policies of the reportable and operating 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' emoluments, investment income, royalty income, finance costs, share of profit or loss of a joint venture and gain on disposal of subsidiaries. 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, 2013

5. SEGMENT INFORMATION (continued)

Other segment information

2013

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	**30,936**	**12,808**	**2,093**	**395**	**54,585**	**100,817**
(Write back) allowance for doubtful debts	**(445)**	**1,901**	**72**	**494**	**–**	**2,022**
(Write back) allowance for inventories	**(112)**	**(12)**	**1,111**	**249**	**–**	**1,236**

2012

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	36,755	14,705	2,254	817	41,427	95,958
Allowance for doubtful debts	3,984	3,185	415	75	–	7,659
Allowance for (write back) inventories	3,715	1,975	(90)	(316)	–	5,284

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 net gain/loss on disposal of property, plant and equipment and release of prepaid lease payments, which are set out in notes 7 and 10 respectively.

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, 2013

5. SEGMENT INFORMATION (continued)

Geographical information

Information about the Group's revenue is presented based on the location of the external customers and information about the Group's non-current assets other than interest in a joint venture, loan receivable, available-for-sale investment and deferred tax assets is presented based on the geographical location of the assets.

	Revenue from external customers Year ended		Non-current assets	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**–**	–	**101,314**	102,846
People's Republic of China (excluding Hong Kong) ("PRC")	**–**	–	**701,710**	724,987
United States	**368,247**	363,804	**4,680**	4,680
Italy	**710,098**	726,807	**–**	–
Other countries	**384,638**	384,871	**222**	324
	1,462,983	1,475,482	**807,926**	832,837

Information about major customers

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

	2013	2012
	HK$'000	*HK$'000*
Customer A[1]	**220,470**	226,983
Customer B[1]	**216,996**	206,138
Customer C[2]	**166,027**	150,523

1 Revenue from Europe

2 Revenue from the United States

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

6. OTHER INCOME

	2013 *HK$'000*	2012 *HK$'000*
Included in other income are:		
Sales of scrap materials	**6,670**	7,606
Compensation from customers	**9,160**	11,569
Interest income on bank deposits	**564**	1,347
Dividend income from available-for-sale investment	**689**	1,030
Royalty income on intangible assets	**–**	465

7. OTHER GAINS AND LOSSES

	2013 *HK$'000*	2012 *HK$'000*
Net foreign exchange gains	**3,707**	1,052
Net (loss) gain on disposal of property, plant and equipment	**(20)**	1,351
	3,687	2,403

8. FINANCE COSTS

	2013 *HK$'000*	2012 *HK$'000*
Interest on bank borrowings wholly repayable within five years	**133**	246
Interest on bank borrowings wholly repayable after five years	**1,160**	824
	1,293	1,070

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

9. INCOME TAX EXPENSE

	2013 **HK$'000**	2012 HK$'000
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**7,758**	5,801
– Overprovision in respect of prior year	**(75)**	(55)
	7,683	5,746
PRC Enterprise Income Tax		
– Current year	**633**	92
– Underprovision in respect of prior year	**–**	27
	633	119
Deferred taxation *(note 28)*		
– Current year	**1,794**	(549)
– Overprovision in respect of prior year	**(2)**	–
	1,792	(549)
	10,108	5,316

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

PRC Enterprise Income Tax is calculated at the applicable rate of 25% in accordance with the relevant law and regulations in the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

9. INCOME TAX EXPENSE (continued)

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

	2013 *HK$'000*	2012 *HK$'000*
Profit before tax	**59,022**	55,668
Tax at the applicable rate of 16.5%	**9,739**	9,185
Tax effect of share of loss (profit) of a joint venture	**13**	(28)
Tax effect of expenses not deductible for tax purpose	**326**	1,978
Tax effect of income not taxable for tax purpose	**(4,025)**	(1,238)
Tax effect of Hong Kong Profits Tax on 50:50 apportionment basis *(Note)*	**(3,828)**	(2,512)
Overprovision in respect of prior year	**(77)**	(28)
Tax effect of tax losses for current year not recognised	**4,569**	768
Tax effect of other deductible temporary differences for current year not recognised	**1,712**	499
Utilisation of tax losses for prior years previously not recognised	**(92)**	–
Utilisation of other deductible temporary differences for prior years previously not recognised	**(1,069)**	–
Effect of different tax rates of subsidiaries operating in the PRC	**215**	27
Others	**2,625**	(3,335)
Income tax expense for the year	**10,108**	5,316

Note: In relation to 50:50 appointment basis, a portion of the Group's profits is deemed 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, 2013

10. PROFIT FOR THE YEAR

	2013 HK$'000	2012 HK$'000
Profit for the year has been arrived at after charging:		
Auditor's remuneration	1,580	1,580
Allowance for doubtful debts, net	2,022	7,659
Cost of inventories recognised as an expense (included allowance for inventories of HK$1,236,000 (2012: HK$5,284,000))	1,191,604	1,202,087
Depreciation of property, plant and equipment	100,817	95,958
Operating lease rentals in respect of rented premises	4,114	4,526
Release of prepaid lease payments	1,438	1,489
Staff costs:		
Directors' emoluments *(note 11)*	3,713	3,706
Other staff		
– Salaries and other allowances	547,548	534,865
– Contributions to retirement benefit schemes	22,110	19,768
Total staff costs	573,371	558,339

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the six (2012: six) directors were as follows:

2013

		Other emoluments			
	Fee	Salaries and other benefits	Performance related incentive bonus	Contributions to retirement benefits scheme	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*
Executive directors:					
Mr. Ng Hoi Ying, Michael	–	1,300	53	60	1,413
Mr. Ng Kim Ying	–	195	–	10	205
Mr. Lee Wai Chung	–	1,518	75	70	1,663
	–	3,013	128	140	3,281
Independent non-executive directors:					
Mr. Wong Chi Wai	144	–	–	–	144
Mr. Chung Hil Lan Eric	144	–	–	–	144
Mr. Lam Yu Lung	144	–	–	–	144
	432	–	–	–	432
Total emoluments	432	3,013	128	140	3,713

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

11. DIRECTORS' EMOLUMENTS (continued)

2012

		Other emoluments			
	Fee	Salaries and other benefits	Performance related incentive bonus	Contributions to retirement benefits scheme	Total
	HK$'000	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*
Executive directors:					
Mr. Ng Hoi Ying, Michael	–	1,300	83	60	1,443
Mr. Ng Kim Ying	–	195	–	9	204
Mr. Lee Wai Chung	–	1,447	113	67	1,627
	–	2,942	196	136	3,274
Independent non-executive directors:					
Mr. Wong Chi Wai	144	–	–	–	144
Mr. Chung Hil Lan Eric	144	–	–	–	144
Mr. Lam Yu Lung	144	–	–	–	144
	432	–	–	–	432
Total emoluments	432	2,942	196	136	3,706

Note: 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 executive director for each of the year ended 31st December, 2013 and 31st December, 2012.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2012: two) were executive directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining three (2012: three) individuals were as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries and other benefits	**3,559**	3,394
Contributions to retirement benefits scheme	**159**	152
Performance related incentive bonus	**146**	211
	3,864	3,757

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

13. DIVIDENDS

	2013 **HK$'000**	2012 HK$'000
Dividend recognised as distribution during the year:		
Final dividend paid of 2.5 HK cents in respect of 2012 (2012: 6.5 HK cents in respect of 2011) per share	**9,591**	24,937
Interim dividend paid of 2.5 HK cents in respect of 2013 (2012: 4.0 HK cents in respect of 2012) per share	**9,591**	15,346
	19,182	40,283

A final dividend of 2.5 HK cents in respect of 2013 (2012: 2.5 HK cents) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

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:

	2013	2012
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share		
– Profit for the year attributable to owners of the Company	**47,651**	48,854
	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 2013 and 2012.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

15. PROPERTY, PLANT AND EQUIPMENT

	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*
COST								
At 1st January, 2012	7,841	355,895	128,623	752,818	82,291	12,390	213,706	1,553,564
Exchange adjustments	–	(1,101)	2,260	2,728	347	69	3,867	8,170
Additions	66,061	47,565	17,812	77,581	6,211	277	33,591	249,098
Disposals	–	–	(285)	(13,973)	(660)	(1,210)	–	(16,128)
Reclassification	–	241,608	4,423	–	–	–	(246,031)	–
At 31st December, 2012	73,902	643,967	152,833	819,154	88,189	11,526	5,133	1,794,704
Exchange adjustments	–	15,179	6,408	21,742	2,089	305	35	45,758
Additions	–	14,643	20,702	22,298	5,623	471	2,660	66,397
Disposals	–	–	–	(4,234)	(639)	–	–	(4,873)
Derecognised on disposal of subsidiaries	–	(122)	–	–	–	–	–	(122)
Reclassification	–	128	6,231	–	–	–	(6,359)	–
At 31st December, 2013	73,902	673,795	186,174	858,960	95,262	12,302	1,469	1,901,864
DEPRECIATION AND AMORTISATION								
At 1st January, 2012	2,804	118,568	109,878	637,073	70,223	9,648	–	948,194
Exchange adjustments	–	767	1,386	1,991	264	57	–	4,465
Provided for the year	1,394	16,553	16,544	54,555	5,897	1,015	–	95,958
Eliminated on disposals	–	–	(285)	(13,960)	(655)	(1,210)	–	(16,110)
Reclassification	–	–	(2)	2	–	–	–	–
At 31st December, 2012	4,198	135,888	127,521	679,661	75,729	9,510	–	1,032,507
Exchange adjustments	–	3,556	4,699	17,829	1,768	256	–	28,108
Provided for the year	2,020	26,764	19,369	46,232	5,579	853	–	100,817
Eliminated on disposals	–	–	–	(4,216)	(635)	–	–	(4,851)
Eliminated on disposal of subsidiaries	–	(3)	–	–	–	–	–	(3)
At 31st December, 2013	6,218	166,205	151,589	739,506	82,441	10,619	–	1,156,578
CARRYING VALUES								
At 31st December, 2013	67,684	507,590	34,585	119,454	12,821	1,683	1,469	745,286
At 31st December, 2012	69,704	508,079	25,312	139,493	12,460	2,016	5,133	762,197

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

15. 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, 2013, leasehold land with carrying value of HK$67,684,000 (2012: HK$69,704,000) 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$240,200,000 at 31st December, 2013 (2012: HK$243,270,000).

The Group's property interests shown above comprise:

	Buildings		**Buildings under construction**	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Properties situated on land in the PRC held under medium-term operating leases	**476,539**	475,566	**1,469**	5,133
Properties situated on land in Hong Kong held under medium-term finance leases	**31,051**	32,513	**–**	–
	507,590	508,079	**1,469**	5,133

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

16. PREPAID LEASE PAYMENTS

	2013 HK$'000	2012 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong:		
Long lease	**12,946**	12,806
Medium-term lease	**46,075**	54,195
	59,021	67,001
Analysed for reporting purposes as:		
Non-current asset	**57,601**	65,423
Current asset	**1,420**	1,578
	59,021	67,001

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$24,717,000 at 31st December, 2013 (2012: HK$24,681,000).

17. 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 3% (2012: 5%). 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.

The trademark was tested for impairment at 31st December, 2013 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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18. INTEREST IN A JOINT VENTURE

	2013	2012
	HK$'000	*HK$'000*
Cost of unlisted investment in a joint venture *(Note)*	**1,017**	1,017
Share of post-acquisition profit or loss and other comprehensive income – exchange reserve	**271**	243
	1,288	1,260
Loan to a joint venture	**3,537**	3,537
	4,825	4,797

Note: During the year ended 31st December, 2012, the Group acquired 25% interest in a joint venture at a cash consideration of approximately HK$1,017,000. Goodwill of HK$708,000 is included in the cost of investment in a joint venture.

In terms of a contractual agreement drawn up and signed between all five shareholders of Guangzhou Jiashimei Optical Company Limited, all decisions on financial policies must be agreed by unanimous consent between all five shareholders of the entity. Accordingly, there is a contractual sharing of control over Guangzhou Jiashimei Optical Company Limited and the investment in that entity is accounted for by the Group as an interest in a joint venture.

The loan to the joint venture of HK$3,537,000 (2012: HK$3,537,000) included in the Group's non-current assets is unsecured, carries interest at 0.01% per annum and not repayable within one year from the end of the reporting period. In the opinion of the Directors, the loan is considered as a quasi-equity investment in the joint venture.

The loan to the joint venture of HK$739,000 (2012: Nil) included in the Group's current assets is unsecured, carries interest at 9% per annum and is repayable within one year from the end of the reporting period.

The Group's trade receivable balance due from the joint venture is disclosed in note 22.

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18. INTEREST IN A JOINT VENTURE (continued)

At 31st December, 2013 and 31st December, 2012, the Group had interest in the following joint venture:

Name of joint venture	Form of business structure	Place of incorporation/ registration and operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2013	2012	Proportion of voting power held 2013	2012	Principal activity
廣州佳視美光學眼鏡有限公司 (known as "Guangzhou Jiashimei Optical Company Limited")	Incorporated	PRC	Ordinary	**25%**	25%	**25%**	25%	Trading in optical frames and sunglasses

The above investment in a joint venture is held through a wholly-owned subsidiary of the Company.

The summarised financial information in respect of the Group's interest in the joint venture which is accounted for using the equity method is set out below:

	2013 *HK$'000*	2012 *HK$'000*
Current assets	**5,656**	4,944
Non-current assets	**33**	20
Current liabilities	**(1,572)**	(875)
Non-current liabilities	**(3,537)**	(3,537)
Net assets	**580**	552

	2013 *HK$'000*	2012 *HK$'000*
Income recognised in profit or loss	**2,558**	1,573
Expenses recognised in profit or loss	**2,636**	1,402
Other comprehensive income – exchange reserve	**106**	72

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19. LOAN RECEIVABLE

	2013	2012
	HK$'000	*HK$'000*
Carrying amount analysed for reporting purposes:		
Non-current assets (receivable after 12 months from the end of the reporting period)	**13,067**	3,388
Current assets (receivable within 12 months from the end of the reporting period)	**1,125**	2,248
	14,192	5,636

Movement in the carrying amount of loan receivable:

	2013	2012
	HK$'000	*HK$'000*
At 1st January	**5,636**	7,884
Addition	**9,694**	–
Repayments	**(1,138)**	(2,248)
At 31st December	**14,192**	5,636

The loan receivable is granted to an independent corporate customer and is denominated in United States dollars. The amount carries fixed interest rate at 5% per annum and is repayable through 25 quarterly instalments of USD72,500 commencing in July, 2014 with a balance payment of USD17,500 in December, 2020 (2012: 10 quarterly instalments of USD72,500 each from 2013 to 2015). The corporate guarantee granted by the Group to a financial institution in respect of banking facilities granted to this customer was exercised by the financial institution during the year, resulting in an addition to the loan receivable of USD1,250,000 (equivalent to HK$9,694,000) due from this customer (see note 35). The management considers that the exposure to credit risk is insignificant as the amount is secured by all assets held by the corporate customer. 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.

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20. AVAILABLE-FOR-SALE INVESTMENT

	2013 HK$'000	2012 HK$'000
Equity security, unlisted at cost	**5,858**	5,858

The Group held an unlisted investment of 13% equity interest in a private entity incorporated overseas engaged in distribution of eyewear products.

Unlisted investment is 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 investment.

21. INVENTORIES

	2013 HK$'000	2012 HK$'000
Raw materials	**69,503**	65,753
Work in progress	**128,611**	116,631
Finished goods	**10,034**	14,153
	208,148	196,537

22. DEBTORS, DEPOSITS AND PREPAYMENTS

	2013 HK$'000	2012 HK$'000
Trade debtors	**439,921**	433,120
Less: Allowance for doubtful debts	**(29,283)**	(30,227)
	410,638	402,893
Bills receivable	**2,643**	3,455
Other debtors, deposits and prepayments	**9,308**	7,127
Total debtors, deposits and prepayments	**422,589**	413,475

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22. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

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

	2013 HK$'000	2012 HK$'000
Hong Kong dollars	**54**	76
Renminbi	**720**	1,732
Euro	**425**	1,279
United States dollars	**34,949**	25,919
Japanese Yen	**445**	–

The following is an aged analysis of trade debtors net of allowance for doubtful debts based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2013 HK$'000	2012 HK$'000
0 – 90 days	**303,564**	311,185
91 – 180 days	**106,504**	91,107
More than 180 days	**570**	601
	410,638	402,893

The following is an aged analysis of bills receivable based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates:

	2013 HK$'000	2012 HK$'000
0 – 90 days	**2,415**	2,691
91 – 180 days	**228**	764
	2,643	3,455

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For the year ended 31st December, 2013

22. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

The Group has a policy of allowing a 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$92,456,000 (2012: HK$73,821,000) 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.

Aging of trade debtors which are past due but not impaired

	2013 ***HK$'000***	2012 *HK$'000*
Overdue:		
1 – 90 days	**92,456**	73,821

Aging of bills receivable which are past due but not impaired

	2013 ***HK$'000***	2012 *HK$'000*
Overdue:		
1 – 90 days	**333**	772

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22. DEBTORS, DEPOSITS AND PREPAYMENTS (continued)

Movement in the allowance for doubtful debts

	2013 HK$'000	2012 HK$'000
At 1st January	**30,227**	26,984
Impairment losses recognised on receivables	**2,022**	7,659
Amounts written off as uncollectible	**(3,028)**	(4,461)
Exchange realignment	**62**	45
At 31st December	**29,283**	30,227

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$29,283,000 (2012: HK$30,227,000) which are in severe financial difficulties and therefore the Directors considered that they are irrecoverable.

Trade receivable due from the joint venture

Included in the Group's trade receivable is an amount due from the Group's joint venture of HK$670,000 (2012: HK$383,000), which is repayable on similar credit terms with reference to those offered to the customers of the Group who are similar in size and stature. The amounts outstanding are unsecured and not past due at the end of the reporting period. No expense has been recognised in the period for doubtful debts in respect of the amounts outstanding from the joint venture.

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

At 31st December, 2013, short-term bank deposits comprised deposits held by the Group with an original maturity of three months or less.

Bank balances carry market interest rates which range from 0.001% to 0.35% (2012: 0.001% to 0.35%) per annum and short-term bank deposits carried at market rate of 3.05% in 2013 (2012: 0.85% to 3.05%) per annum.

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For the year ended 31st December, 2013

23. SHORT-TERM BANK DEPOSITS AND BANK BALANCES AND CASH (continued)

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:

	2013	2012
	HK$'000	*HK$'000*
Hong Kong dollars	**6,613**	15,170
Renminbi	**234**	11,168
Euro	**8,372**	20,448
United States dollars	**3,142**	1,201
Japanese Yen	**933**	1,266

24. CREDITORS AND ACCRUED CHARGES

	2013	2012
	HK$'000	*HK$'000*
Trade creditors	**154,984**	149,608
Other creditors and accrued charges	**143,766**	151,798
	298,750	301,406

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:

	2013	2012
	HK$'000	*HK$'000*
Hong Kong dollars	**69,830**	76,405
Renminbi	**19,470**	15,603
Euro	**11,267**	9,309
United States dollars	**4,594**	2,965
Japanese Yen	**2,360**	2,825

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24. CREDITORS AND ACCRUED CHARGES (continued)

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

	2013 *HK$'000*	2012 *HK$'000*
0 – 60 days	**107,609**	101,166
61 – 120 days	**44,109**	44,357
More than 120 days	**3,266**	4,085
	154,984	149,608

The 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.

25. BANK BORROWINGS

	2013 *HK$'000*	2012 *HK$'000*
Bank borrowings:		
– Secured	**41,884**	45,362
– Unsecured	**–**	5,833
	41,884	51,195
Carrying amount of the bank borrowings repayable based on repayment schedules:		
– within one year	**3,571**	9,311
– more than one year, but not exceeding two years	**3,667**	3,571
– more than two years, but not exceeding five years	**11,602**	11,299
– more than five years	**23,044**	27,014
	41,884	51,195
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	**(41,884)**	(51,195)
Amounts due after one year shown under non-current liabilities	**–**	–

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25. BANK BORROWINGS (continued)

All of the Group's bank borrowings are variable-rate borrowings and subject to cash flow interest rate risk. A bank borrowing of HK$41,884,000 (2012: HK$45,362,000) is secured by the Group's leasehold land and buildings with carrying amount of HK$93,633,000 (2012: HK$96,827,000) and carries interest at Hong Kong Prime Rate less 2.6%. At 31st December, 2012, an unsecured bank borrowing of HK$5,833,000 carried interest at Hong Kong Interbank Offered Rate ("HIBOR") plus certain basis points.

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

	2013	2012
Variable-rate borrowings	**2.65%**	2.51%

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

	2013 ***HK$'000***	2012 *HK$'000*
Hong Kong dollars	**–**	5,833

26. SHARE CAPITAL

The share capital of the Company was as follows:

	Number of shares **31.12.2013** **&** **31.12.2012**	**Nominal value** **31.12.2013** **&** **31.12.2012** ***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**

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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.

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. The Share Option Scheme expired on 27th May, 2013 and no new share option scheme has been adopted.

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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$'000*	Other temporary difference *HK$'000* *(Note)*	Total *HK$'000*
At 1st January, 2012	(4,423)	(4,305)	(8,728)
Credit (charge) to profit or loss	788	(239)	549
At 31st December, 2012	(3,635)	(4,544)	(8,179)
Charge to profit or loss	(1,115)	(677)	(1,792)
At 31st December, 2013	(4,750)	(5,221)	(9,971)

Note: The amount represents the net temporary differences arising from capitalisation of production cost of inventories at Group level and unrealised profits on the inventories arising from intra-group sales.

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:

	2013 ***HK$'000***	2012 *HK$'000*
Deferred tax assets	**114**	188
Deferred tax liabilities	**(10,085)**	(8,367)
	(9,971)	(8,179)

At 31st December, 2013, the Group has unused tax losses of HK$43,742,000 (2012: HK$16,608,000) 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$31,233,000 (2012: HK$8,510,000) that will expire from 2014 to 2018 (2012: expire from 2013 to 2017). Other losses may be carried forward indefinitely.

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28. DEFERRED TAX (LIABILITIES) ASSETS (continued)

At the end of the reporting period, the Group has deductible temporary differences of HK$35,147,000 (2012: HK$31,251,000). 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.

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 equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits, 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

	2013 ***HK$'000***	2012 *HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**647,395**	596,129
Available-for-sale investment	**5,858**	5,858
Financial liabilities		
Amortised cost	**312,851**	314,448

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30. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include debtors, loan receivable, loans to a joint venture, available-for-sale investment, short-term bank deposits, bank balances and cash, 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.

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. The Group also has trade and other debtors, short-term bank deposits, bank balances and cash, 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	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong dollars	**6,667**	15,246	**69,830**	82,238
Renminbi	**954**	12,900	**19,470**	15,603
Euro	**8,797**	21,727	**11,267**	9,309
United States dollars	**38,091**	27,120	**4,594**	2,965
Japanese Yen	**1,378**	1,266	**2,360**	2,825

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For the year ended 31st December, 2013

30. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(i) Foreign currency risk management (continued)

Foreign currency sensitivity

The Group is mainly exposed to the effects of fluctuation in currency of Renminbi, Euro and Japanese Yen. The Hong Kong dollars ("HKD") and 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.

The following table details the Group's sensitivity to a 5% (2012: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% (2012: 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% (2012: 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% (2012: 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.

	Increase (decrease) in profit for the year (post-tax)	
	2013	2012
	HK$'000	*HK$'000*
Renminbi	**767**	122
Euro	**102**	(562)
Japanese Yen	**41**	71

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.

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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 loans to a joint venture (see note 18 for details of these loans) and 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 Hong Kong Prime Rate and 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 (2012: 50 basis point) represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2012: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31st December, 2013 would decrease/increase by HK$209,000 (2012: decrease/increase by HK$256,000). 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.

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30. FINANCIAL INSTRUMENTS (continued)

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

Credit risk management

As at 31st December, 2013, 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 is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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 that 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 has concentration of credit risks with exposure limited to certain customers. At the end of reporting period, five customers of the Group accounted for about 57% (2012: 58%) of the Group's trade debtors. These five customers are leading global players of the eyewear industry and distribute eyewear products under their portfolio of fashion brands through their global distribution and/or retailing networks. The Group considers that the concentration of risk is low as these five customers have good reputation and payment records. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk.

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For the year ended 31st December, 2013

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, 2013, the Group has available unutilised overdrafts and short and medium term bank loan facilities of approximately HK$4,600,000 (2012: HK$4,600,000) and HK$162,630,000 (2012: HK$142,630,000) respectively. The facilities expiring within one year are annual facilities subject to review at various dates during 2014.

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 undiscounted cash flows	Carrying amount at 31.12.2013
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2013					
Non-derivative financial liabilities					
Creditors and accrued charges	–	244,434	26,533	270,967	270,967
Bank borrowings – variable rate	2.65	41,884	–	41,884	41,884
		286,318	26,533	312,851	312,851

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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	3 months to 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2012
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2012					
Non-derivative financial liabilities					
Creditors and accrued charges	–	151,254	111,999	263,253	263,253
Bank borrowings – variable rate	2.51	51,195	–	51,195	51,195
Financial guarantee contract	–	9,690	–	9,690	–
		212,139	111,999	324,138	314,448

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.

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, 2013 and 31st December, 2012, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$41,884,000 and HK$51,195,000 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 these outstanding bank borrowings at 31st December, 2013 will be fully repaid by April, 2024 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$47,926,000 (2012: HK$58,425,000) for financial liabilities of the Group as at 31st December, 2013.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

30. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk management (continued)

	Maturity Analysis – Term loans subject to repayment on demand clause based on scheduled repayment terms					
	0 – 3 months *HK$'000*	**4 – 12 months** *HK$'000*	**> 1 – < 2 year** *HK$'000*	**> 2 – < 5 years** *HK$'000*	**> 5 years** *HK$'000*	**Total undiscounted cash outflows** *HK$'000*
31st December, 2013	1,159	3,479	4,638	13,914	24,736	47,926
31st December, 2012	3,677	6,822	4,638	13,914	29,374	58,425

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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

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, 2013, the cost charged to profit or loss of HK$2,923,000 (2012: HK$4,081,000) represents contributions payable to this scheme by the Group in respect of services provided by the selected PRC employees in 2013. 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.

The retirement benefit scheme contributions arising from the above retirement schemes charged to profit or loss 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 profit or loss and other comprehensive income of HK$22,250,000 (2012: HK$19,904,000) represents contributions paid and 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.

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For the year ended 31st December, 2013

32. DISPOSAL OF SUBSIDIARIES

On 21st August, 2013, Arts Optical (Heyuan) Company Limited ("Arts Heyuan"), a subsidiary of the Company, entered into two equity transfer agreements (the "Equity Transfer Agreements") with an independent third party (the "Purchaser"). Pursuant to the Equity Transfer Agreements, Arts Heyuan agreed to sell and the Purchaser agreed to purchase the entire equity interests in 滙聯眼鏡製造廠(河源)有限公司 (Huilian Optical Manufactory (Heyuan) Limited) ("Huilian") and 滙龍眼鏡五金配件(河源)有限公司 (Huilong Optical Manufactory (Heyuan) Limited) ("Huilong"), both were subsidiaries of the Company, at an aggregate consideration of HK$22,000,000. The consideration was determined after arm's length negotiations between Arts Heyuan and the Purchaser and the transactions were completed on 6th December, 2013.

Huilian and Huilong are principally engaged in investment holding. The principal assets owned by Huilian and Huilong are two parcels of land located at Planning Area No. 1 of Guzhu Town Development Zone, Zijin County, Heyuan City, Guangdong Province, the PRC with a total site area of 308,887.10 square metres.

Consideration received

	Huilian *HK$'000*	Huilong *HK$'000*	Total *HK$'000*
Cash consideration	6,600	15,400	22,000

Analysis of assets over which control was lost

	Huilian *HK$'000*	Huilong *HK$'000*	Total *HK$'000*
Current assets			
Prepaid lease payments	58	145	203
Bank balances and cash	66	59	125
Non-current assets			
Prepaid lease payments	2,341	5,840	8,181
Property, plant and equipment	59	60	119
Net assets disposed of	2,524	6,104	8,628

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

32. DISPOSAL OF SUBSIDIARIES (continued)

Gain on disposal of subsidiaries

	Huilian *HK$'000*	Huilong *HK$'000*	Total *HK$'000*
Consideration received	6,600	15,400	22,000
Net assets disposed of	(2,524)	(6,104)	(8,628)
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on disposal of subsidiaries	3,322	3,960	7,282
Outgoing expenses	(294)	(546)	(840)
Gain on disposal	7,104	12,710	19,814

Net cash inflow on disposal of subsidiaries

	Huilian *HK$'000*	Huilong *HK$'000*	Total *HK$'000*
Cash consideration	6,600	15,400	22,000
Less:			
Outgoing expenses	(294)	(546)	(840)
Bank balances and cash disposed of	(66)	(59)	(125)
	6,240	14,795	21,035

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:

	2013 ***HK$'000***	2012 *HK$'000*
Within one year	**1,573**	2,421
In the second to fifth year inclusive	**–**	1,407
	1,573	3,828

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

34. CAPITAL COMMITMENTS

	2013	2012
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements:		
– buildings under construction	**2,265**	10,101
– leasehold improvements	**64**	2,564
– plant and machinery	**8,437**	6,260
– furniture, fixtures and office equipment	**250**	627
	11,016	19,552

35. CONTINGENT LIABILITIES

	2013	2012
	HK$'000	*HK$'000*
Corporate guarantee to a financial institution in respect of banking facilities granted to an independent corporate customer	**–**	9,690

The corporate guarantee granted by the Group to a financial institution in respect of banking facilities granted to an independent corporate customer was exercised by the financial institution during the year (see note 19).

The Directors consider that the fair value of this financial guarantee contract at its initial recognition and carrying amount at 31st December, 2012 and the date of exercise were insignificant. Accordingly, the Group has not recognised any liability 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, 2013

36. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	A joint venture	
	2013	2012
	HK$'000	*HK$'000*
Trade sales	**997**	609

Sales of goods to the joint venture were made at the Group's usual list prices.

Other than the above, the details of loans to and trade receivable from the joint venture are shown in notes 18 and 22 respectively. No guarantees have been given to or received from the joint venture.

Compensation of key management personnel

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

	2013	2012
	HK$'000	*HK$'000*
Short-term benefits	**9,348**	9,183
Post-employment benefits	**390**	375
	9,738	9,558

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, 2013

37. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2013 and 31st December, 2012 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
			2013		2012		
			Directly	**Indirectly**	Directly	Indirectly	
Allied Power Inc.	British Virgin Islands	C$50,000	**100%**	**–**	100%	–	Investment holding
Argent Optical Manufactory Limited	Hong Kong/ PRC	HK$100,000	**–**	**100%**	–	100%	Manufacture of optical frames and sunglasses
Artland Technology Limited	British Virgin Islands	US$1	**–**	**100%**	–	100%	Investment holding
Art Talent Industrial Limited	Hong Kong	HK$100	**–**	**100%**	–	100%	Investment holding
Arts Optical Company Limited	Hong Kong	HK$1,000,000	**–**	**100%**	–	100%	Trading in optical frames and sunglasses
Eyeconcept Limited	Hong Kong	HK$100	**–**	**88%**	–	88%	Trading in optical frames and sunglasses
Sin Dak Industrial Limited	Hong Kong	HK$40,000	**–**	**100%**	–	100%	Property holding
Stepper Eyewear Limited	Hong Kong	HK$100	**–**	**80%**	–	82%	Trading in optical frames and sunglasses
雅視光學發展（深圳）有限公司 Arts Optical Development (Shenzhen) Company Limited	PRC	HK$70,000,000	**–**	**100%** *(Note)*	–	100% *(Note)*	Manufacture of optical frames and sunglasses
宏懋金屬製品（深圳）有限公司 (known as “Hongmao Metal Products (Shenzhen) Company Limited”)	PRC	HK$61,000,000	**–**	**100%** *(Note)*	–	100% *(Note)*	Property holding
滙駿光學城（河源）有限公司 (known as “Huijun Optical (Heyuan) Limited”)	PRC	HK$150,000,000	**–**	**100%** *(Note)*	–	100% *(Note)*	Property holding

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2013

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				Principal activities
			2013		2012		
			Directly	Indirectly	Directly	Indirectly	
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)	Property holding
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)	Property holding
惠州市藝駿房地產開發有限公司 (known as "Huizhou Yijun Real Estate Development Company Limited")	PRC	RMB20,000,000	–	100%	–	100%	Property holding

Note: 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, 2013 or at any time during the year.

38. EVENT AFTER THE REPORTING PERIOD

On 12th March, 2014, Sin Dak Industrial Limited ("Sin Dak"), a subsidiary of the Company, entered into a provisional sale and purchase agreement (the "Agreement") with an independent third party (the "Seller"). Pursuant to the Agreement, Sin Dak agreed to acquire and the Seller agreed to sell Unit 301, 3rd Floor, Sunbeam Centre, 27 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong (the "Property") at the purchase price of HK$32,787,300 (the "Purchase Price"). The Purchase Price has been determined by the parties at arm's length negotiations with reference to the prevailing market prices of comparable properties located in the same area. The Purchase Price will be funded out of the Company's internal resources and/or by bank borrowings. Completion of the transaction shall take place on 30th June, 2014. The Property is currently rented by the Group as its headquarter. The Group intends to continue its existing use after completion of the Agreement. The Group also intends to reserve part of the office premise located at 32/F, King Palace Plaza, 55 King Yip Street, Kwun Tong, Kowloon, Hong Kong for its future business developments and expansion and lease out the remaining part to earn rental income.

Notes to the Consolidated Financial Statements

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39. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2013	2012
	HK$'000	*HK$'000*
Unlisted investment in a subsidiary	**139,040**	139,040
Amount due from a subsidiary	**133,265**	142,363
Bank balances	**258**	197
Other current assets	**252**	274
Current liabilities	**(1,381)**	(1,493)
Total assets less current liabilities	**271,434**	280,381
Share capital *(note 26)*	**38,365**	38,365
Reserves	**233,069**	242,016
Total equity	**271,434**	280,381

Movement in reserves

	Share premium	**Contributed surplus**	**Retained profits**	**Total**
	HK$'000	*HK$'000* *(Note)*	*HK$'000*	*HK$'000*
At 1st January, 2012	113,950	105,369	32,813	252,132
Profit for the year	–	–	30,167	30,167
Dividends paid *(note 13)*	–	–	(40,283)	(40,283)
At 31st December, 2012	113,950	105,369	22,697	242,016
Profit for the year	–	–	10,235	10,235
Dividends paid *(note 13)*	–	–	(19,182)	(19,182)
At 31st December, 2013	113,950	105,369	13,750	233,069

Note: The contributed surplus represents a difference of HK$105,469,000 between the consolidated net asset value of Allied Power Inc. and the nominal amount of the share capital issued by the Company and the subsequent capitalisation of HK$100,000 of nil paid shares of the Company pursuant to the group reorganisation in 1996.

Financial Summary

RESULTS

	Year ended 31st December,				
	2009 *HK$'000*	2010 *HK$'000*	2011 *HK$'000*	2012 *HK$'000*	**2013** ***HK$'000***
REVENUE	1,169,768	1,361,026	1,547,260	1,475,482	**1,462,983**
PROFIT BEFORE TAX	132,468	141,493	121,444	55,668	**59,022**
INCOME TAX EXPENSE	(9,793)	(15,972)	(8,709)	(5,316)	**(10,108)**
PROFIT FOR THE YEAR	122,675	125,521	112,735	50,352	**48,914**
PROFIT FOR THE YEAR ATTRIBUTABLE TO:					
OWNERS OF THE COMPANY	122,336	124,729	112,213	48,854	**47,651**
NON-CONTROLLING INTERESTS	339	792	522	1,498	**1,263**
	122,675	125,521	112,735	50,352	**48,914**

ASSETS AND LIABILITIES

	At 31st December,				
	2009 *HK$'000*	2010 *HK$'000*	2011 *HK$'000*	2012 *HK$'000*	**2013** ***HK$'000***
TOTAL ASSETS	1,389,133	1,511,221	1,604,015	1,640,644	**1,677,178**
TOTAL LIABILITIES	(313,963)	(334,520)	(340,266)	(361,503)	**(353,994)**
	1,075,170	1,176,701	1,263,749	1,279,141	**1,323,184**
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	1,071,459	1,172,294	1,259,265	1,273,312	**1,316,384**
NON-CONTROLLING INTERESTS	3,711	4,407	4,484	5,829	**6,800**
	1,075,170	1,176,701	1,263,749	1,279,141	**1,323,184**