

1999

ANNUAL REPORT



ARTS OPTICAL
INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司



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Corporate Information

Board of directors

Executive Directors

NG Hoi Ying, Michael – *Chairman*

NG Kim Ying

LEE Wai Chung

Independent non-executive Directors

CHOW Fu Kee, Felix

Francis George MARTIN

Company secretary

LEE Wai Chung

Auditors

Deloitte Touche Tohmatsu

Legal advisers in Hong Kong

Allen & Overy

Legal advisers on Bermuda Law

Conyers Dill & Pearman

Registered office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Head office and principal place of business in Hong Kong

Unit 308, 3rd Floor, Sunbeam Centre

27 Shing Yip Street, Kwun Tong

Kowloon, Hong Kong

Principal share registrar

The Bank of Bermuda Limited

6 Front Street, Hamilton HM 11

Bermuda

Hong Kong branch share registrar

Secretaries Limited

5th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

Principal bankers

Bank of America (Asia) Limited

Bank of China Hong Kong Branch

Credit Agricole Indosuez

Dah Sing Bank Limited

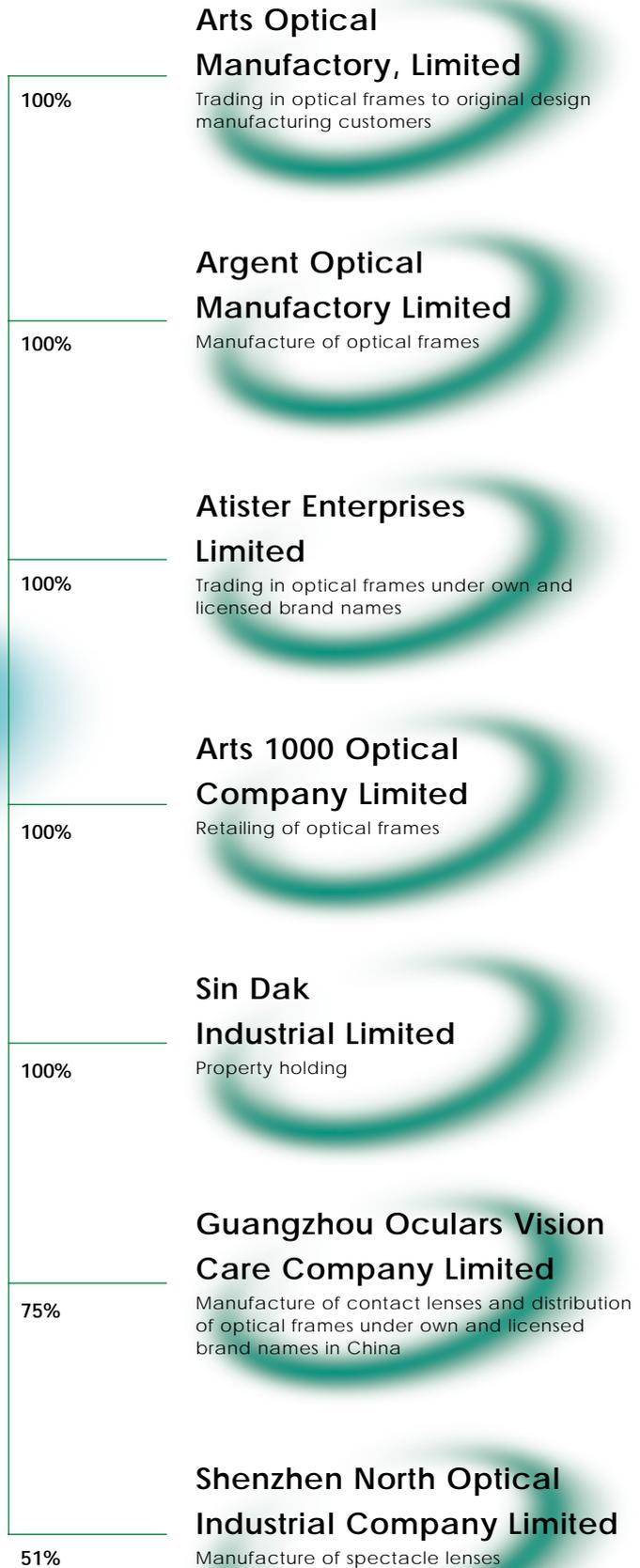
Hang Seng Bank Limited

Jian Sing Bank Limited



Group Structure

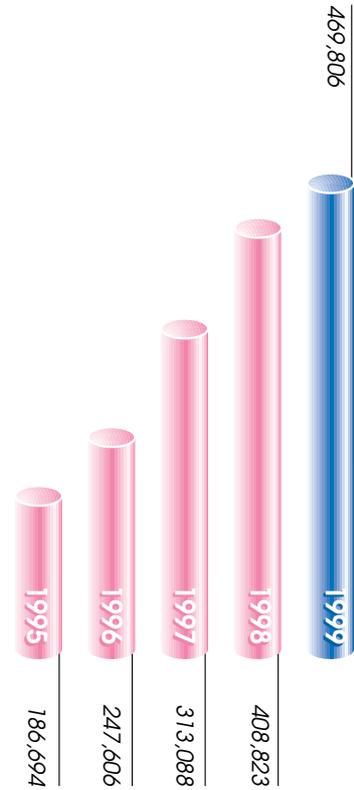
Arts Optical International Holdings Limited
Investment Holding



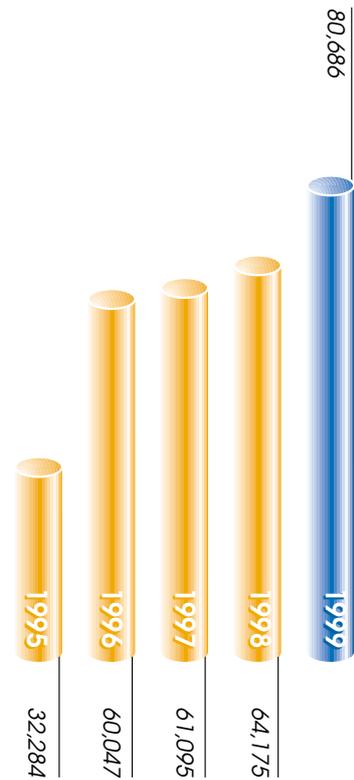


Financial Highlights

Turnover (HK\$'000)



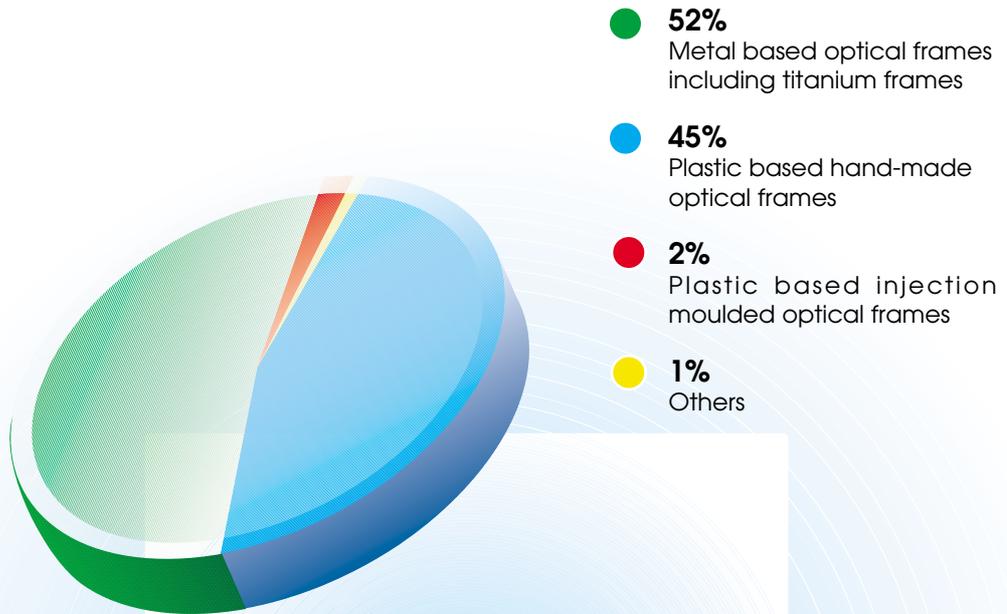
Net profit for the year (HK\$'000)



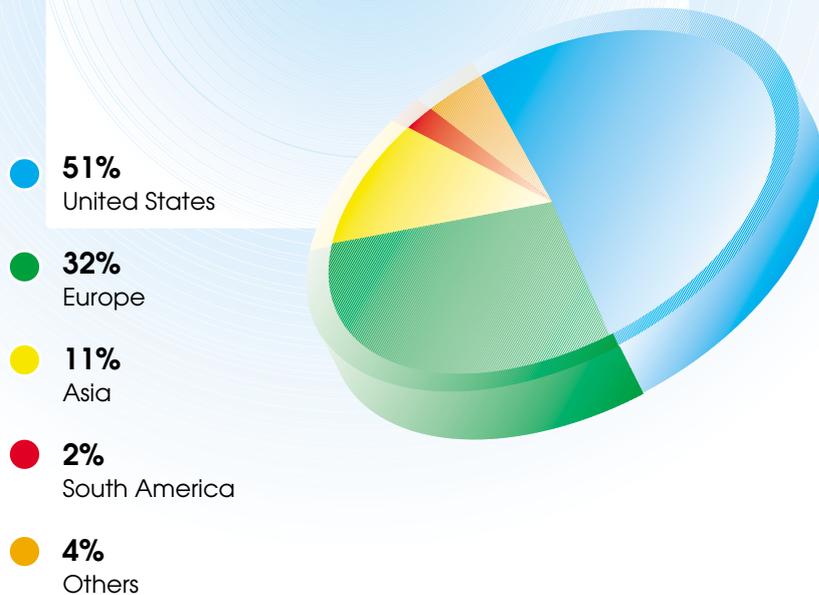


Financial Highlights

Turnover by product range for ODM and distribution business in 1999



Turnover by geographical location for 1999





Chairman's Statement

A portrait of a man in a dark suit, white shirt, and patterned tie, looking directly at the camera.

Art's 雅視 Optical

RESULTS

The Group's reported its fourth full year results since the shares of the Company were listed in 1996 showing continued growth. The Group's consolidated turnover and profit attributable to shareholders increased by 15% and 26% to HK\$469.8 million and HK\$80.7 million respectively in 1999. Earnings per share also increased by 26% to 23.9 cents in 1999.

DIVIDENDS

The Directors have resolved to recommend a final dividend of 3.8 cents per share for the year ended 31st December, 1999. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 24th May, 2000, the final dividend will be payable on 4th June, 2000 to shareholders whose names appear on the Register of Members of the Company on 24th May, 2000.



Chairman's Statement

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18th May, 2000 to 24th May, 2000, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 17th May, 2000 in order to qualify for the final dividend abovementioned.

BUSINESS REVIEW AND PROSPECTS

Original design manufacturing (ODM) business

Sales of optical frames to ODM customers increased by 11% to HK\$431.6 million in 1999. United States and Europe continued to be the Group's major markets and together accounted for 89% (1998: 84%) of the Group's turnover of this business segment. Metal frames (including titanium frames), handmade plastic frames, injection moulded plastic frames and spare parts accounted for 51%, 45%, 2% and 2% of the Group's turnover of ODM business respectively (1998: 44%, 52%, 2% and 2%). The gross margin improved in 1999 as a result of the implementation of cost control measures by the Group.

Distribution of own and licensed branded products

Sales of our own and licensed branded optical frames increased by 11% to HK\$13.4 million in 1999. The Group set up its own distribution arm in China and launched a new brand, SAKURA, for its titanium collections in 1999. The Directors believe that the Greater China region will become the major market of the Group's own and licensed branded products.

The Group reached an agreement with a British optical group to set up a joint venture company for the manufacture and distribution of high quality optical frames under a European brand in March 2000. The Group has a 51% interest in this company and commercial production will commence in the second half of 2000.



ARTS



Chairman's Statement

Retailing in China

The Group operated 13 retail outlets in various major cities in China as at 31st December, 1999. Business performance improved in 1999 as a result of the consolidation strategy adopted. With China's impending accession to the World Trade Organisation and the increasing affluence of its general population, the Directors believe that development of its own sales network in China will bring long term benefits to the Group.



Diversification into other optical business

The Group diversified into the manufacture of contact and spectacle lenses in 1999. It acquired a 75% interest in a contact lens manufacturing company and a 51% interest in spectacle lens manufacturing company in China. Although the size of the investment and the level of operating contribution were not significant as compared with the Group's optical frames business, the above acquisitions were important steps in achieving the Group's mission to provide a full spectrum of optical products to its customers.

Information technology applications

In order to enhance the operational efficiency and competitiveness of the Group, the Group has recently reached an agreement to upgrade its enterprises resources planning system. Full implementation of this new system is expected to be completed by the end of 2000. The Group is also closely monitoring the impact of the latest developments in internet technology and e-commerce on its core business and is currently performing some feasibility studies on these areas.



Chairman's Statement



PROSPECTS

The focus of the management in 2000 will be:

- diversification into higher margin products for its ODM business;
- development of its distribution and retailing network in China;
- exploration of further opportunities to cooperate with optical related business partners; and
- maximising business opportunities through information technology applications.

The Directors are confident that with the adoption of the above development strategies and the strong financial position of the Group, the Group will continue to render satisfactory results in the years ahead.

LIQUIDITY AND CAPITAL STRUCTURE

The Group continued to maintain a strong financial position throughout 1999. As at 31st December, 1999, the Group had a net cash balance of HK\$113.6 million (1998: HK\$45.3 million) and a current ratio of 2.6 to 1 (1998: 3.2 to 1). Stock and account receivables levels were closely monitored so as to shorten the working capital cycle.

As at 31st December, 1999, the Group had 338,000,000 shares in issue with a total shareholders' funds amounting to HK\$345.3 million.



Chairman's Statement

YEAR 2000 COMPLIANCE

Details of the Group's assessment of the Year 2000 problem and progress of its compliance project have been disclosed in the previous annual reports and interim reports. The total costs of the Year 2000 compliance project were approximately HK\$400,000. The Group had a successful transition to the new millennium and no Year 2000 related problems have been reported. The Group will continue to monitor the situation and is well prepared for any contingencies that may arise in other future critical dates that may have Year 2000 problems.

STAFF AND REMUNERATION POLICIES

As at 31st December, 1999, the Group had a full-time work force of approximately 4,500 in Hong Kong, the People's Republic of China (the "PRC"), Europe and the United States. The Group has established a retirement benefit scheme, a medical insurance scheme and an accident insurance scheme for eligible Hong Kong employees. Free meals and dormitories are

provided to the Group's staff, including the workers provided by the PRC parties under the processing agreements, in the PRC.

The Group also provides full training for its staff including on-the-job training, external courses and certificate training programmes.





Chairman's Statement

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, 14th April, 2000





Biographical Details of Directors and Management

Executive directors

NG Hoi Ying, Michael ("Mr. Ng"), aged 45, is the founder and the Chairman of the Group. Mr. Ng is responsible for the corporate policy making and strategic planning of the Group. He has 32 years' experience in the optical industry. Mr. Ng won the Young Industrialist Award of Hong Kong organised by the Federation of Hong Kong Industries in 1995. Mr. Ng is currently a Vice President of the Hong Kong Optical Manufacturers Association Ltd. and Hong Kong Commerce and Industry Associations Limited and the President of the Hong Kong Wong Tai Sin Industry And Commerce Association Limited. He is also a member of The People's Political Consultative Committee of Haizhu District, Guangzhou City.

NG Kim Ying, aged 44, is an executive director of the Group. Mr. Ng Kim Ying joined the Group in 1985 and is responsible for production management and development. He has 15 years' experience in the optical products industry and has extensive experience in the introduction and implementation of new production technology and production automation procedures. Mr. Ng Kim Ying is the brother of Mr. Ng.

LEE Wai Chung, aged 33, is the financial controller of the Group and company secretary of the Company. Mr. Lee joined the Group in 1995 and is responsible for the Group's finance, accounting and company secretarial matters. He holds a Bachelor degree in Social Sciences from the University of Hong Kong and is a certified public accountant in both Hong Kong and the United States. He has 12 years of experience in accounting and auditing.

Independent non-executive directors

CHOW Fu Kee, Felix, aged 65, has 42 years of experience in management, accounting and finance and joined the Group in 1996. He was formerly the president of the Hong Kong Society of Accountants and the chief executive officer and consultant of Hong Kong Securities Clearing Company.

Francis George MARTIN, aged 59, has been the President of the American Chamber of Commerce in Hong Kong since 1990. He was formerly the President and Chief Executive of Security Pacific Asian Bank for 14 years and has over 32 years of experience in the financial services industry. Mr. Martin joined the Group in 1996 and currently serves as a non-executive Chairman of QBE Insurance (Hong Kong) Ltd..



Biographical Details of Directors and Management

Senior Management

CHEUNG Chan Wing Hung, aged 37, is the general manager (business) of the Group. Mrs. Cheung joined the Group in 1987 and is responsible for corporate business promotion, formulation and implementation of marketing strategies of the Group as well as the management of the marketing team. She holds a Master of Business Administration degree from the Newport University in the United States.

Li Chi Hung, aged 39, is the general manager of the Group's production plants in Shenzhen and Zhongshan. Mr. Li joined the Group in 1976 and assisted Mr. Ng in the establishment and expansion of the Group's two production plants in the People's Republic of China (the "PRC"). He is responsible for the overall management and development of these production plants.

LEE Yin Ping, Betty, aged 45, is the general manager (administration) of the Group. Ms. Lee joined the Group in 1990 and is responsible for accounting, general administration as well as human resources management of the Group. Ms. Lee has 26 years' experience in accounting, auditing and administration in various manufacturing, trading and financial institutions.

Peter TANG, aged 34, is the general sales manager of the Group. Mr. Tang joined the Group in 1992 and is responsible for the management of the overseas sales team. He has 8 years' experience in international marketing of optical products and holds a Bachelor degree in Finance and Marketing from the Strathclyde University in the United Kingdom.

HUNG Chao Chia, aged 47, is the deputy general manager of the Group's production plants in Shenzhen and Zhongshan. Mr. Hung joined the Group in 1988 and is responsible for the financial management and administration of the two production plants.

WONG Kwok Leung, Alan, aged 42, is the deputy general manager of the Group's production plants in Shenzhen and Zhongshan. Mr. Wong joined the Group in 1989 and is responsible for production and technology development of the Group. Mr. Wong has 20 years' experience in production management, including 16 years in the optical products industry.



Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31st December, 1999.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, manufacture and sales of optical frames.

An analysis of the Group's turnover by geographical market is as follows:

	Year ended 31st December,	
	1999	1998
	HK\$'000	HK\$'000
United States	237,842	180,957
Europe	148,392	147,293
Asia	53,948	47,342
South America	8,565	12,767
Others	21,059	20,464
	<u>469,806</u>	<u>408,823</u>

An analysis of contribution to profit before taxation by geographical market has not been presented as the ratio of contribution to profit before taxation to turnover for each individual market is substantially in line with the overall group ratio.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31st December, 1999 are set out in the consolidated income statement on page 22.

An interim dividend of 2.0 cents per share amounting to HK\$6,760,000 and a special dividend of 5.0 cents per share amounting to HK\$16,900,000 were paid to the shareholders of the Company during the year. The directors now recommend the payment of a final dividend of 3.8 cents per share amounting to HK\$12,844,000 to the shareholders of the Company whose names appear on the register of members on 24th May, 2000 and the retention of the remaining profit for the year.



Directors' Report

FINANCIAL SUMMARY

A financial summary of the Group is set out on page 48.

SHARE CAPITAL

There was no change in the issued share capital of the Company during the year. Details of the Company's share capital are set out in note 18 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the financial statements.

INVESTMENT PROPERTY

The investment property of the Group was revalued as at 31st December, 1999 as set out in note 12 to the financial statements.

The resulting deficit arising on revaluation, which amounted to HK\$400,000, has been charged directly to the consolidated income statement.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately HK\$47,729,000 as a result of business expansion.

Details of this and other movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries at 31st December, 1999 are set out in note 31 to the financial statements.



Directors' Report

BORROWINGS

Details of the Group's borrowings are set out in note 17 to the financial statements. No interest was capitalised by the Group during the year.

DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

Ng Hoi Ying, Michael – *Chairman*

Ng Kim Ying

Lee Wai Chung

Independent non-executive directors:

Chow Fu Kee, Felix

Francis George Martin

In accordance with Clauses 87(1) and 87(2) of the Company's Bye-laws, Mr. Chow Fu Kee, Felix retires by rotation and, being eligible, offers himself for re-election.

All the executive directors of the Company have each entered into a service contract with the Company for an initial term of three years commencing 1st August, 1996. The terms of these contracts were extended on 1st August, 1999 until they are terminated by either party giving to the other six months' written notice.

The director proposed for re-election at the forthcoming annual general meeting does not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.



Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

At 31st December, 1999, the interests of the directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of shares held	
	Personal interests	Other interests
Ng Hoi Ying, Michael	–	228,150,000 <i>(Note)</i>
Lee Wai Chung	850,000	–
Chow Fu Kee, Felix	200,000	–

Note: These shares are held by Ratagan International Company Limited ("Ratagan"), the ultimate holding company of the Company. The entire issued share capital of Ratagan is held by Centre Trustees (C.I.) Limited as trustee for The Arts 1996 Trust, a discretionary trust, the beneficiaries of which include Mr. Ng Hoi Ying, Michael and his family members.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Ratagan in trust for the Group, at 31st December, 1999, none of the directors and their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Details of a share option scheme, under which the directors of the Company may be granted options to subscribe for shares in the Company, are set out in note 19 to the financial statements.



Directors' Report

Save as disclosed above, at no time during the year was the Company, its holding 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, none of the directors, 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' Interests in Shares" above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no other person as having an interest representing 10% or more of the issued share capital of the Company as at 31st December, 1999.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 1999, the aggregate amount of turnover attributable to the Group's five largest customers accounted for less than 30% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 41% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 10% of the Group's total purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest suppliers.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share option scheme as set out in note 19 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st December, 1999 and there has been no exercise of any 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 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, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 1999 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

An Audit Committee has been established by the Company since 1998 to act in an advisory capacity and make recommendations to the board. The Committee currently comprises Messrs. Chow Fu Kee, Felix and Francis George Martin, both of whom are independent non-executive directors of the Company. The Audit Committee met four times in 1999 and once in April 2000. During these meetings, the committee members met with representatives from the management and/or external auditors of the Company to review the interim and annual reports of the Group as well as various auditing, financial reporting and internal control matters.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$43,460.

AUDITORS

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

On behalf of the Board

NG Hoi Ying, Michael

CHAIRMAN

Hong Kong, 14th April, 2000



Auditors' Report

Deloitte Touche Tohmatsu



Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

德勤•關黃陳方會計師行
香港中環干諾道中111號
永安中心26樓

TO THE SHAREHOLDERS OF ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED (incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 22 to 47 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 1999 and of the profit and cash flows of the Group for the year then ended 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, 14th April, 2000



Consolidated Income Statement

For the year ended 31st December, 1999

	NOTES	1999 HK\$	1998 HK\$
Turnover		469,806,111	408,823,113
Cost of sales		<u>(297,629,791)</u>	<u>(274,995,228)</u>
Gross profit		172,176,320	133,827,885
Other revenue	4	5,468,166	4,083,516
Distribution costs		(15,664,452)	(13,583,459)
Administrative expenses		(58,886,116)	(45,659,910)
Other operating expenses		<u>(14,058,870)</u>	<u>(7,424,054)</u>
Profit from operations	5	89,035,048	71,243,978
Finance costs	6	<u>(1,897,969)</u>	<u>(1,869,416)</u>
Profit before taxation		87,137,079	69,374,562
Taxation	8	<u>(6,650,793)</u>	<u>(5,199,563)</u>
Profit before minority interests		80,486,286	64,174,999
Minority interests		<u>(200,086)</u>	<u>-</u>
Net profit for the year		<u><u>80,686,372</u></u>	<u><u>64,174,999</u></u>
Dividends	10	<u><u>36,504,000</u></u>	<u><u>18,590,000</u></u>
Earnings per share	11	<u><u>23.9 cents</u></u>	<u><u>19.0 cents</u></u>



Consolidated Balance Sheet

At 31st December, 1999

	NOTES	1999 HK\$	1998 HK\$
Non-current Assets			
Investment property	12	3,800,000	4,200,000
Property, plant and equipment	13	170,414,470	151,453,814
		<u>174,214,470</u>	<u>155,653,814</u>
Current Assets			
Inventories	16	92,884,062	85,116,789
Debtors, deposits and prepayments		82,702,224	84,355,723
Taxation recoverable		122,772	–
Pledged bank deposits		5,411,050	4,293,794
Bank balances and cash		113,016,712	41,027,438
		<u>294,136,820</u>	<u>214,793,744</u>
Current Liabilities			
Creditors and accrued charges		91,457,157	53,087,169
Taxation payable		5,549,214	2,674,461
Proposed dividend		12,844,000	11,830,000
Bank borrowings	17	4,800,584	–
		<u>114,650,955</u>	<u>67,591,630</u>
Net Current Assets		<u>179,485,865</u>	<u>147,202,114</u>
		<u><u>353,700,335</u></u>	<u><u>302,855,928</u></u>
Capital and Reserves			
Share capital	18	33,800,000	33,800,000
Reserves	20	311,535,132	268,255,928
		<u>345,335,132</u>	<u>302,055,928</u>
Minority Interests		7,565,203	–
Non-current Liability			
Deferred taxation	21	800,000	800,000
		<u>800,000</u>	<u>800,000</u>
		<u><u>353,700,335</u></u>	<u><u>302,855,928</u></u>

The financial statements on pages 22 to 47 were approved by the Board of Directors on 14th April, 2000 and are signed on its behalf by:

NG HOI YING, MICHAEL
DIRECTOR

NG KIM YING
DIRECTOR



Balance Sheet

At 31st December, 1999

	NOTES	1999 HK\$	1998 HK\$
Non-current Assets			
Investments in subsidiaries	14	130,719,000	130,719,000
Amount due from a subsidiary	15	86,510,257	85,578,762
		<u>217,229,257</u>	<u>216,297,762</u>
Current Assets			
Prepayments		232,547	500,247
Dividend receivable		15,000,000	11,830,000
Taxation recoverable		16,773	–
Bank balances and cash		40,480	29,309
		<u>15,289,800</u>	<u>12,359,556</u>
Current Liabilities			
Creditors and accrued charges		1,036,953	726,207
Proposed dividend		12,844,000	11,830,000
		<u>13,880,953</u>	<u>12,556,207</u>
Net Current Assets (Liabilities)		<u>1,408,847</u>	<u>(196,651)</u>
		<u>218,638,104</u>	<u>216,101,111</u>
Capital and Reserves			
Share capital	18	33,800,000	33,800,000
Reserves	20	184,838,104	182,301,111
		<u>218,638,104</u>	<u>216,101,111</u>

NG HOI YING, MICHAEL
DIRECTOR

NG KIM YING
DIRECTOR



Consolidated Statement of Recognised Gains and Losses

For the year ended 31st December, 1999

	1999 HK\$	1998 HK\$
Exchange differences arising on translation of overseas operations	178,196	367,792
Loss recognised on revaluation of an investment property	-	(1,127,478)
Net gain (loss) not recognised in the consolidated income statement	178,196	(759,686)
Net profit for the year	<u>80,686,372</u>	<u>64,174,999</u>
Total recognised gains and losses	<u><u>80,864,568</u></u>	<u><u>63,415,313</u></u>



Consolidated Cash Flow Statement

For the year ended 31st December, 1999

	NOTES	1999 HK\$	1998 HK\$
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	<u>156,637,621</u>	<u>73,974,583</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		(35,490,000)	(16,900,000)
Interest paid		(1,897,969)	(1,869,416)
Interest received		4,192,763	1,755,018
Dividends received from listed investments		-	113,232
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(33,195,206)</u>	<u>(16,901,166)</u>
TAXATION			
Hong Kong Profits Tax paid		<u>(3,889,291)</u>	<u>(4,043,693)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(47,729,462)	(43,386,577)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	23	(1,716,272)	-
Increase in pledged bank deposits		(1,117,256)	(166,726)
Proceeds from disposal of property, plant and equipment		67,715	300,002
Decrease in listed investments		-	3,418,324
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(50,495,275)</u>	<u>(39,834,977)</u>
NET CASH INFLOW BEFORE FINANCING		<u>69,057,849</u>	<u>13,194,747</u>
FINANCING			
New bank loans raised	24	<u>2,289,719</u>	-
INCREASE IN CASH AND CASH EQUIVALENTS		<u>71,347,568</u>	<u>13,194,747</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>41,027,438</u>	<u>27,832,691</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	25	<u><u>112,375,006</u></u>	<u><u>41,027,438</u></u>



Notes to the Financial Statements

For the year ended 31st December, 1999

1. GENERAL

The Company was 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"). Its ultimate holding company is Ratagan International Company Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, manufacture and sales of optical frames.

2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted, for the first time, the Statement of Standard Accounting Practice 1 (Revised) "Presentation of financial statements" ("SSAP 1 (Revised)") issued by the Hong Kong Society of Accountants. SSAP 1 (Revised) is concerned with the presentation and disclosure of financial information. The presentation in the current year's financial statements has been modified in order to conform with the requirements of that Standard. Comparative amounts have been restated in order to achieve a consistent presentation.

In particular, additional analyses of income and expenditure have been presented.

In addition, the description of various components in the financial statements and the terminology used has been updated to reflect the terminology of the new Standard.

None of the amendments outlined above has affected the results for the current or prior periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of an investment property.

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.



Notes to the Financial Statements

For the year ended 31st December, 1999

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill and capital reserve

Goodwill or capital reserve arising on acquisition of a subsidiary, which represents respectively the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets of the subsidiary at the date of acquisition, is dealt with through reserves in the year of acquisition.

On disposal of a subsidiary, the attributable amount of goodwill or capital reserve previously written off against or credited to reserves at the time of acquisition is included in the determination of the profit or loss on disposal.

Turnover

Turnover represents the net amounts received and receivable for goods sold to outside customers during the year.

Revenue recognition

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

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment has been established.

Rental income, including rental invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases.



Notes to the Financial Statements

For the year ended 31st December, 1999

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is credited to the income statement.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than twenty years.

Property, plant and equipment

Property, plant and equipment, other than buildings under construction, are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.



Notes to the Financial Statements

For the year ended 31st December, 1999

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation and amortisation is provided to write off the cost of property, plant and equipment, other than buildings under construction, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the remaining terms of the leases
Buildings	Over the estimated useful lives of 25 years or the terms of the leases, if shorter
Leasehold improvements	Over the estimated useful lives of 3 years or the terms of the leases, if shorter
Others	20%

Buildings under construction

Buildings under construction are stated at cost, which comprises all direct costs incurred in relation to the construction. Depreciation is not provided until the construction work is completed and the buildings are ready for their intended use.

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investment in subsidiaries is included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and the estimated costs necessary to make the sale.



Notes to the Financial Statements

For the year ended 31st December, 1999

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Retirement benefits cost

The amount of contributions payable to the Group's defined contribution retirement benefits scheme is charged to the income statement.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advances.



Notes to the Financial Statements

For the year ended 31st December, 1999

4. OTHER REVENUE

Included in other revenue are:

	1999 HK\$	1998 HK\$
Interest income	4,192,763	1,755,018
Gross rental income from investment properties (<i>note</i>)	-	523,806
Dividend income from listed investments	-	113,232
	<u>4,192,763</u>	<u>1,755,018</u>

Note: There was no outgoing incurred for the year ended 31st December, 1998.

5. PROFIT FROM OPERATIONS

	1999 HK\$	1998 HK\$
Profit from operations has been arrived at after charging:		
Auditors' remuneration	777,476	650,000
Deficit arising on revaluation of an investment property	400,000	172,522
Depreciation and amortisation	30,834,366	27,187,890
Loss on disposal of property, plant and equipment	1,460,680	329,449
Operating lease rentals in respect of rented premises	6,762,051	3,239,032
Staff costs	76,699,981	68,659,425
	<u>76,699,981</u>	<u>68,659,425</u>

6. FINANCE COSTS

The finance costs represent interest on bank borrowings wholly repayable within five years.



Notes to the Financial Statements

For the year ended 31st December, 1999

7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The directors' emoluments are analysed as follows:

	1999 HK\$	1998 HK\$
Fees:		
Executive	–	–
Independent non-executive	<u>288,000</u>	<u>272,000</u>
	<u>288,000</u>	<u>272,000</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	<u>2,914,389</u>	2,900,068
Performance related incentive payments	<u>270,000</u>	235,000
Retirement benefits scheme contributions	<u>35,700</u>	<u>34,950</u>
	<u>3,220,089</u>	<u>3,170,018</u>
Estimated rental values for rent-free accommodation provided to two directors	<u>330,510</u>	<u>415,200</u>
Total directors' emoluments	<u><u>3,838,599</u></u>	<u><u>3,857,218</u></u>

The emoluments of the directors, including the estimated rental values for the rent-free accommodation, were within the following bands:

	1999 Number of directors	1998 Number of directors
Nil to HK\$1,000,000	<u>3</u>	<u>4</u>
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>1</u>
	<u><u>5</u></u>	<u><u>5</u></u>



Notes to the Financial Statements

For the year ended 31st December, 1999

7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (continued)

Highest paid employees

The five highest paid individuals of the Group included three (1998: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (1998: two) highest paid employees, other than directors of the Company, are as follows:

	1999 HK\$	1998 HK\$
Salaries and other benefits	1,300,900	1,278,400
Performance related incentive payments	155,000	145,000
Retirement benefits scheme contributions	59,100	57,975
	<u>1,515,000</u>	<u>1,481,375</u>

The emoluments of each of the highest paid employees were within the band ranging from nil to HK\$1,000,000 in both years.

8. TAXATION

The charge represents Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the directors, that portion of the Group's profit is not at present subject to taxation in any other jurisdiction in which the Group operates.

9. NET PROFIT FOR THE YEAR

The Group's net profit for the year includes a profit of HK\$39,040,993 (1998: HK\$19,194,833) which has been dealt with in the financial statements of the Company.



Notes to the Financial Statements

For the year ended 31st December, 1999

10. DIVIDENDS

	1999 HK\$	1998 HK\$
Interim dividend paid of 2.0 cents (1998: 2.0 cents) per share	6,760,000	6,760,000
Special dividend paid of 5.0 cents (1998: Nil) per share	16,900,000	–
Final dividend proposed of 3.8 cents (1998: 3.5 cents) per share	<u>12,844,000</u>	<u>11,830,000</u>
	<u><u>36,504,000</u></u>	<u><u>18,590,000</u></u>

The final dividend of 3.8 cents (1998: 3.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

11. EARNINGS PER SHARE

The calculation of the earnings per share is based on the net profit for the year of HK\$80,686,372 (1998: HK\$64,174,999) and on the 338,000,000 (1998: 338,000,000) shares in issue during the year.

12. INVESTMENT PROPERTY

	THE GROUP HK\$
VALUATION	
At 1st January, 1999	4,200,000
Deficit arising on revaluation	<u>(400,000)</u>
At 31st December, 1999	<u>3,800,000</u>

The investment property was revalued at 31st December, 1999 by Vigers Hong Kong Limited, an independent firm of professional valuers, on an open market value basis. The resulting deficit arising on revaluation of HK\$400,000 has been charged to the income statement.

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



Notes to the Financial Statements

For the year ended 31st December, 1999

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$	Leasehold improvements HK\$	Plant and machinery HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Buildings under construction HK\$	Total HK\$
THE GROUP							
COST							
At 1st January, 1999	79,249,238	17,454,733	105,280,499	14,239,244	5,447,558	11,330,629	233,001,901
Acquisition of subsidiaries	-	1,572,529	5,022,036	148,690	432,523	-	7,175,778
Additions	-	5,206,807	17,691,233	5,703,699	913,486	18,214,237	47,729,462
Disposals	(1,056,191)	(1,781,808)	(484,796)	(657,463)	-	-	(3,980,258)
Reclassification	13,002,810	-	-	-	-	(13,002,810)	-
At 31st December, 1999	91,195,857	22,452,261	127,508,972	19,434,170	6,793,567	16,542,056	283,926,883
DEPRECIATION AND AMORTISATION							
At 1st January, 1999	8,909,395	10,149,922	51,556,823	6,981,454	3,950,493	-	81,548,087
Acquisition of subsidiaries	-	438,532	2,958,846	1,824	182,621	-	3,581,823
Provided for the year	3,176,364	4,623,048	19,624,023	2,684,604	726,327	-	30,834,366
Eliminated on disposals	(251,334)	(1,342,257)	(416,331)	(441,941)	-	-	(2,451,863)
At 31st December, 1999	11,834,425	13,869,245	73,723,361	9,225,941	4,859,441	-	113,512,413
NET BOOK VALUES							
At 31st December, 1999	79,361,432	8,583,016	53,785,611	10,208,229	1,934,126	16,542,056	170,414,470
At 31st December, 1998	70,339,843	7,304,811	53,723,676	7,257,790	1,497,065	11,330,629	151,453,814



Notes to the Financial Statements

For the year ended 31st December, 1999

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's property interests shown above comprises:

	Leasehold properties		Buildings under construction	
	1999	1998	1999	1998
	HK\$	HK\$	HK\$	HK\$
Properties situated in Hong Kong held under medium-term leases	15,989,614	16,573,998	-	-
Properties situated in the People's Republic of China other than Hong Kong (the "PRC") held under medium-term leases	63,371,818	53,765,845	16,542,056	11,330,629
	<u>79,361,432</u>	<u>70,339,843</u>	<u>16,542,056</u>	<u>11,330,629</u>

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	1999	1998
	HK\$	HK\$
Unlisted shares (Note)	<u>130,719,000</u>	<u>130,719,000</u>

Note: The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time they became members of the Group pursuant to the group reorganisation in 1996.

Particulars of the subsidiaries at 31st December, 1999 are set out in note 31.

15. AMOUNT DUE FROM A SUBSIDIARY

The amount is unsecured, interest free and do not have fixed repayment terms. In the opinion of the directors, the amount will not be repaid within the next twelve months from the balance sheet date and, accordingly, the amount is shown as non-current.



Notes to the Financial Statements

For the year ended 31st December, 1999

16. INVENTORIES

	THE GROUP	
	1999 HK\$	1998 HK\$
Raw materials	29,094,728	32,824,563
Work in progress	51,285,436	46,073,689
Finished goods	12,503,898	6,218,537
	<u>92,884,062</u>	<u>85,116,789</u>

There are inventories of HK\$2,791,652 (1998: HK\$4,244,520) carried at net realisable value.

17. BANK BORROWINGS

	THE GROUP	
	1999 HK\$	1998 HK\$
The bank borrowings, which are all due within one year, comprise:		
Bank loan, secured	887,850	—
Bank loans, unsecured	3,271,028	—
Trust receipt and import loans, secured	641,706	—
	<u>4,800,584</u>	<u>—</u>

18. SHARE CAPITAL

	Number of shares	Amount HK\$
Shares of HK\$0.10 each		
<i>Authorised:</i>		
At beginning and at end of the years 1998 and 1999	<u>1,000,000,000</u>	<u>100,000,000</u>
<i>Issued and fully paid:</i>		
At beginning and at end of the years 1998 and 1999	<u>338,000,000</u>	<u>33,800,000</u>



Notes to the Financial Statements

For the year ended 31st December, 1999

19. SHARE OPTIONS

Pursuant to the Company's share option scheme which was adopted at a special general meeting of the Company held on 24th October, 1996, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme.

No options have been granted under the scheme since its adoption.

20. RESERVES

	Share premium HK\$	Special reserve HK\$	Goodwill reserve HK\$	Investment property revaluation reserve HK\$	Exchange reserve HK\$	Retained profits HK\$	Total HK\$
THE GROUP							
At 1st January, 1998	63,413,280	(3,269,460)	(1,000,410)	1,127,478	34,907	163,124,820	223,430,615
Exchange differences arising on translation of overseas operations	-	-	-	-	367,792	-	367,792
Deficit on revaluation of an investment property	-	-	-	(1,127,478)	-	-	(1,127,478)
Net profit for the year	-	-	-	-	-	64,174,999	64,174,999
Dividends	-	-	-	-	-	(18,590,000)	(18,590,000)
At 31st December, 1998	63,413,280	(3,269,460)	(1,000,410)	-	402,699	208,709,819	268,255,928
Exchange differences arising on translation of overseas operations	-	-	-	-	178,196	-	178,196
Goodwill reserve arising on acquisition of subsidiaries	-	-	(1,081,364)	-	-	-	(1,081,364)
Net profit for the year	-	-	-	-	-	80,686,372	80,686,372
Dividends	-	-	-	-	-	(36,504,000)	(36,504,000)
At 31st December, 1999	63,413,280	(3,269,460)	(2,081,774)	-	580,895	252,892,191	311,535,132



Notes to the Financial Statements

For the year ended 31st December, 1999

20. RESERVES (continued)

	Share premium HK\$	Contributed surplus HK\$	Retained profits HK\$	Total HK\$
THE COMPANY				
At 1st January, 1998	63,413,280	105,369,000	12,913,998	181,696,278
Net profit for the year	-	-	19,194,833	19,194,833
Dividends	-	-	(18,590,000)	(18,590,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 1998	63,413,280	105,369,000	13,518,831	182,301,111
Net profit for the year	-	-	39,040,993	39,040,993
Dividends	-	-	(36,504,000)	(36,504,000)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 1999	<u>63,413,280</u>	<u>105,369,000</u>	<u>16,055,824</u>	<u>184,838,104</u>

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., the subsidiary which was acquired by the Company pursuant to the group reorganisation in 1996.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Allied Power Inc. at the date on which the group reorganisation became effective and the nominal amount of the share capital of the Company issued under the group reorganisation.

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

21. DEFERRED TAXATION

At the balance sheet date, the provision for deferred taxation liability was attributable to the excess of depreciation allowances claimed for tax purposes over accounting depreciation charged in the financial statements.

The Group and the Company did not have any significant unprovided deferred taxation at the balance sheet date or during the year.



Notes to the Financial Statements

For the year ended 31st December, 1999

22. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1999 HK\$	1998 HK\$
Profit before taxation	87,137,079	69,374,562
Deficit arising on revaluation of investment property	400,000	172,522
Depreciation and amortisation	30,834,366	27,187,890
Dividend income from listed investments	-	(113,232)
Loss on disposal of property, plant and equipment	1,460,680	329,449
Interest income	(4,192,763)	(1,755,018)
Interest expenses	1,897,969	1,869,416
Decrease in inventories	433,714	939,267
Decrease (increase) in debtors, deposits and prepayments	4,686,476	(33,186,293)
Increase in creditors and accrued charges	33,801,904	8,764,218
Effect on foreign exchange rate changes	178,196	391,802
	<u>156,637,621</u>	<u>73,974,583</u>
Net cash inflow from operating activities	<u>156,637,621</u>	<u>73,974,583</u>



Notes to the Financial Statements

For the year ended 31st December, 1999

23. ACQUISITION OF SUBSIDIARIES

	1999 HK\$	1998 HK\$
NET ASSETS ACQUIRED		
Property, plant and equipment	3,593,955	–
Inventories	8,200,987	–
Debtors, deposits and prepayments	3,032,977	–
Taxation recoverable	9,521	–
Bank balances and cash	3,737,846	–
Creditors and accrued charges	(4,123,104)	–
Bank loans	(1,869,159)	–
Minority interests	(7,765,289)	–
	<u>4,817,734</u>	–
Goodwill on acquisition	1,081,364	–
	<u>5,899,098</u>	–
Satisfied by:		
Cash	5,454,118	–
Balance of consideration payable included in creditors and accrued charges	444,980	–
	<u>5,899,098</u>	–
Net cash outflow arising on acquisition:		
	1999	1998
	HK\$	HK\$
Cash consideration paid	(5,454,118)	–
Bank balances and cash acquired	3,737,846	–
	<u>(1,716,272)</u>	–

The subsidiaries acquired during the year did not have any significant impact on the Group's cash flows.



Notes to the Financial Statements

For the year ended 31st December, 1999

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loans
	<i>HK\$</i>
Balance at 1st January, 1999	–
Acquisition of subsidiaries	1,869,159
New bank loans raised	2,289,719
	<hr/>
Balance at 31st December, 1999	<u>4,158,878</u>

25. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	1999	1998
	<i>HK\$</i>	<i>HK\$</i>
Bank balances and cash	113,016,712	41,027,438
Trust receipts and import loans	(641,706)	–
	<hr/>	<hr/>
	<u>112,375,006</u>	<u>41,027,438</u>

26. RETIREMENT BENEFIT SCHEME

The Group operates a defined contribution retirement benefit scheme for its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee.

The retirement benefit scheme contributions charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group.

During the year, the Group made retirement benefits scheme contributions of HK\$728,142 (1998: HK\$922,692) after forfeited contributions utilised of HK\$313,915 (1998: HK\$184,202).

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the scheme and which are available to reduce the contributions payable by the Group in the future years was HK\$25,639 (1998: Nil).



Notes to the Financial Statements

For the year ended 31st December, 1999

27. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to pay the following amounts in the following year in respect of rented premises under non-cancellable operating leases which expire:

	THE GROUP	
	1999 HK\$	1998 HK\$
Within one year	909,960	444,434
In the second to fifth year inclusive	2,970,950	2,916,138
Over five years	944,673	944,673
	<u>4,825,583</u>	<u>4,305,245</u>

The Company did not have any operating lease commitments at the balance sheet date.

28. CAPITAL COMMITMENTS

	THE GROUP	
	1999 HK\$	1998 HK\$
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	10,437,944	9,057,243
– leasehold improvements	2,741,343	617,243
– plant and machinery	2,290,567	2,092,252
– furniture, fixtures and equipment	961,076	379,757
	<u>16,430,930</u>	<u>12,146,495</u>

In addition, the Group had outstanding capital contribution to subsidiaries at 31st December, 1999 of HK\$4,344,645 (1998: HK\$94,645).

The Company did not have any capital commitments at the balance sheet date.



Notes to the Financial Statements

For the year ended 31st December, 1999

29. CONTINGENT LIABILITIES

	THE GROUP	
	1999 HK\$	1998 HK\$
Bills discounted with recourse	<u>21,368,360</u>	<u>18,076,179</u>

At 31st December, 1999, the Company had outstanding corporate guarantees amounting to approximately HK\$78,630,000 (1998: HK\$78,630,000) issued in favour of banks to secure general banking facilities granted to its subsidiaries. The total amount of facilities utilised by the subsidiaries at 31st December, 1999 amounted to approximately HK\$642,000 (1998: Nil).

30. PLEDGE OF ASSETS

At 31st December, 1999, leasehold properties with an aggregate net book value amounting to approximately HK\$15,990,000 (1998: HK\$16,574,000) and bank deposits of approximately HK\$5,411,000 (1998: HK\$4,294,000) were pledged to banks to secure general banking facilities granted to the Group.

31. SUBSIDIARIES

Particulars of the subsidiaries at 31st December, 1999 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Attributable equity interest of the Group		Principal activities
			Directly	Indirectly	
Allied Power Inc.	British Virgin Islands	C\$50,000	100%	-	Investment holding
Anglo Profits Limited	British Virgin Islands	US\$1	-	100%	Inactive
Argent Optical Manufactory Limited	Hong Kong/ PRC	HK\$100,000	-	100%	Manufacture of optical frames
Arts 1000 Optical Company Limited	Hong Kong	HK\$100,000	-	100%	Inactive
Arts Optical Manufactory, Limited	Hong Kong	HK\$1,000,000	-	100%	Trading in optical frames



Notes to the Financial Statements

For the year ended 31st December, 1999

31. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Attributable equity interest of the Group		Principal activities
			Directly	Indirectly	
Atister Enterprises Limited	Hong Kong	HK\$30,000	-	100%	Trading in optical frames and investment holding
Business Executive Investment Limited	Hong Kong	HK\$2	-	100%	Investment holding
Champion Capital Industries Limited	Hong Kong	HK\$10,000	-	100%	Investment holding
Sin Dak Industrial Limited	Hong Kong	HK\$40,000	-	100%	Property holding
中山雅冠光學廠有限公司 (Ya Guan (Zhong Shan) Optical Ltd.)	PRC	RMB13,678,730 (Note 1)	-	(Note 2)	Not yet commenced business
Arts 1000 Optical Company Limited	British Virgin Islands/PRC	US\$1	-	100%	Retailing of optical frames
Able Rich Enterprises Limited	British Virgin Islands	US\$1	-	100%	Investment holding
廣州市奧康視光學有限公司 (Guangzhou Oculars Vision Care Co. Ltd.)	PRC	RMB500,000	-	75%	Trading in optical frames and lens
深圳北方光學實業有限公司 (Shenzhen North Optical Industrial Company Limited)	PRC	HK\$13,425,600	-	51% (Note 3)	Manufacture and trading of optical lens



Notes to the Financial Statements

For the year ended 31st December, 1999

31. SUBSIDIARIES (continued)

Notes:

1. The registered capital of this company is RMB13,780,000. According to the latest official capital verification report dated 15th October, 1998, the amount of capital which has been verified amounting to RMB13,678,730.
2. Pursuant to the co-operative joint venture agreement, other than a fixed profit sharing ratio of 20:80 between the joint venture partner in the PRC and the Group, the Group is to bear the entire risk and liabilities and share the entire losses, if any, of the subsidiary during the terms of the co-operative joint venture of 15 years up to 28th November, 2009. Upon dissolution of the co-operative joint venture company, the PRC joint venture partner and the Group will repossess the assets each had contributed.
3. The registered capital of this company is HK\$17,675,600. According to the latest official capital verification report dated 16th June, 1999, the amount of capital which has been verified amounting to HK\$13,425,600.

None of the subsidiaries had any loan capital subsisting at 31st December, 1999 or at any time during the year.



Financial Summary

RESULTS

	Year ended 31st December,				
	1995 HK\$'000	1996 HK\$'000	1997 HK\$'000	1998 HK\$'000	1999 HK\$'000
TURNOVER	<u>186,694</u>	<u>247,606</u>	<u>313,088</u>	<u>408,823</u>	<u>469,806</u>
PROFIT BEFORE TAXATION	34,384	62,710	64,962	69,375	87,137
TAXATION	<u>(2,103)</u>	<u>(2,663)</u>	<u>(3,867)</u>	<u>(5,200)</u>	<u>(6,651)</u>
PROFIT BEFORE MINORITY INTERESTS	32,281	60,047	61,095	64,175	80,486
MINORITY INTERESTS	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200)</u>
NET PROFIT FOR THE YEAR	<u>32,284</u>	<u>60,047</u>	<u>61,095</u>	<u>64,175</u>	<u>80,686</u>

ASSETS AND LIABILITIES

	31st December,				
	1995 HK\$'000	1996 HK\$'000	1997 HK\$'000	1998 HK\$'000	1999 HK\$'000
TOTAL ASSETS	165,648	272,954	316,106	370,448	468,351
TOTAL LIABILITIES	(84,887)	(58,679)	(58,875)	(68,392)	(115,451)
MINORITY INTERESTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,565)</u>
SHAREHOLDERS' FUNDS	<u>80,761</u>	<u>214,275</u>	<u>257,231</u>	<u>302,056</u>	<u>345,335</u>

Notes:

- The results for the year ended 31st December, 1995 have been prepared on a combined basis to indicate the results as if the group structure after the group reorganisation in 1996 had been in existence throughout the year ended 31st December, 1995 and have been extracted from the Company's prospectus dated 29th October, 1996 after eliminating the notional interest income and expenses and the related taxation which were included in the track record results presented in the above-mentioned prospectus.
- The results for the four years ended 31st December, 1999 have been extracted from the Company's annual report for the respective years.