

雅視
Arts

Optical

Annual Report 2000

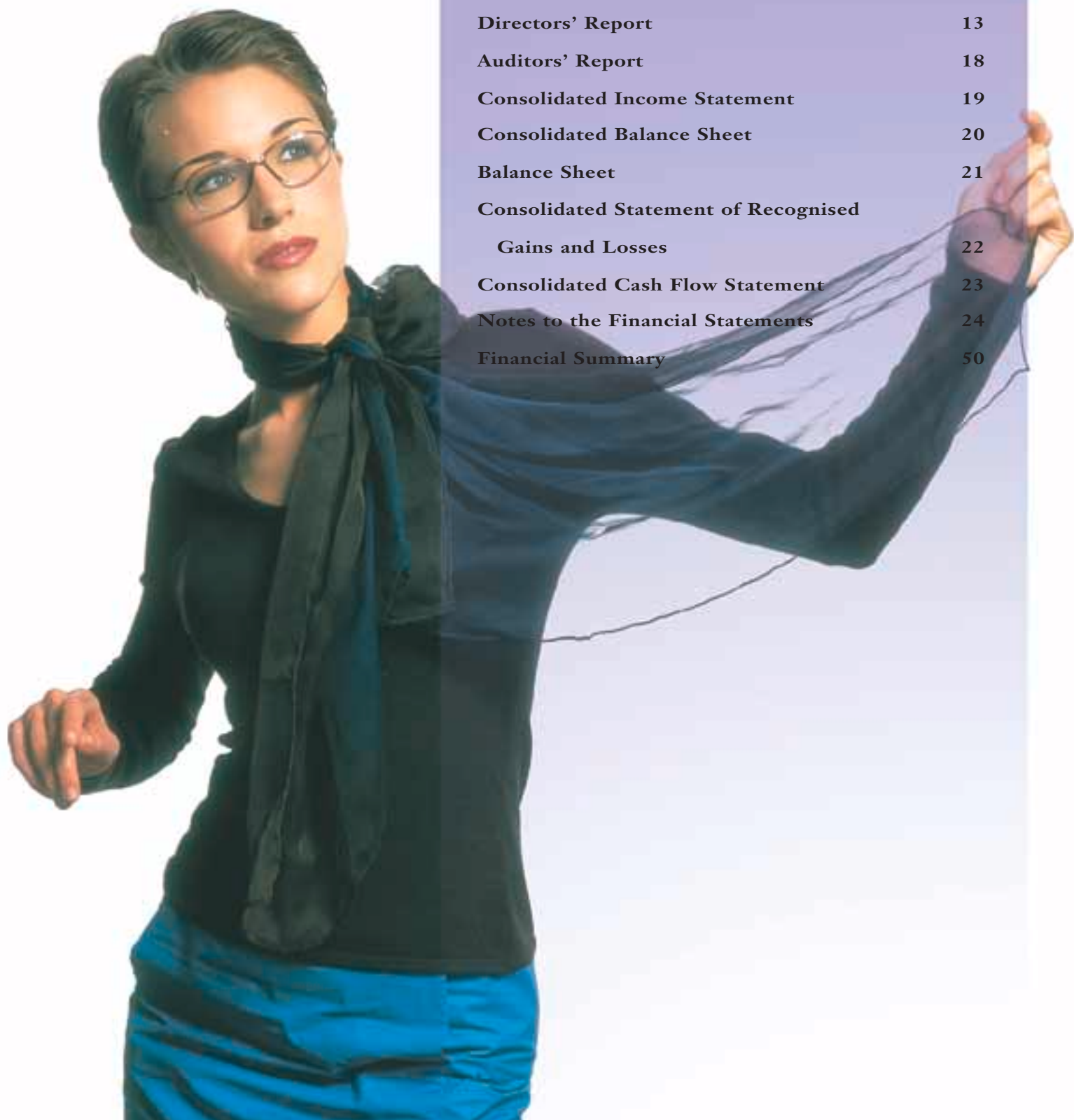


Arts Optical International
Holdings Limited



Contents

Corporate Information	2
Group Structure	3
Financial Highlights	4
Chairman's Statement	5
Biographical Details of Directors and Management	11
Directors' Report	13
Auditors' Report	18
Consolidated Income Statement	19
Consolidated Balance Sheet	20
Balance Sheet	21
Consolidated Statement of Recognised Gains and Losses	22
Consolidated Cash Flow Statement	23
Notes to the Financial Statements	24
Financial Summary	50



Corporate Information

BOARD OF DIRECTORS

Executive Directors

NG Hoi Ying, Michael – *Chairman*

NG Kim Ying

LEE Wai Chung

Independent non-executive Directors

Francis George MARTIN

KWONG Kam Kwan Alex

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

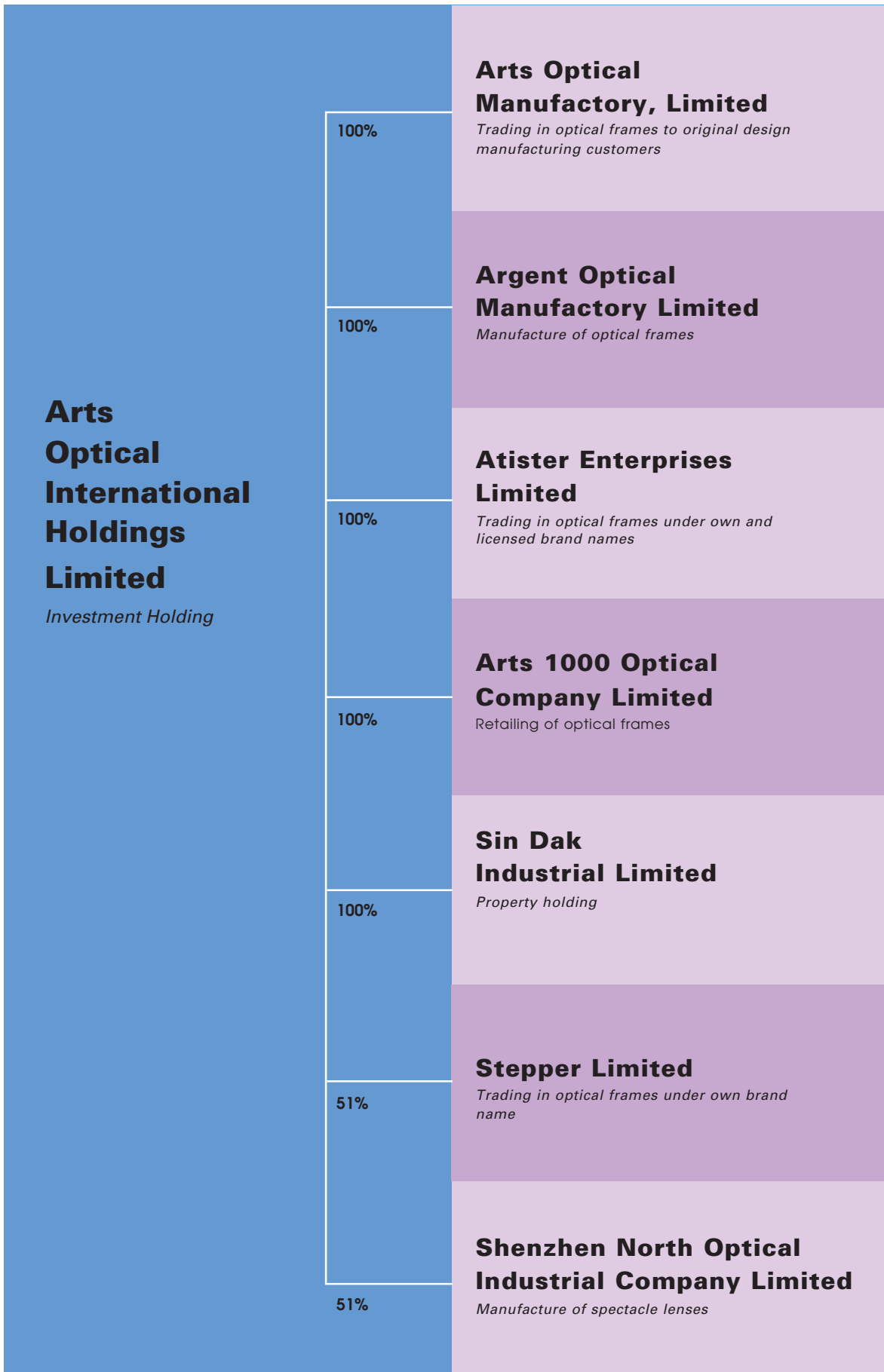
The Bank of Bermuda Limited
6 Front Street, Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

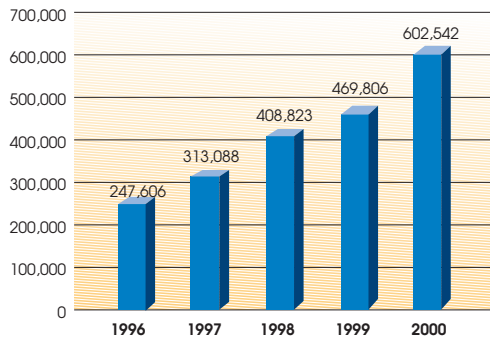
Bank of America (Asia) Limited
Bank of China Hong Kong Branch
Credit Agricole Indosuez
Dah Sing Bank Limited
Hang Seng Bank Limited
Jian Sing Bank Limited



Financial Highlights

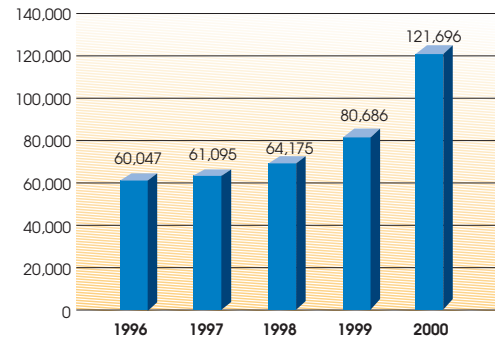
Turnover

(HK\$'000)

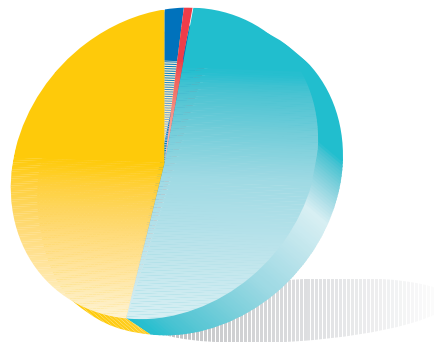


Net profit for the year

(HK\$'000)



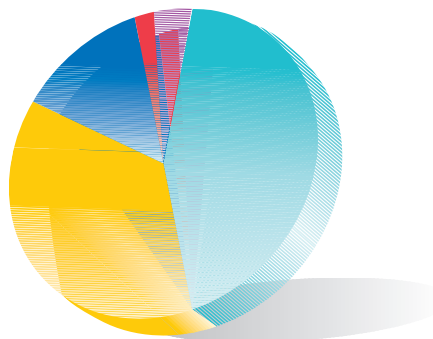
Turnover by product range for ODM division in 2000



- 51% Metal based optical frames including titanium frames
- 46% Plastic based hand-made optical frames
- 2% Plastic based injection moulded optical frames
- 1% Others

Consolidated turnover by geographical locations in 2000

- 44% United States
- 37% Europe
- 13% Asia
- 2% South America
- 4% Others



Chairman's Statement



Ng Hoi Ying, Michael

RESULTS

2000 was a record year for the Group which reported its fifth full year results with consecutive growth since the shares of the Company were listed in 1996. The Group's consolidated turnover and net profit increased by 28% and 51% to HK\$602.5 million (1999: HK\$469.8 million) and HK\$121.7 million (1999: HK\$80.7 million) respectively in 2000. Basic earnings per share also increased by 50% to 35.8 cents (1999: 23.9 cents) in 2000.

DIVIDENDS

The Directors have resolved to recommend a final dividend of 7.0 cents per share for the year ended 31st December, 2000. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 31st May, 2001, the final dividend will be payable on 11th June, 2001 to shareholders whose names appear on the Register of Members of the Company on 31st May, 2001.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 25th May, 2001 to 31st May, 2001, 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 24th May, 2001 in order to qualify for the final dividend abovementioned.



BUSINESS REVIEW AND PROSPECTS

Original design manufacturing (ODM) division

The robust economic performance of the export markets of the Group's products and the substantial investment made to increase the production capacity during 2000 provided the main momentum for the satisfactory growth of the ODM division. Sales to ODM customers increased by 28% to HK\$550.7 million (1999: HK\$431.6 million) in 2000. United States and Europe accounted for 48% and 40% respectively (1999: 55% and 34%) of the turnover of ODM division. As a result of the effects of economies of scale, implementation of cost control measures and further diversification into higher margin products, the gross margin improved in 2000.

Distribution division

2000 was the first year that the distribution arm of the Group in China reported its full year results. The joint venture with Rayner & Keeler Group, a prominent optical group in the United Kingdom, also commenced business in the last quarter of 2000. Turnover of the distribution business increased by 125% to HK\$30.1 million (1999: HK\$13.4 million) in 2000. Asia, in particular the greater China region, was the major market of the distribution division.

Retailing division

The Group continued to expand its retail network cautiously in China and operated a total of 21 retail outlets (1999: 13 outlets) in various major cities in China as at 31st December, 2000 (6 shops in Beijing, 2 shops in Nanjing, 8 shops in Shenzhen, 5 shops in Guangdong Province excluding Shenzhen). Business performance improved during 2000 because of the effects of economies of scale achieved in certain cities such as Beijing and Nanjing.

Financial position, liquidity and gearing

Despite substantial capital investment made by the Group in 2000, the financial position of the Group remained strong throughout the whole year. As at 31st December, 2000, the Group had a balance of cash and cash equivalents of HK\$132.4 million (1999: HK\$112.4 million). The current ratio of the Group as at 31st December, 2000 was 2.4 to 1 (1999: 2.6:1) with HK\$343.2 million (1999: HK\$294.1 million) of current assets and HK\$142.0 million (1999: HK\$114.7 million) of current liabilities. Stock and account receivables levels were closely monitored by the management.

As at 31st December, 2000, the Group had 350,640,000 shares (1999: 338,000,000 shares) in issue with a total shareholders' funds amounting to HK\$429.5 million (1999: HK\$345.3 million). Net asset value per share was HK\$1.22 (1999: HK\$1.02). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over shareholders' funds) were HK\$7.3 million (1999: HK\$0.8 million) and 1.7% (1999: 0.2%) respectively.

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were conducted in United States dollars, Hong Kong dollars or Renminbi and the exchange rates of these currencies were relatively stable in 2000.

The Group believes that its cash reserves and future cash generated from its core operations will provide a solid base for it to pursue new investment opportunities and fund its capital expenditure and working capital requirements in 2001.

Pledge of assets

At 31st December, 2000, leasehold properties with an aggregate net book value amounting to approximately HK\$15,405,000 (1999: HK\$15,990,000) and bank deposits of approximately HK\$11,293,000 (1999: HK\$5,411,000) were pledged against certain current liabilities to banks to secure general banking facilities granted to the Group.



A man and a woman are featured in a promotional image for eyewear. The man, on the left, has dark hair and is wearing a black suit jacket over a dark shirt. He is wearing thin, clear-framed glasses and has his hands clasped in a thoughtful pose. The woman, on the right, is shown from the chest up, wearing a white top and a bright blue blazer. She is also wearing thin, clear-framed glasses and has a serious expression. The background is a solid, vibrant red. The text is centered in the middle of the image.

The fashion
on your eyes
in
2001

Contingent liabilities

As at 31st December, 2000, the Group had bills discounted with recourse amounting to HK\$12,148,176 (1999: HK\$21,368,360).

At 31st December, 2000, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (approximately HK\$953,000) (1999: Nil), in considerations of the guarantee given by this minority shareholder in favour of banks to secure general banking facilities to the extent of RMB2,000,000 (approximately HK\$1,869,000) (1999: Nil) granted to this subsidiary.

Employee and remuneration policies

As at 31st December, 2000, the Group employed approximately 5,160 full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performance, experience and prevailing market price while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, mandatory provident fund scheme as well as a share option scheme.



PROSPECTS

General

The world economy continues to show signs of slowing down since the second half of 2000. The Group believes that 2001 will be a year of consolidation for the businesses of the Group. The guiding principles will be the enhancement of efficiency and further diversification of products and markets while at the same time, maintaining financial stability so that the Group can be fully prepared to seize new investment opportunities when they arise.

Manufacturing

After the substantial increase in production capacity in 2000, the Group will focus on improving its production efficiency by implementing the Group's enterprises resources planning system, change in product mix to an increased proportion of higher margin products such as titanium frames and further integration between the manufacturing base in China and logistics functions in Hong Kong.

Chairman's Statement

China business expansion

With the impending entry of China into the World Trade Organization and the implementation of the Tenth Five-Year Plan, China will definitely be the most promising place for business expansion of the Group. The Group will continue to expand its distribution and retailing network to other major cities in China such as Shanghai. The Group believes that investments in China will not only provide a solid platform to capture the huge market potential there, but also at the same time cushion it against volatility in its export markets.

Further diversification

An agreement was reached in March, 2001 between the Group and Optical Dynamics Corporation, a company specializing in the research and development of ophthalmic lens fabrication systems in the United States. Pursuant to the agreement, the Group has been granted the exclusive right to manufacture and distribute patented ophthalmic lens fabrication systems and related products and materials in China, Russia and certain other countries in Asia. Production will start in the second half of the year.

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, 20th April, 2001

Biographical Details of Directors and Management

Executive directors

NG Hoi Ying, Michael (“Mr. Ng”), aged 46, 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 33 years’ of 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 45, is an executive director of the Group. 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 16 years’ of experience in the optical products industry and is the brother of Mr. Ng.

LEE Wai Chung, aged 34, 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 and a non-practising member of the Chinese Institute of Certified Public Accountants. He has 13 years of experience in accounting and auditing.

Independent non-executive directors

Francis George MARTIN, aged 60, 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 33 years of experience in the financial services industry. Mr. Martin joined the Group in 1996.

KWONG Kam Kwan Alex, aged 35, is a certified public accountant in Hong Kong. He has 13 years of experience in accounting and auditing and holds a Bachelor degree in Social Sciences from the University of Hong Kong. Mr. Kwong joined the Group in 2001.

CHOW Fu Kee, Felix, who passed away in 2001 at the age of 66, had 43 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.

Biographical Details of Directors and Management

Senior Management

XU Saying, aged 30, is the general manager (China Business) of the Group. Ms. Xu joined the Group in 2001 and is responsible for the formation of business strategy and management of operations of the Group's distribution and retailing businesses in China. She has 12 years of experience in conducting business in China, including 3 years in the optical industry and holds a Master degree in Business Administration from the University of Southern California in the United States. Ms. Xu is the wife of Mr. Ng.

CHEUNG Chan Wing Hung, aged 38, 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 40, 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 these two production plants. He is also responsible for the overall management and development of these plants.

HUNG Chao Chia, aged 48, 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 43, 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 21 years' experience in production management, including 17 years in the optical products industry.

The directors present their annual report and the audited financial statements for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31st December, 2000 are set out in the consolidated income statement on page 19.

An interim dividend of 7.0 cents per share amounting to HK\$24,079,300 was paid to the shareholders of the Company during the year. The directors now recommend the payment of a final dividend of 7.0 cents per share amounting to HK\$24,544,800 to the shareholders of the Company whose names appear on the register of members on 31st May, 2001 and the retention of the remaining profit for the year.

FINANCIAL SUMMARY

A financial summary of the Group is set out on page 50.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 20 to the financial statements.

SHARE OPTIONS

Particulars of the Company's share option scheme for employees are set out in note 21 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

INVESTMENT PROPERTY

The investment property of the Group was revalued as at 31st December, 2000 as set out in note 12 to the financial statements.

The resulting deficit arising on revaluation, which amounted to HK\$900,000, 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\$107,614,000 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.

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:

Kwong Kam Kwan Alex (appointed on 6th February, 2001)

Francis George Martin

Chow Fu Kee, Felix (passed away on 21st January, 2001)

In accordance with Clauses 86(2), 87(1) and 87(2) of the Company's Bye-laws, Messrs. Kwong Kam Kwan Alex and Francis George Martin will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

None of the directors being proposed for re-election at the forthcoming annual general meeting has 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' INTERESTS IN CONTRACTS

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' INTERESTS IN SHARES

At 31st December, 2000, 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	Family	Other interests
Ng Hoi Ying, Michael	2,040,000	2,146,000	172,380,000 (<i>Note a</i>)
Ng Kim Ying	600,000	–	37,620,000 (<i>Note b</i>)
Lee Wai Chung	2,250,000	–	–
Chow Fu Kee, Felix	–	200,000	–

Notes:

- (a) These shares are held by Ratagan International Company Limited ("Ratagan"). 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.
- (b) These shares are held by Universal Honour Developments Limited ("Universal Honour"). The entire issued share capital of Universal Honour is held by Centre Trustees (C.I.) Limited as trustee for The Optical 2000 Trust, a discretionary trust, the beneficiaries of which include Mr. Ng Kim Ying 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, 2000, 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 share options to subscribe for shares in the Company, are set out in note 21 to the financial statements.

During the year, certain directors of the Company were granted share options pursuant to the share option scheme. A summary of the movements in share options granted to the directors during the year is as follows:

Name of director	Date of grant	Balance at 1.1.2000	Number of share options		Balance at 31.12.2000
			Granted during the year	Exercised during the year	
Ng Hoi Ying, Michael	7th July, 2000	-	5,100,000	(2,040,000)	3,060,000
Ng Kim Ying	7th July, 2000	-	1,500,000	(600,000)	900,000
Lee Wai Chung	7th July, 2000	-	3,500,000	(1,400,000)	2,100,000

Save as disclosed 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, 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, 2000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 32% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 9% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 42% 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 options set out in note 21 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st December, 2000 and there has been no exercise of any convertible securities, options, warrants or similar rights during the year.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, 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, 2000 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 (the "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. Kwong Kam Kwan Alex (appointed on 6th February, 2001) and Francis George Martin, both of whom are independent non-executive directors of the Company. During the year, 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\$29,800.

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, 20th April, 2001

德勤·關黃陳方會計師行

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

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 19 to 49 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, 2000 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, 20th April, 2001

Consolidated Income Statement

For the year ended 31st December, 2000

	<i>NOTES</i>	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Turnover	3	602,542,467	469,806,111
Cost of sales		<u>(373,678,223)</u>	<u>(297,629,791)</u>
Gross profit		228,864,244	172,176,320
Other revenue	4	9,603,243	5,468,166
Distribution costs		(24,632,026)	(20,166,656)
Administrative expenses		(77,876,711)	(58,886,116)
Other operating expenses		<u>(6,881,718)</u>	<u>(9,556,666)</u>
Profit from operations	5	129,077,032	89,035,048
Finance costs	6	<u>(2,298,893)</u>	<u>(1,897,969)</u>
Profit before taxation		126,778,139	87,137,079
Taxation	8	<u>(9,816,372)</u>	<u>(6,650,793)</u>
Profit before minority interests		116,961,767	80,486,286
Minority interests		<u>(4,734,295)</u>	<u>(200,086)</u>
Net profit for the year		<u><u>121,696,062</u></u>	<u><u>80,686,372</u></u>
Dividends	10	<u><u>48,624,100</u></u>	<u><u>36,504,000</u></u>
Earnings per share			
– Basic	11	<u><u>35.8 cents</u></u>	<u><u>23.9 cents</u></u>
– Diluted	11	<u><u>35.4 cents</u></u>	<u><u>N/A</u></u>

Consolidated Balance Sheet

At 31st December, 2000

	NOTES	2000 HK\$	1999 HK\$
Non-current Assets			
Investment property	12	2,900,000	3,800,000
Property, plant and equipment	13	235,491,776	170,414,470
		<u>238,391,776</u>	<u>174,214,470</u>
Current Assets			
Inventories	16	95,997,134	92,884,062
Debtors, deposits and prepayments	17	103,266,113	82,702,224
Taxation recoverable		85,680	122,772
Pledged bank deposits		11,293,321	5,411,050
Bank balances and cash		132,595,366	113,016,712
		<u>343,237,614</u>	<u>294,136,820</u>
Current Liabilities			
Creditors and accrued charges	18	106,003,458	91,457,157
Taxation payable		7,476,037	5,549,214
Proposed dividend		24,544,800	12,844,000
Bank borrowings	19	3,952,243	4,800,584
		<u>141,976,538</u>	<u>114,650,955</u>
Net Current Assets		<u>201,261,076</u>	<u>179,485,865</u>
Total Assets less Current Liabilities		<u>439,652,852</u>	<u>353,700,335</u>
Capital and Reserves			
Share capital	20	35,064,000	33,800,000
Reserves	22	394,466,294	311,535,132
		<u>429,530,294</u>	<u>345,335,132</u>
Minority Interests		<u>2,830,908</u>	<u>7,565,203</u>
Non-current Liabilities			
Loan from a minority shareholder of a subsidiary	23	6,491,650	–
Deferred taxation	24	800,000	800,000
		<u>7,291,650</u>	<u>800,000</u>
		<u>439,652,852</u>	<u>353,700,335</u>

The financial statements on pages 19 to 49 were approved by the Board of Directors on 20th April, 2001 and are signed on its behalf by:

Ng Hoi Ying, Michael
Director

Ng Kim Ying
Director

Balance Sheet
At 31st December, 2000

	<i>NOTES</i>	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Non-current Assets			
Investments in subsidiaries	<i>14</i>	130,719,000	130,719,000
Amount due from a subsidiary	<i>15</i>	99,488,767	86,510,257
		<u>230,207,767</u>	<u>217,229,257</u>
Current Assets			
Prepayments		237,034	232,547
Dividend receivable		30,000,000	15,000,000
Taxation recoverable		75,666	16,773
Bank balances and cash		116,054	40,480
		<u>30,428,754</u>	<u>15,289,800</u>
Current Liabilities			
Creditors and accrued charges		3,664,874	1,036,953
Proposed dividend		24,544,800	12,844,000
		<u>28,209,674</u>	<u>13,880,953</u>
Net Current Assets		<u>2,219,080</u>	<u>1,408,847</u>
Total Assets less Current Liabilities		<u>232,426,847</u>	<u>218,638,104</u>
Capital and Reserves			
Share capital	<i>20</i>	35,064,000	33,800,000
Reserves	<i>22</i>	197,362,847	184,838,104
		<u>232,426,847</u>	<u>218,638,104</u>

Ng Hoi Ying, Michael
Director

Ng Kim Ying
Director

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st December, 2000

	2000	1999
	HK\$	HK\$
Exchange differences arising on translation of overseas operations not recognised in the consolidated income statement	–	178,196
Net profit for the year	<u>121,696,062</u>	<u>80,686,372</u>
Total recognised gains	121,696,062	80,864,568
Goodwill reserve arising on acquisition of subsidiaries	<u>–</u>	<u>(1,081,364)</u>
	<u>121,696,062</u>	<u>79,783,204</u>

Consolidated Cash Flow Statement

For the year ended 31st December, 2000

	<i>NOTES</i>	2000 <i>HK\$</i>	1999 <i>HK\$</i>
Net cash inflow from operating activities	25	<u>157,262,989</u>	<u>156,637,621</u>
Returns on investments and servicing of finance			
Dividends paid		(36,923,300)	(35,490,000)
Interest paid		(2,298,893)	(1,897,969)
Interest received		<u>6,997,462</u>	<u>4,192,763</u>
Net cash outflow from returns on investments and servicing of finance		<u>(32,224,731)</u>	<u>(33,195,206)</u>
Taxation			
Hong Kong Profits Tax paid		<u>(7,852,457)</u>	<u>(3,889,291)</u>
Investing activities			
Purchase of property, plant and equipment		(102,014,127)	(47,729,462)
Increase in pledged bank deposits		(5,882,271)	(1,117,256)
Proceeds from disposal of property, plant and equipment		14,392	67,715
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	26	<u>-</u>	<u>(1,716,272)</u>
Net cash outflow from investing activities		<u>(107,882,006)</u>	<u>(50,495,275)</u>
Net cash inflow before financing		<u>9,303,795</u>	<u>69,057,849</u>
Financing	27		
Proceeds from issue of shares upon the exercise of share options		11,123,200	-
Repayment of bank loans		(4,158,878)	-
New bank loans raised		<u>3,738,318</u>	<u>2,289,719</u>
Net cash inflow from financing		<u>10,702,640</u>	<u>2,289,719</u>
Increase in cash and cash equivalents		20,006,435	71,347,568
Cash and cash equivalents at the beginning of the year		<u>112,375,006</u>	<u>41,027,438</u>
Cash and cash equivalents at the end of the year	28	<u><u>132,381,441</u></u>	<u><u>112,375,006</u></u>

Notes to the Financial Statements

For the year ended 31st December, 2000

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”).

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

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 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 have 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.

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.

Notes to the Financial Statements

For the year ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, as follows:

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
Furniture, fixtures and office equipment	Over 3 to 5 years
Others	Over 5 years

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.

2. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

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.

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 an 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.

Notes to the Financial Statements

For the year ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 amounts of contributions payable to the Group's defined contribution retirement benefits schemes are 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, 2000

3. **TURNOVER AND CONTRIBUTION TO PROFIT FROM OPERATIONS**

The Group is principally engaged in the design, manufacture and sales of optical products. No business segment analysis is presented as management considers that the Group has one single business segment.

2000	1999
HK\$	HK\$

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

United States	263,837,440	237,842,362
Europe	221,714,224	148,391,756
Asia	78,285,793	53,948,248
South America	13,375,555	8,564,952
Others	25,329,455	21,058,793
	<u>602,542,467</u>	<u>469,806,111</u>

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

4. **OTHER REVENUE**

Included in other revenue is interest on bank deposits of HK\$6,997,462 (1999: HK\$4,192,763).

Notes to the Financial Statements

For the year ended 31st December, 2000

5. PROFIT FROM OPERATIONS

	2000 HK\$	1999 HK\$
Profit from operations has been arrived at after charging:		
Auditors' remuneration	913,645	777,476
Deficit arising on revaluation of an investment property	900,000	400,000
Depreciation and amortisation	40,798,661	30,834,366
Loss on disposal of property, plant and equipment	1,723,588	1,460,680
Operating lease rentals in respect of rented premises	6,491,677	6,762,051
Staff costs, including directors' emoluments	<u>102,949,515</u>	<u>76,699,981</u>

6. FINANCE COSTS

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

7. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The directors' emoluments are analysed as follows:

	2000 HK\$	1999 HK\$
Fees:		
Executive	–	–
Independent non-executive	<u>288,000</u>	<u>288,000</u>
	<u>288,000</u>	<u>288,000</u>
Other emoluments paid to executive directors:		
Salaries and other benefits	2,947,685	2,914,389
Performance related incentive payments	3,048,900	270,000
Retirement benefits scheme contributions	<u>45,050</u>	<u>35,700</u>
	<u>6,041,635</u>	<u>3,220,089</u>
	<u>6,329,635</u>	<u>3,508,089</u>

Notes to the Financial Statements

For the year ended 31st December, 2000

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

Directors' emoluments (Continued)

In addition to the above, rent-free accommodation was provided to two directors and the estimated rental values for the accommodation were approximately HK\$307,320 (1999: HK\$330,510).

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

	2000 Number of directors	1999 Number of directors
Nil to HK\$1,000,000	2	3
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	1	–
	<u>5</u>	<u>5</u>

Highest paid employees

The five highest paid individuals of the Group included two (1999: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (1999: two) highest paid employees, other than directors of the Company, are as follows:

	2000 HK\$	1999 HK\$
Salaries and other benefits	1,450,400	1,300,900
Performance related incentive payments	3,357,000	155,000
Retirement benefits scheme contributions	71,700	59,100
	<u>4,879,100</u>	<u>1,515,000</u>

Notes to the Financial Statements

For the year ended 31st December, 2000

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

Highest paid employees (Continued)

The emoluments of the highest paid employees were within the following bands:

	2000 Number of employees	1999 Number of employees
Nil to HK\$1,000,000	–	2
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	2	–
	<hr/>	<hr/>
	3	2
	<hr/>	<hr/>

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\$51,289,643 (1999: HK\$39,040,993) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31st December, 2000

10. DIVIDENDS

	2000 HK\$	1999 HK\$
Interim dividend paid of 7.0 cents (1999: 2.0 cents) per share	24,079,300	6,760,000
Special dividend paid of nil cent (1999: 5.0 cents) per share	–	16,900,000
Final dividend proposed of 7.0 cents (1999: 3.8 cents) per share	<u>24,544,800</u>	<u>12,844,000</u>
	<u>48,624,100</u>	<u>36,504,000</u>

The final dividend of 7.0 cents (1999: 3.8 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 basic and diluted earnings per share is based on the following data:

	2000 HK\$	1999 HK\$
Earnings for the purposes of basic and diluted earnings per share	<u>121,696,062</u>	<u>80,686,372</u>
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	<u>340,125,519</u>	<u>338,000,000</u>
Effect of dilutive potential shares in respect of share options	<u>4,001,636</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>344,127,155</u>	

No diluted earnings per share for 1999 is presented as the Company did not have any dilutive potential shares outstanding during the year ended 31st December, 1999 or as at 31st December, 1999.

Notes to the Financial Statements

For the year ended 31st December, 2000

12. INVESTMENT PROPERTY

	THE GROUP
	<i>HK\$</i>
VALUATION	
At 1st January, 2000	3,800,000
Deficit arising on revaluation	<u>(900,000)</u>
At 31st December, 2000	<u>2,900,000</u>

The investment property was revalued at 31st December, 2000 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\$900,000 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, 2000

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties <i>HK\$</i>	Leasehold improvements <i>HK\$</i>	Plant and machinery <i>HK\$</i>	Furniture, fixtures and office equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Buildings under construction <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP							
COST							
At 1st January, 2000	91,195,857	22,452,261	127,508,972	19,434,170	6,793,567	16,542,056	283,926,883
Additions	19,400,859	9,889,345	45,375,308	10,237,803	2,242,548	20,468,084	107,613,947
Disposals	(1,259,546)	(2,540,538)	(497,827)	(497,381)	-	-	(4,795,292)
Reclassification	28,959,673	-	200,000	-	-	(29,159,673)	-
At 31st December, 2000	<u>138,296,843</u>	<u>29,801,068</u>	<u>172,586,453</u>	<u>29,174,592</u>	<u>9,036,115</u>	<u>7,850,467</u>	<u>386,745,538</u>
DEPRECIATION AND AMORTISATION							
At 1st January, 2000	11,834,425	13,869,245	73,723,361	9,225,941	4,859,441	-	113,512,413
Provided for the year	4,692,402	6,601,707	24,155,922	4,376,187	972,443	-	40,798,661
Eliminated on disposals	(332,724)	(1,872,556)	(431,553)	(420,479)	-	-	(3,057,312)
At 31st December, 2000	<u>16,194,103</u>	<u>18,598,396</u>	<u>97,447,730</u>	<u>13,181,649</u>	<u>5,831,884</u>	<u>-</u>	<u>151,253,762</u>
NET BOOK VALUES							
At 31st December, 2000	<u>122,102,740</u>	<u>11,202,672</u>	<u>75,138,723</u>	<u>15,992,943</u>	<u>3,204,231</u>	<u>7,850,467</u>	<u>235,491,776</u>
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

Notes to the Financial Statements

For the year ended 31st December, 2000

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's property interests shown above comprise:

	Leasehold properties		Buildings under construction	
	2000	1999	2000	1999
	HK\$	HK\$	HK\$	HK\$
Properties situated in Hong Kong held under medium-term leases	15,405,229	15,989,614	-	-
Properties situated in the People's Republic of China other than Hong Kong (the "PRC") held under medium-term leases	106,697,511	63,371,818	7,850,467	16,542,056
	<u>122,102,740</u>	<u>79,361,432</u>	<u>7,850,467</u>	<u>16,542,056</u>

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	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 when they became members of the Group pursuant to the group reorganisation in 1996.

Particulars of the principal subsidiaries at 31st December, 2000 are set out in note 36.

15. AMOUNT DUE FROM A SUBSIDIARY

The amount is unsecured, interest free and does 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, 2000

16. INVENTORIES

	THE GROUP	
	2000	1999
	HK\$	HK\$
Raw materials	35,581,928	29,094,728
Work in progress	47,150,983	51,285,436
Finished goods	13,264,223	12,503,898
	<u>95,997,134</u>	<u>92,884,062</u>

There are inventories of HK\$9,280,757 (1999: HK\$2,791,652) carried at net realisable value.

17. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 30 days to 90 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$87,552,411 (1999: HK\$74,408,620), an aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2000	1999
	HK\$	HK\$
Current	62,518,010	53,620,388
1 to 90 days overdue	23,009,359	20,229,181
More than 91 days overdue	2,025,042	559,051
	<u>87,552,411</u>	<u>74,408,620</u>

The Company did not have any trade debtors at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st December, 2000

18. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$56,958,287 (1999: HK\$56,737,510), an aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2000	1999
	HK\$	HK\$
Current to 90 days overdue	55,641,506	54,682,347
More than 91 days overdue	<u>1,316,781</u>	<u>2,055,163</u>
	<u>56,958,287</u>	<u>56,737,510</u>

19. BANK BORROWINGS

	THE GROUP	
	2000	1999
	HK\$	HK\$
The bank borrowings, which are all due within one year, comprise:		
Bank loans, secured	2,336,449	887,850
Bank loans, unsecured	1,401,869	3,271,028
Trust receipt and import loans, secured	<u>213,925</u>	<u>641,706</u>
	<u>3,952,243</u>	<u>4,800,584</u>

Notes to the Financial Statements

For the year ended 31st December, 2000

20. SHARE CAPITAL

	Number of shares	Amount HK\$
Shares of HK\$0.10 each		
<i>Authorised:</i>		
At beginning and at end of the years 1999 and 2000	<u>1,000,000,000</u>	<u>100,000,000</u>
<i>Issued and fully paid:</i>		
At 1st January, 1999 and at 31st December, 1999	338,000,000	33,800,000
Issue of shares upon the exercise of share options	<u>12,640,000</u>	<u>1,264,000</u>
At 31st December, 2000	<u>350,640,000</u>	<u>35,064,000</u>

21. 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 quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted under the 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.

Notes to the Financial Statements

For the year ended 31st December, 2000

21. SHARE OPTIONS (Continued)

During the year, share options were granted under the scheme to certain employees, including executive directors, of the Company and its subsidiaries to subscribe for 33,100,000 shares in the Company. These share options are exercisable at any time between 7th July, 2000 and 23rd October, 2006 at an exercise price of HK\$0.88 per share. Certain share options were exercised during the year to subscribe for 12,640,000 shares in the Company at an exercise price of HK\$0.88 per share.

The aggregate consideration received by the Company in respect of the options granted during the year amounted to HK\$12.

22. RESERVES

	Share premium HK\$	Special reserve HK\$	Goodwill reserve HK\$	Exchange reserve HK\$	Retained profits HK\$	Total HK\$
THE GROUP						
At 1st January, 1999	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
Exercise of share options	9,859,200	-	-	-	-	9,859,200
Net profit for the year	-	-	-	-	121,696,062	121,696,062
Dividends	-	-	-	-	(48,624,100)	(48,624,100)
At 31st December, 2000	<u>73,272,480</u>	<u>(3,269,460)</u>	<u>(2,081,774)</u>	<u>580,895</u>	<u>325,964,153</u>	<u>394,466,294</u>

Notes to the Financial Statements

For the year ended 31st December, 2000

22. RESERVES (Continued)

	Share premium HK\$	Contributed surplus HK\$	Retained profits HK\$	Total HK\$
THE COMPANY				
At 1st January, 1999	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	63,413,280	105,369,000	16,055,824	184,838,104
Net profit for the year	-	-	51,289,643	51,289,643
Exercise of share options	9,859,200	-	-	9,859,200
Dividends	-	-	(48,624,100)	(48,624,100)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2000	<u>73,272,480</u>	<u>105,369,000</u>	<u>18,721,367</u>	<u>197,362,847</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.

Notes to the Financial Statements

For the year ended 31st December, 2000

23. LOAN FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest free and does not have fixed repayment terms. The minority shareholder agreed not to demand repayment of this amount within the next twelve months from the balance sheet date and, accordingly, the amount is shown as non-current.

24. 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.

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

	2000 HK\$	1999 HK\$
Profit before taxation	126,778,139	87,137,079
Deficit arising on revaluation of investment property	900,000	400,000
Depreciation and amortisation	40,798,661	30,834,366
Loss on disposal of property, plant and equipment	1,723,588	1,460,680
Interest income	(6,997,462)	(4,192,763)
Interest expenses	2,298,893	1,897,969
(Increase) decrease in inventories	(2,221,242)	433,714
(Increase) decrease in debtors, deposits and prepayments	(20,563,889)	4,686,476
Increase in creditors and accrued charges	14,546,301	33,801,904
Effect on foreign exchange rate changes	-	178,196
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>157,262,989</u>	<u>156,637,621</u>

Notes to the Financial Statements

For the year ended 31st December, 2000

26. ACQUISITION OF SUBSIDIARIES

	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
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>–</u>	<u>–</u>
	–	4,817,734
Goodwill on acquisition	–	1,081,364
	<u>–</u>	<u>–</u>
	–	5,899,098
	<u>–</u>	<u>–</u>
Satisfied by:		
Cash	–	5,454,118
Balance of consideration payable included in creditors and accrued charges	–	444,980
	<u>–</u>	<u>–</u>
	–	5,899,098
	<u>–</u>	<u>–</u>
Net cash outflow arising on acquisition:		
	2000	1999
	<i>HK\$</i>	<i>HK\$</i>
Cash consideration paid	–	(5,454,118)
Bank balances and cash acquired	–	3,737,846
	<u>–</u>	<u>–</u>
Net cash outflow arising on acquisition of subsidiaries	–	(1,716,272)
	<u>–</u>	<u>–</u>

The subsidiaries acquired in 1999 did not have any significant impact on the Group's cash flows.

Notes to the Financial Statements

For the year ended 31st December, 2000

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$	Bank loans HK\$
Balance at 1st January, 1999	97,213,280	–
Acquisition of subsidiaries	–	1,869,159
New bank loans raised	–	2,289,719
	<hr/>	<hr/>
Balance at 31st December, 1999	97,213,280	4,158,878
Proceeds from issue of shares upon the exercise of share options	11,123,200	–
Repayment of bank loans	–	(4,158,878)
New bank loans raised	–	3,738,318
	<hr/>	<hr/>
Balance at 31st December, 2000	<u>108,336,480</u>	<u>3,738,318</u>

28. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2000 HK\$	1999 HK\$
Bank balances and cash	132,595,366	113,016,712
Trust receipts and import loans	(213,925)	(641,706)
	<hr/>	<hr/>
	<u>132,381,441</u>	<u>112,375,006</u>

29. MAJOR NON-CASH TRANSACTION

During the year, the following assets were acquired from a minority shareholder of a subsidiary (note 35) and the consideration was settled through a loan from the same minority shareholder:

	2000 HK\$	1999 HK\$
Inventories	891,830	–
Property, plant and equipment	5,599,820	–
	<hr/>	<hr/>
	<u>6,491,650</u>	<u>–</u>

30. RETIREMENT BENEFIT SCHEME

Prior to 1st December, 2000, the Group operated a defined contribution retirement benefit scheme (“Defined Contribution Scheme”) for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effective from 1st December, 2000, the Group has joined a mandatory provident fund scheme (“MPF Scheme”) for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the Defined Contribution Scheme and the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

During the year, the Group made retirement benefits scheme contributions of HK\$1,055,200 (1999: HK\$728,142) after forfeited contributions utilised in the Defined Contribution Scheme of HK\$96,289 (1999: HK\$313,915).

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the Defined Contribution Scheme and which are available to reduce the contributions payable by the Group in the future years was HK\$Nil (1999: HK\$25,639).

Notes to the Financial Statements

For the year ended 31st December, 2000

31. 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	
	2000 HK\$	1999 HK\$
Within one year	665,394	909,960
In the second to fifth year inclusive	5,383,812	2,970,950
Over five years	–	944,673
	<u>6,049,206</u>	<u>4,825,583</u>

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

32. CAPITAL COMMITMENTS

	THE GROUP	
	2000 HK\$	1999 HK\$
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	15,971,028	10,437,944
– leasehold improvements	742,034	2,741,343
– plant and machinery	3,937,410	2,290,567
– furniture, fixtures and equipment	563,416	961,076
	<u>21,213,888</u>	<u>16,430,930</u>

In addition, the Group had outstanding capital contribution to subsidiaries at 31st December, 2000 of HK\$4,344,645 (1999: HK\$4,344,645).

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

Notes to the Financial Statements

For the year ended 31st December, 2000

33. CONTINGENT LIABILITIES

	THE GROUP	
	2000	1999
	HK\$	HK\$
Bills discounted with recourse	<u>12,148,176</u>	<u>21,368,360</u>

At 31st December, 2000, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$97,130,000 (1999: HK\$78,630,000) granted to its subsidiaries. The total amount of facilities utilised by the subsidiaries at 31st December, 2000 amounted to approximately HK\$214,000 (1999: HK\$642,000).

In addition, at 31st December, 2000, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (approximately HK\$953,000) (1999: Nil), in consideration of the guarantee given by this minority shareholder in favour of banks to secure general banking facilities to the extent of RMB2,000,000 (approximately HK\$1,869,000) (1999: Nil) granted to this subsidiary.

34. PLEDGE OF ASSETS

At 31st December, 2000, leasehold properties with an aggregate net book value amounting to approximately HK\$15,405,000 (1999: HK\$15,990,000) and bank deposits of approximately HK\$11,293,000 (1999: HK\$5,411,000) were pledged against certain current liabilities to banks to secure general banking facilities granted to the Group.

35. RELATED PARTY TRANSACTIONS

		A minority shareholder of a subsidiary	
		2000	1999
	Notes	HK\$	HK\$
Purchase of inventories	1	891,830	–
Purchase of property, plant and equipment	1	5,599,820	–
Loan from related company	2	6,491,650	–

Notes to the Financial Statements

For the year ended 31st December, 2000

35. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (1) The transactions were carried out at prices agreed by the parties concerned.
- (2) The terms of the loan are set in note 23.

In addition to the above, at 31st December, 2000, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (approximately HK\$953,000), details of which are set out in note 33.

36. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2000 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
Able Rich Enterprises Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Argent Optical Manufactory Limited	Hong Kong/ PRC	HK\$100,000	–	100%	Manufacture of optical frames
Artland Technology Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Arts 1000 Optical Company Limited	British Virgin Islands/PRC	US\$1	–	100%	Retailing of optical frames
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, 2000

36. PRINCIPAL 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
Stepper Limited	Hong Kong	HK\$100	–	51%	Trading in optical frames
深圳北方光學實業有限公司 (Shenzhen North Optical Industrial Company Limited)	PRC	HK\$13,425,600	–	51% (Note)	Manufacture and trading in optical lens

Note: 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.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries, in the opinion of the directors, would result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at 31st December, 2000 or at any time during the year.

Financial Summary

RESULTS

	Year ended 31st December,				
	1996	1997	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>247,606</u>	<u>313,088</u>	<u>408,823</u>	<u>469,806</u>	<u>602,542</u>
PROFIT BEFORE TAXATION	62,710	64,962	69,375	87,137	126,778
TAXATION	<u>(2,663)</u>	<u>(3,867)</u>	<u>(5,200)</u>	<u>(6,651)</u>	<u>(9,816)</u>
PROFIT BEFORE MINORITY INTERESTS	60,047	61,095	64,175	80,486	116,962
MINORITY INTERESTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200)</u>	<u>(4,734)</u>
NET PROFIT FOR THE YEAR	<u>60,047</u>	<u>61,095</u>	<u>64,175</u>	<u>80,686</u>	<u>121,696</u>

ASSETS AND LIABILITIES

	31st December,				
	1996	1997	1998	1999	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	272,954	316,106	370,448	468,351	581,629
TOTAL LIABILITIES	(58,679)	(58,875)	(68,392)	(115,451)	(149,268)
MINORITY INTERESTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,565)</u>	<u>(2,831)</u>
SHAREHOLDERS' FUNDS	<u>214,275</u>	<u>257,231</u>	<u>302,056</u>	<u>345,335</u>	<u>429,530</u>