

A close-up photograph of a woman with long dark hair, wearing a yellow textured top. She is holding a pair of dark-rimmed glasses. The left lens of the glasses has the 'Arts Group' logo printed on it. The background is a solid pink color.

Arts Group

Arts Optical International Holdings Limited

Annual Report 2003



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

NG Hoi Ying, Michael – Chairman
HUI Pui Woon
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

Allen & Overy
Conyers Dill & Pearman

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

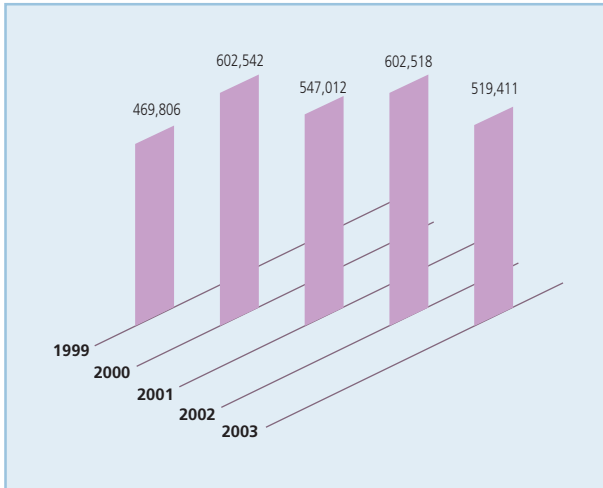
Bank of America (Asia) Limited
Bank of China (Hong Kong) Limited
China Construction Bank Hong Kong Branch
Dah Sing Bank, Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited

GROUP STRUCTURE

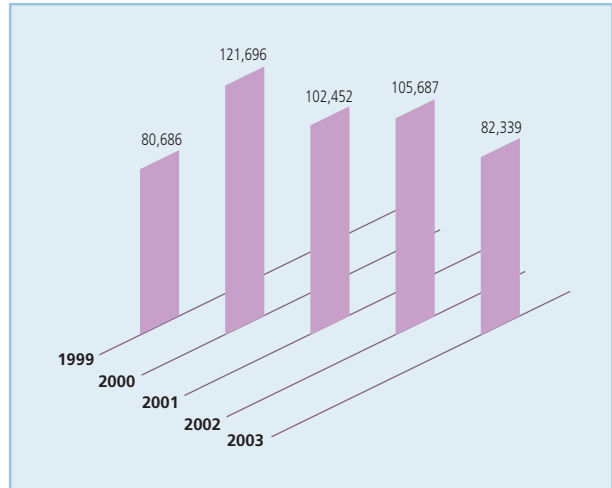


FINANCIAL HIGHLIGHTS

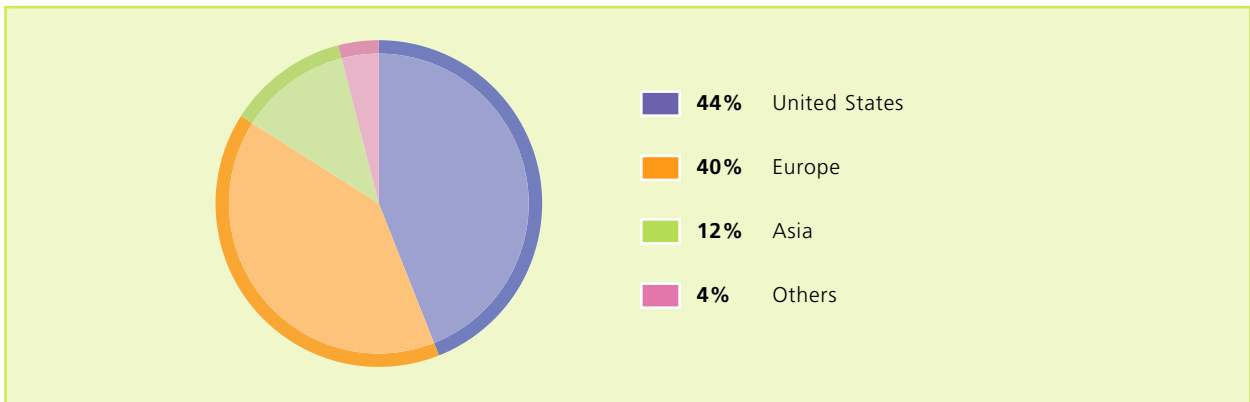
Consolidated turnover (HK\$'000)



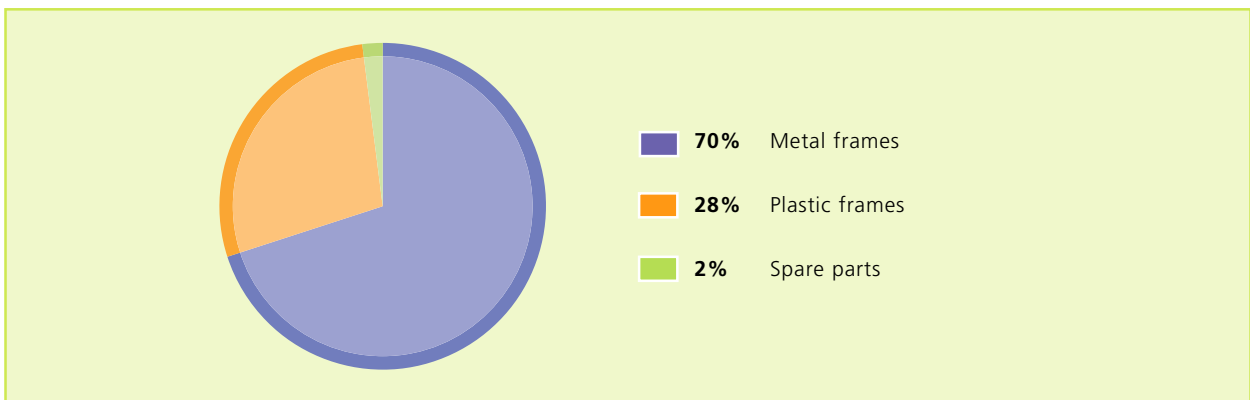
Net profit for the year (HK\$'000)



Consolidated turnover by geographical locations in 2003



Turnover of ODM division by product range in 2003





CHAIRMAN'S STATEMENT



SUMMARY OF RESULTS

The Group's consolidated turnover and net profit decreased by 14% and 22% to HK\$519.4 million (2002: HK\$602.5 million) and HK\$82.3 million (2002: HK\$105.7 million) respectively in 2003. Basic earnings per share decreased by 23% to 21.9 cents (2002: 28.4 cents) in 2003.

DIVIDENDS

The Directors have resolved to recommend a final dividend and a second special dividend of 8 cents and 7 cents per share respectively for the year ended 31st December, 2003. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 27th May, 2004, the final dividend and the second special dividend will be payable on 7th June, 2004 to shareholders whose names appear on the Register of Members of the Company on 27th May, 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24th May, 2004 to 27th May, 2004, 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 Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 21st May, 2004 in order to qualify for the proposed final dividend and second special dividend mentioned above.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Original design manufacturing (ODM) division

The financial performance of the ODM division remained subdued in 2003 because of the adverse effects of the military confrontation in the Middle East and the relatively poor consumer sentiment in the Groups' major markets. Sales to ODM customers decreased by 14% to HK\$460.6 million (2002 : HK\$534.7 million) in 2003. United States and Europe remained the major markets of this division and accounted for 49% and 42% respectively (2002: 45% and 44%) of the turnover of this division. The market began to show signs of recovery since the middle of 2003 and the recovery gained momentum in the last quarter of the year. As a result, the percentage decline in sales decreased from 17% in the first half to 11% in the second half of the year as compared with the corresponding period of 2002. Metal frames, plastic frames and spare parts accounted for 70%, 28% and 2% respectively of the Group's turnover of ODM business in 2003 (2002: 68%, 30% and 2%). Average unit selling prices remained fairly stable throughout the year.

Distribution division

Sales of the Group's own-branded and licensed branded products (including both optical frames and lenses) decreased by 11% to HK\$30.1 million in 2003 (2002: HK\$33.9 million). Sales to Europe and Asia accounted for 43% and 27% respectively of the turnover of the Group's distribution division in 2003 (2002: 35% and 50%). Europe surpassed Asia as the single largest market as a result of the successful launching of the Group's house brand "STEPPER" in several European countries and the negative impact of the outbreak of severe acute respiratory syndrome ("SARS") in Asia during the year. Some of the house brands and licensed brand that did not meet the predetermined financial target of the Group were gradually phased out. The Group also started the launching of the licensed Italian fashion label "FIORUCCI" in certain Asian countries in the last quarter of the year.



CHAIRMAN'S STATEMENT

Retailing division

The Group consolidated its retailing operations and combined its two retail chains of "ARTS 1000" and "SUNNY ARTS" in 2003. Total number of shops dropped from 73 at 31st December, 2002 to 27 at 31st December, 2003. As a result of this consolidation exercise and the impact of SARS in the second quarter of the year, turnover of the retailing division decreased by 15% to HK\$28.7 million in 2003 (2002: HK\$33.9 million). No significant write-offs were made for the consolidation scheme.

Financial position and liquidity

During the year, the Group's operating activities generated a net cash inflow of HK\$113.8 million (2002: HK\$133.4 million). Capital expenditure was closely monitored by the management. Despite the payment of substantial amount of cash dividends during the year, the Group still managed to maintain a satisfactory net cash position throughout the year. At 31st December, 2003, the Group had a net cash position (bank and cash balances plus pledged bank deposits net of any bank borrowings) of HK\$192.2 million (2002: HK\$214.1 million). The Group did not have any bank borrowings at 31st December, 2003 (2002: HK\$1.5 million).

The current ratio of the Group at 31st December, 2003 was 4.1 to 1 (2002: 4.3 to 1) with HK\$432.0 million of current assets (2002: HK\$441.0 million) and HK\$105.8 million of current liabilities (2002: HK\$102.7 million). Due to the granting of longer credit periods to a selected group of key customers, debtors turnover period (ratio of the total of debtor and discounted bills balances to sales) increased from 80 days in 2002 to 99 days in 2003. Inventory turnover period (ratio of inventory balance to cost of sales) also increased from 68 days in 2002 to 88 days in 2003 because of the substantial increase in work in progress balance at the end of 2003 as a result of the increase in production activity in order to satisfy the strong sales orders received in the last quarter of the year.

As at 31st December, 2003, the Group had 376,870,000 shares (2002: 374,410,000 shares) in issue with a total shareholders' funds amounting to HK\$578.0 million (2002: HK\$580.0 million). Net asset value per share was HK\$1.53 (2002: HK\$1.55). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over shareholders' funds) were HK\$8.0 million (2002: HK\$7.4 million) and 1.4% (2002: 1.3%) respectively.

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either United States dollars, Hong Kong dollars and Renminbi and the exchange rates movements between these currencies were relatively stable during the year.

Contingent Liabilities

	The Group	
	2003 HK\$'000	2002 HK\$'000
Bills discounted with recourse	3,310	—

CHAIRMAN'S STATEMENT

At 31st December, 2003, the Group had given a corporate guarantee in favour of a financial institution to secure general credit facilities to the extent of HK\$9,750,000 (2002: Nil). The extent of facilities utilised at 31st December, 2003 amounted to approximately HK\$9,750,000 (2002: Nil).

In addition to the above, at the balance sheet dates, 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\$962,000) 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\$1,887,000) granted to this subsidiary. No such facilities were utilised by the aforesaid subsidiary at 31st December, 2002 and 2003.

At 31st December, 2003, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$111,130,000 (2002: HK\$119,130,000) granted to its subsidiaries. Other than the bills discounted with recourse amounting to HK\$3,310,000 as stated above, there was no outstanding balance of banking facilities utilised by the subsidiaries at 31st December, 2003 (2002: HK\$1,540,000).

Pledge of Assets

At 31st December, 2003, leasehold properties with an aggregate net book value amounting to approximately HK\$12,252,000 (2002: HK\$14,236,000) and bank deposits of approximately HK\$18,037,000 (2002: HK\$10,895,000) were pledged to banks to secure short term banking facilities granted to the Group.

Employee and Remuneration Policies

At 31st December, 2003, the Group employed approximately 6,400 (2002: 5,800) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performances, experiences and prevailing market salaries while performance bonuses are granted on a discretionary basis. 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

ODM division

The pick up in demand for the Group's products since the middle of last year continues in the first quarter of 2004. The Group registered satisfactory growth in sales of this division in the first three months of 2004. Although business visibility remains low and customers' buying sentiment seems to be changing more frequently, the management is confident that this division should show a recovery of performance in 2004. Increase in proportion of sales of higher margin products, strict containment on unit production costs, coupled with anticipated volume growth, have facilitated the improvement in gross margin of this division.

CHAIRMAN'S STATEMENT

Distribution division

The Group will continue to restructure its brands portfolio and focus on selected brands more sharply. Meanwhile, active negotiations are being undertaken with its ODM customers and other professional middleman for the feasibility of enlarging its brands portfolio by means of acquisition or licensing arrangements. More distributors will be appointed globally for the cross-selling of the Group's house branded and licensed branded products.

Retailing division

The consolidation scheme implemented in 2003 enhanced the competitiveness and strengthened the earnings potential of the retailing division of the Group. Beijing and Shenzhen will be the focuses for further expansion of the retail chain because of the relatively sophisticated regulatory infrastructure in these two cities. Keen competition remains the major challenge of this business division and a long term and cautious approach will continue to be adopted in any further expansion of this division.

Summary

Despite the difficulties and challenges encountered in 2003, the Group still managed to maintain strong financial stability and liquidity. The management is optimistic of the macro-economic environment as well as the financial performance of the Group in 2004. It will continue to adopt the guiding principles of taking a proactive approach to business development and diversification with particular emphasis on financial prudence, balance sheet management and cash earnings. The Group is well-positioned to capture any business opportunities under the above solid fundamentals.

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, 16th April, 2004

BIOGRAPHICAL DETAILS OF DIRECTORS AND MANAGEMENT

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 49, 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 36 years of experience in the optical products industry. Mr. Ng won the Young Industrialist Award of Hong Kong organised by the Federation of Hong Kong Industries in 1995. Mr. Ng was admitted as Honorary Fellow of The Professional Validation Council of Hong Kong Industries in 2004. Mr. Ng is currently the President of the Hong Kong Optical Manufacturers Association Ltd., a Director of Hong Kong Commerce and Industry Associations Limited and a Life President of the Hong Kong Wong Tai Sin Industry And Commerce Association Limited. He is also a member of The People's Political Consultative Committee of Haizhu District, Guangzhou City.

HUI Pui Woon, aged 33, is the general manager (China business) of the Group. Ms. Hui 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 15 years of experience in conducting business in China, including 6 years in the optical products industry and holds a Master degree in Business Administration from the University of Southern California in the United States. Ms. Hui is the wife of Mr. Ng.

NG Kim Ying, aged 48, 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 19 years of experience in the optical products industry and is the brother of Mr. Ng.

LEE Wai Chung, aged 37, 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 16 years of experience in accounting and auditing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Francis George MARTIN, aged 63, 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 36 years of experience in the financial services industry. Mr. Martin was awarded the "Silver Bauhinia Star" by the Government of Hong Kong Special Administrative Region in 2002. He joined the Group in 1996.

KWONG Kam Kwan Alex, aged 38, is a certified public accountant in Hong Kong. He has 16 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND MANAGEMENT

SENIOR MANAGEMENT

LI Chi Hung, aged 43, 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 and has 28 years of experience in the optical products industry.

HUNG Chao Chia, aged 51, 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. Mr. Hung has 26 years of experience in the optical products industry.

WONG Kwok Leung, Alan, aged 46, 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 product and technology development of the Group. Mr. Wong has 24 years of experience in production management, including 20 years in the optical products industry.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st December, 2003.

ADOPTION OF CHINESE CORPORATE NAME

Pursuant to a resolution passed at the annual general meeting of the Company held on 28th May, 2003 (the "2003 Annual General Meeting"), the Company adopted 雅視光學集團有限公司 as its Chinese corporate name.

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, 2003 are set out in the consolidated income statement on page 21.

An interim dividend of 8 cents per share and a first special dividend of 7 cents per share amounting to HK\$30,150,000 and HK\$26,381,000 respectively were paid to the shareholders of the Company during the year. The directors now recommend the payment of a final dividend of 8 cents per share and a second special dividend of 7 cents per share amounting to HK\$30,150,000 and HK\$26,381,000 respectively to the shareholders of the Company whose names appear on the register of members on 27th May, 2004.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the financial statements.

SHARE OPTIONS

At the 2003 Annual General Meeting, the Company's share option scheme adopted on 24th October, 1996 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted in order to comply with the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to share option scheme. Particulars of the share option schemes are set out in note 23 to the financial statements.

SHARE OPTIONS (Continued)

No share options were granted by the Company during the year. A summary of the movements in share options which were granted under the Old Share Option Scheme to certain eligible employees of the Group on 7th July, 2000 is as follows:

	Number of share options			Outstanding at 31st December, 2003	Number of underlying shares at 31st December, 2003
	Outstanding at 1st January, 2003	Exercised during the year	Lapsed during the year		
Category: Directors					
Ng Hoi Ying, Michael	2,040,000	(510,000)	–	1,530,000	1,530,000
Ng Kim Ying	600,000	(150,000)	–	450,000	450,000
Lee Wai Chung	1,400,000	(350,000)	–	1,050,000	1,050,000
	4,040,000	(1,010,000)	–	3,030,000	3,030,000
Category: Employees					
	6,950,000	(1,450,000)	(1,150,000)	4,350,000	4,350,000
Total all categories	10,990,000	(2,460,000)	(1,150,000)	7,380,000	7,380,000

The above share options are exercisable between 7th July, 2000 and 23rd October, 2006 at an exercise price of HK\$0.88 per share. The closing price of the Company's shares immediately before the date on which the share options were exercised was HK\$2.25.

As at the date of the directors' report, the number of shares available for issue under the Old Share Option Scheme in respect of 7,380,000 shares options outstanding is 7,380,000 shares, representing 2% of the issued share capital of the Company. No further share options can be granted upon termination of the Old Share Option Scheme.

Under the New Share Option Scheme, the maximum number of shares available for issue is 37,441,000 shares. No share options have been granted under the New Share Option Scheme since its adoption.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 24 and in note 24 to the financial statements respectively.

The Company's reserves available for distribution to shareholders as at 31st December, 2003 amounted to HK\$207,949,000.

DIRECTORS' REPORT

INVESTMENT PROPERTY

The investment property of the Group was revalued as at 31st December, 2003 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\$39,142,000.

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

Hui Pui Woon

Ng Kim Ying

Lee Wai Chung

(appointed on 28th May, 2003)

Independent non-executive directors:

Kwong Kam Kwan Alex

Francis George Martin

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Francis George Martin will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

The director being proposed for re-election at the forthcoming annual general meeting does not have any 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' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31st December, 2003, the interests and short positions of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Shares in the Company (Long Position)

Name of director	Number of shares held			Total	Percentage of issued share capital of the Company
	Personal interests	Family interests	Other interests		
Ng Hoi Ying, Michael	1,326,000	36,682,000 <i>(Note a)</i>	151,000,000 <i>(Note b)</i>	189,008,000	50.15%
Hui Pui Woon	36,682,000	152,326,000 <i>(Note c)</i>	–	189,008,000	50.15%
Ng Kim Ying	300,000	–	18,500,000 <i>(Note d)</i>	18,800,000	4.99%
Lee Wai Chung	1,200,000	–	–	1,200,000	0.32%

Notes:

- (a) These shares are owned by Ms. Hui Pui Woon, the wife of Mr. Ng Hoi Ying, Michael.
- (b) These shares are held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan is held by Newcourt Trustees 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.
- (c) 1,326,000 shares and 151,000,000 shares are respectively held by Mr. Ng Hoi Ying, Michael, the husband of Ms. Hui Pui Woon, and Ratagan.
- (d) These shares are held by Universal Honour Developments Limited ("Universal Honour"). The entire issued share capital of Universal Honour is held by Newcourt Trustees Limited as trustee for The Optical 2000 Trust, a discretionary trust, the beneficiaries of which include Mr. Ng Kim Ying and his family members.

Underlying shares in the Company (Share Options)

Details of the share options held by the Directors of the Company are shown under the heading "Share Options" above.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Ratagan in trust for the Group, as at 31st December, 2003, none of the directors and their associates had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Old Share Option Scheme and the New Share Option Scheme disclosed under the heading "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, other than as disclosed above, none of the directors, 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.

CONNECTED TRANSACTION

Subsequent to the balance sheet date, the Group entered into a sale and purchase agreement to dispose of a leasehold property to Mr. Ng Kim Ying, an executive director of the Company, for a consideration of HK\$2,500,000. Based on the valuation carried out by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers, the consideration of HK\$2,500,000 represented a premium of approximately 4% to the open market value of the property as at 26th January, 2004. The transaction was completed on 27th February, 2004.

The directors, including the independent non-executive directors of the Company, were of the opinion that the transaction was conducted on normal commercial terms, which was arrived at after arm's length negotiations between the parties and was fair and reasonable insofar as the shareholders of the Company were concerned.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st December, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Shares in the Company (Long Position)

Name of shareholder	Number of shares held	Percentage of issued share capital of the Company
Templeton Asset Management Ltd.	29,270,000	7.77% (Note)
Templeton International, Inc.	29,270,000	7.77% (Note)
Templeton Worldwide, Inc.	29,270,000	7.77% (Note)
Franklin Resources, Inc.	29,270,000	7.77% (Note)
David Michael Webb	19,648,000	5.21%

Note: Templeton Asset Management Ltd. is wholly owned by Templeton International, Inc. which is wholly owned by Templeton Worldwide, Inc.. Templeton Worldwide, Inc. is wholly owned by Franklin Resources, Inc.. Hence, Templeton International, Inc., Templeton Worldwide, Inc. and Franklin Resources, Inc. are deemed to be interested in the same parcel of 29,270,000 shares held by Templeton Asset Management Ltd. under Part XV of the SFO.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS (Continued)

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no other person as having a notifiable interests or short positions in the issued share capital of the Company at 31st December, 2003.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2003, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 44% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 12% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 34% 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 customers or suppliers.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the Old Share Option Scheme, the New Share Option Scheme and the exercise of share options during the year disclosed under the heading "Share Options" above and in note 23 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st December, 2003 and there has been no exercise of any other convertible securities, options, warrants or similar rights during the year.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2003 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 and Francis George Martin, both of whom are independent non-executive directors of the Company. During the year, three Committee meetings were held and 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. All the Committee members attended these three meetings.

A Remuneration Committee was established in 2003 and currently comprises Messrs. Francis George Martin and Kwong Kam Kwan Alex, both of whom are independent non-executive directors of the Company. The duties of the Remuneration Committee include the determination of remuneration of executive directors and review of remuneration policy of the Group. One committee meeting was held during the year and all committee members attended this meeting.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$26,300.

AUDITORS

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

On behalf of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 16th April, 2004

AUDITORS' REPORT

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 21 to 57 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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, 2003 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, 16th April, 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2003

	NOTES	2003 HK\$'000	2002 HK\$'000 (Restated)
Turnover	4	519,411	602,518
Cost of sales		(343,433)	(383,413)
Gross profit		175,978	219,105
Other operating income	5	6,973	8,418
Distribution costs		(26,788)	(40,088)
Administrative expenses		(58,332)	(64,079)
Other operating expenses		(6,787)	(7,099)
Profit from operations	6	91,044	116,257
Finance costs	7	(43)	(109)
Gain on disposal of subsidiaries	26	508	1,647
Profit before taxation		91,509	117,795
Taxation	9	(9,544)	(13,412)
Profit before minority interests		81,965	104,383
Minority interests		(374)	(1,304)
Net profit for the year		82,339	105,687
Dividends	10	113,062	59,906
Earnings per share	11		
– Basic		21.9 cents	28.4 cents
– Diluted		21.6 cents	27.9 cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2003

	NOTES	2003 HK\$'000	2002 HK\$'000 (Restated)
Non-current Assets			
Investment property	12	2,500	2,900
Property, plant and equipment	13	237,737	247,474
Loan receivable	14	20,982	–
Goodwill	15	1,784	2,294
		263,003	252,668
Current Assets			
Inventories	18	82,511	71,592
Debtors, deposits and prepayments	19	157,106	149,979
Taxation recoverable		215	10
Other investment	20	–	3,760
Pledged bank deposits		18,037	10,895
Bank balances and cash		174,128	204,769
		431,997	441,005
Current Liabilities			
Creditors and accrued charges	21	95,360	91,610
Taxation payable		10,439	9,588
Bank borrowing, secured		–	1,540
		105,799	102,738
Net Current Assets		326,198	338,267
Total Assets less Current Liabilities		589,201	590,935
Capital and Reserves			
Share capital	22	37,687	37,441
Reserves		540,331	542,628
		578,018	580,069
Minority Interests		3,137	3,511
Non-current Liabilities			
Deferred tax liabilities	25	8,046	7,355
		589,201	590,935

The financial statements on pages 21 to 57 were approved and authorised for issue by the Board of Directors on 16th April, 2004 and are signed on its behalf by:

Ng Hoi Ying, Michael
DIRECTOR

Ng Kim Ying
DIRECTOR

BALANCE SHEET

At 31st December, 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Non-current Assets			
Investments in subsidiaries	16	130,719	130,719
Amount due from a subsidiary	17	163,154	151,112
		293,873	281,831
Current Assets			
Prepayments		236	91
Dividend receivable		60,000	40,000
Taxation recoverable		71	–
Bank balances and cash		418	629
		60,725	40,720
Current Liabilities			
Creditors and accrued charges		298	1,182
Amount due to a subsidiary		2	–
		300	1,182
Net Current Assets		60,425	39,538
Total Assets less Current Liabilities		354,298	321,369
Capital and Reserves			
Share capital	22	37,687	37,441
Reserves	24	316,611	283,928
		354,298	321,369

Ng Hoi Ying, Michael
DIRECTOR

Ng Kim Ying
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2003

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Goodwill reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 2002							
– as originally stated	35,345	75,464	(3,269)	(1,006)	743	400,168	507,445
– prior year adjustment (note 2)	–	–	–	–	–	(6,571)	(6,571)
– as restated	35,345	75,464	(3,269)	(1,006)	743	393,597	500,874
Exchange differences arising on translation of financial statements of operations outside Hong Kong and loss not recognised in the consolidated income statement	–	–	–	–	(43)	–	(43)
Realised upon disposal of subsidiaries	–	–	–	–	(115)	–	(115)
Issue of shares upon subscription of shares (note 22)	1,850	29,600	–	–	–	–	31,450
Share issue expenses	–	(240)	–	–	–	–	(240)
Issue of shares upon exercise of share options	246	1,919	–	–	–	–	2,165
Net profit for the year	–	–	–	–	–	105,687	105,687
Dividends paid	–	–	–	–	–	(59,709)	(59,709)
At 31st December, 2002	37,441	106,743	(3,269)	(1,006)	585	439,575	580,069
Exchange differences arising on translation of financial statements of operations outside Hong Kong and loss not recognised in the consolidated income statement	–	–	–	–	(115)	–	(115)
Realised upon disposal of subsidiaries	–	–	–	6	38	–	44
Issue of shares upon exercise of share options	246	1,919	–	–	–	–	2,165
Net profit for the year	–	–	–	–	–	82,339	82,339
Dividends paid	–	–	–	–	–	(86,484)	(86,484)
At 31st December, 2003	37,687	108,662	(3,269)	(1,000)	508	435,430	578,018

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 goodwill reserve at the balance sheet date comprises HK\$1,173,000 (2002: HK\$1,179,000) and HK\$173,000 (2002: HK\$173,000) in respect of goodwill and negative goodwill respectively.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2003

NOTE	2003 HK\$'000	2002 HK\$'000
Operating activities		
Profit from operations	91,044	116,257
Adjustments for:		
Depreciation and amortisation of property, plant and equipment	44,696	46,147
Amortisation of goodwill	510	255
Gain on disposal of other investment	(46)	(200)
Loss on disposal of property, plant and equipment	1,774	1,121
Unrealised holding loss on other investment	–	380
Revaluation decrease in investment property	400	–
Impairment loss recognised in respect of property, plant and equipment	1,400	–
Interest income	(1,766)	(2,017)
Dividend income from other investment	(76)	(66)
Operating cash flows before movements in working capital	137,936	161,877
(Increase) decrease in inventories	(10,989)	13,990
Increase in debtors, deposits and prepayments	(9,680)	(40,068)
Increase in creditors and accrued charges	4,250	11,428
Effect on foreign exchange rate changes	(115)	(43)
Cash generated from operations	121,402	147,184
Hong Kong Profits Tax paid	(7,609)	(13,749)
Net cash from operating activities	113,793	133,435
Investing activities		
Purchase of property, plant and equipment	(39,142)	(49,012)
Increase in loan receivable	(20,982)	–
Increase in pledged bank deposits	(7,142)	(1,914)
Proceeds from disposal of other investment	3,806	4,780
Disposal of subsidiaries	2,172	445
Interest received	1,766	2,017
Proceeds from disposal of property, plant and equipment	914	741
Dividend received from other investment	76	66
Acquisition of additional interests in subsidiaries	–	(4,680)
Purchase of other investment	–	(4,140)
Net cash used in investing activities	(58,532)	(51,697)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2003

	2003 HK\$'000	2002 <i>HK\$'000</i>
Financing activities		
Dividends paid	(86,484)	(59,709)
Repayment of bank loans	(1,540)	–
Interest paid	(43)	(109)
Proceeds from issue of shares	2,165	33,615
New bank borrowing raised	–	1,540
Shares issue expenses paid	–	(240)
Net cash used in financing activities	(85,902)	(24,903)
Net (decrease) increase in cash and cash equivalents	(30,641)	56,835
Cash and cash equivalents at the beginning of the year	204,769	147,934
Cash and cash equivalents at the end of the year	174,128	204,769
Being:		
Bank balances and cash	174,128	204,769

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

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").

Pursuant to a resolution passed at the annual general meeting of the Company held on 28th May, 2003, the Company adopted 雅視光學集團有限公司 as its Chinese corporate name.

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted for the first time the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes
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The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. As a result of this change in policy, the balance of retained profits at 1st January, 2002 has been decreased by HK\$6,571,000, which is the cumulative effect of the change in policy on the results for periods prior to 1st January, 2002. The effect of the change is a decrease in profit for the year ended 31st December, 2003 of HK\$691,000 (2002: increase in profit of HK\$16,000). The deferred tax liabilities at 31st December, 2002 have been increased by HK\$6,555,000, which is the cumulative effect of the change in policy on the deferred tax liabilities as at 31st December, 2002.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

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, amortisation and accumulated impairment losses.

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.

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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition of subsidiaries prior to 1st January, 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill arising on acquisition of subsidiaries after 1st January, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition of subsidiaries prior to 1st January, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisition of subsidiaries after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost 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, 2003***3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**Taxation (Continued)**

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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 assets and liabilities of subsidiaries denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. All exchange differences arising on consolidation are classified as equity and transferred to exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit costs

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. SEGMENT INFORMATION

Turnover

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

Business segments

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

Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China.

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

For the year ended 31st December, 2003

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
Turnover					
External sales	208,009	227,279	61,208	22,915	519,411
Result					
Segment result	44,707	45,063	(529)	3,777	93,018
Unallocated corporate expenses					(3,862)
Dividend income from other investment					76
Gain on disposal of other investment					46
Interest income on bank deposits					1,766
Profit from operations					91,044
Finance costs					(43)
Gain on disposal of subsidiaries					508
Profit before taxation					91,509
Taxation					(9,544)
Profit before minority interests					81,965
Minority interests					(374)
Net profit for the year					82,339

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

At 31st December, 2003

Balance sheet

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets					
Segment assets	87,387	75,183	12,921	13,037	188,528
Unallocated corporate assets					506,472
					695,000
Unallocated corporate liabilities					113,845

Other information

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	–	–	–	–	39,142	39,142
Depreciation and amortisation of property, plant and equipment	–	–	–	–	44,696	44,696
Other non-cash expenses	–	–	–	–	4,084	4,084

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

For the year ended 31st December, 2002

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000 (Restated)
Turnover					
External sales	249,420	243,190	76,648	33,260	602,518
Result					
Segment result	60,485	57,278	(6,587)	7,789	118,965
Unallocated corporate expenses					(4,991)
Dividend income from other investment					66
Gain on disposal of other investment					200
Interest income on bank deposits					2,017
Profit from operations					116,257
Finance costs					(109)
Gain on disposal of subsidiaries					1,647
Profit before taxation					117,795
Taxation					(13,412)
Profit before minority interests					104,383
Minority interests					(1,304)
Net profit for the year					105,687

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

4. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

At 31st December, 2002

Balance sheet

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets					
Segment assets	68,341	79,625	15,723	8,038	171,727
Unallocated corporate assets					521,946
					693,673
Unallocated corporate liabilities					110,093

Other information

	Europe <i>HK\$'000</i>	United States <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Other regions <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	-	-	-	-	49,012	49,012
Depreciation and amortisation of property, plant and equipment	-	-	-	-	46,147	46,147
Other non-cash expenses	-	-	-	-	1,756	1,756

5. OTHER OPERATING INCOME

Included in other operating income are:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Dividend income from other investment	76	66
Gain on disposal of other investment	46	200
Property rental income less negligible outgoings	376	398
Interest income on bank deposits	1,766	2,017
Sales of scrap materials	3,184	3,654

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

6. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,050	1,200
Amortisation of goodwill (charged to other operating expenses)	510	255
Depreciation and amortisation of property, plant and equipment	44,696	46,147
Impairment loss recognised in respect of property, plant and equipment (Note)	1,400	–
Loss on disposal of property, plant and equipment	1,774	1,121
Operating lease rentals in respect of rented premises	10,507	13,324
Revaluation decrease in investment property	400	–
Unrealised holding loss on other investment	–	380
Staff costs		
– Directors' emoluments (note 8)		
– Current year (net of amount waived in respect of 2003 and 2002)	2,519	2,438
– Amount waived in respect of 2002 and 2001	(597)	(662)
	1,922	1,776
– Other staff		
– Salaries and other allowances	98,426	94,776
– Retirement benefit scheme contributions net of forfeited contribution of HK\$268,000 (2002: HK\$127,000)	908	890
	101,256	97,442

Note:

The directors of the Company have reviewed the carrying amounts of the assets of the Group as at 31st December, 2003 and have determined to recognise the impairment loss amounting to HK\$1,400,000 in respect of a leasehold property with reference to the recoverable amount of such property.

7. FINANCE COSTS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The directors' emoluments are analysed as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	264	264
	264	264
Other emoluments paid to executive directors:		
Salaries and other benefits (net of amount waived as shown in (a) below)	2,159	1,435
Performance related incentive payments	–	662
Retirement benefit scheme contributions (net of amount waived as shown in (a) below)	96	77
	2,255	2,174
	2,519	2,438

During the year ended 31st December, 2003, the executive directors waived part of their emoluments as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
(a) Amounts waived in respect of the year ended 31st December, 2003 and 2002, respectively		
Salaries and other benefits	1,265	1,600
Retirement benefit scheme contributions	59	60
	1,324	1,660
(b) Amount waived in respect of the year ended 31st December, 2002 and 2001, respectively		
Performance related incentive payments	597	662

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

8. 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 was approximately HK\$221,000 (2002: HK\$254,000).

The emoluments of the directors, including the estimated rental values for the rent-free accommodation and excluding the emoluments waived as shown in note 8(a) and (b), were within the following bands:

	2003 Number of directors	2002 Number of directors
Nil to HK\$1,000,000	6	4
HK\$1,000,001 to HK\$1,500,000	–	1

Highest paid employees

The five highest paid individuals of the Group included two (2002: one) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2002: four) highest paid employees, other than directors of the Company, are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	2,124	2,794
Performance related incentive payments	–	754
Retirement benefit scheme contributions	96	126
	2,220	3,674

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

	2003 Number of employees	2002 Number of employees
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	–	1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

9. TAXATION

	2003	2002
	HK\$'000	<i>HK\$'000</i>
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	9,184	13,320
– (Over)under provision in respect of prior years	(331)	108
	8,853	13,428
Deferred taxation (<i>note 25</i>)		
Current year	2	(16)
Attributable to a change in tax rate	689	–
	691	(16)
	9,544	13,412

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/2004. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st December, 2003.

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.

In 2002, the Inland Revenue Department (the "IRD") had tax disputes with certain subsidiaries of the Company and had issued notices of additional assessments in respect of prior years to those subsidiaries. This matter was finalised with the IRD during the current financial year. The resulting additional tax charge of HK\$2,700,000, which had been provided for in 2002, was paid during the year.

Details of the deferred taxation are set out in note 25.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

9. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	91,509	117,795
Tax at the Hong Kong Profits Tax rate of 17.5% (2002: 16%)	16,014	18,847
Tax effect of expenses not deductible for tax purpose	2,701	2,141
Tax effect of income not taxable for tax purpose	(9,996)	(10,627)
(Over)under provision in respect of prior years	(331)	108
Additional tax charge to certain subsidiaries in respect of prior years	–	2,700
Tax effect of tax losses and other deductible temporary differences for current year not recognised	1,984	3,264
Utilisation of tax losses and other deductible temporary differences for prior years previously not recognised	(404)	(283)
Increase in opening deferred tax liabilities resulting from an increase in tax rate	689	–
Effect of different tax rates of operations in other jurisdictions	(921)	(1,561)
Others	(192)	(1,177)
Tax expense for the year	9,544	13,412

10. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim dividend paid in respect of 2003 of 8 cents (2002: 8 cents) per share	30,150	29,953
First special dividend paid in respect of 2003 of 7 cents (2002: Nil) per share	26,381	–
Final dividend proposed in respect of 2003 of 8 cents (2002: 8 cents) per share	30,150	29,953
Second special dividend proposed in respect of 2003 of 7 cents (2002: Nil) per share	26,381	–
	113,062	59,906

The final dividend and second special dividend in respect of 2003 of 8 cents and 7 cents (2002: 8 cents and nil) per share respectively have been proposed by the directors and are subject to approval by the shareholders in the forthcoming annual general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Earnings for the purposes of basic and diluted earnings per share – Net profit for the year	82,339	105,687
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	375,394,000	371,699,863
Effect of dilutive potential shares in respect of share options	5,397,075	6,978,197
Weighted average number of shares for the purpose of diluted earnings per share	380,791,075	378,678,060

12. INVESTMENT PROPERTY

	THE GROUP <i>HK\$'000</i>
VALUATION	
At 1st January, 2003	2,900
Revaluation decrease	(400)
At 31st December, 2003	2,500

The investment property was revalued at 31st December, 2003 by Vigers Appraisal & Consulting 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 consolidated income statement.

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

The investment property is leased out under operating leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Buildings under construction <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
COST							
At 1st January, 2003	173,317	40,794	218,262	36,030	7,924	2,858	479,185
Additions	415	4,265	25,585	2,283	249	6,345	39,142
Disposals	-	(5,186)	(1,951)	(831)	(524)	-	(8,492)
Disposal of subsidiaries	-	-	-	(121)	-	-	(121)
Reclassification	2,272	-	-	-	-	(2,272)	-
At 31st December, 2003	176,004	39,873	241,896	37,361	7,649	6,931	509,714
DEPRECIATION AND AMORTISATION							
At 1st January, 2003	27,637	30,778	146,294	22,906	4,096	-	231,711
Provided for the year	6,163	6,002	26,087	5,212	1,232	-	44,696
Impairment loss recognised	1,400	-	-	-	-	-	1,400
Eliminated on disposals	-	(3,141)	(1,638)	(501)	(524)	-	(5,804)
Eliminated on disposal of subsidiaries	-	-	-	(26)	-	-	(26)
At 31st December, 2003	35,200	33,639	170,743	27,591	4,804	-	271,977
NET BOOK VALUES							
At 31st December, 2003	140,804	6,234	71,153	9,770	2,845	6,931	237,737
At 31st December, 2002	145,680	10,016	71,968	13,124	3,828	2,858	247,474

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's property interests shown above comprise:

	Leasehold properties		Buildings under construction	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Properties situated in the People's Republic of China other than Hong Kong (the "PRC") held under medium-term leases	128,552	131,444	6,931	2,858
Properties situated in Hong Kong held under medium-term leases	12,252	14,236	–	–
	140,804	145,680	6,931	2,858

14. LOAN RECEIVABLE

The amount is secured, bears interest at market rate and will not be repaid within the next twelve months from the balance sheet date and, accordingly, the amount is shown as non-current.

15. GOODWILL

	THE GROUP HK\$'000
COST	
At 1st January, 2003 and at 31st December, 2003	2,549
AMORTISATION	
At 1st January, 2003	255
Provided for the year	510
At 31st December, 2003	765
NET BOOK VALUE	
At 31st December, 2003	1,784
At 31st December, 2002	2,294

Goodwill is amortised over a period of five years on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Unlisted shares (<i>Note</i>)	130,719	130,719

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, 2003 are set out in note 34.

17. 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.

18. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Raw materials	25,427	22,224
Work in progress	48,434	36,029
Finished goods	8,650	13,339
	82,511	71,592

There are inventories of HK\$4,574,000 (2002: HK\$12,979,000) carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

19. 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\$138,219,000 (2002: HK\$131,302,000), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Current	110,025	100,793
1 to 90 days overdue	25,925	29,452
More than 90 days overdue	2,269	1,057
	138,219	131,302

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

20. OTHER INVESTMENT

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Equity securities:		
Listed – Hong Kong, at market value	–	3,760

21. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$71,224,000 (2002: HK\$56,056,000), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Current to 90 days overdue	69,629	54,144
More than 90 days overdue	1,595	1,912
	71,224	56,056

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

22. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
<i>Authorised:</i>		
At beginning and at end of the years 2002 and 2003	1,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1st January, 2002	353,450,000	35,345
Issue of shares upon subscription of shares (Note)	18,500,000	1,850
Issue of shares upon exercise of share options	2,460,000	246
At 31st December, 2002	374,410,000	37,441
Issue of shares upon exercise of share options	2,460,000	246
At 31st December, 2003	376,870,000	37,687

Note:

Pursuant to an agreement dated 12th January, 2002 entered into among the Company, Universal Honour Developments Limited ("Universal Honour"), a then substantial shareholder of the Company, and Templeton Strategic Emerging Markets Fund LDC ("Templeton"), Universal Honour sold 28,500,000 shares of HK\$0.10 each in the Company at the price of HK\$1.70 per share to Templeton and Universal Honour subscribed for 18,500,000 shares of HK\$0.10 each issued by the Company at the price of HK\$1.70 per share. The above transactions were completed in January 2002.

23. SHARE OPTIONS

At the annual general meeting of the Company held on 28th May, 2003, the Company's share option scheme adopted on 24th October, 1996 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted in order to comply with the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to share option scheme.

Old Share Option Scheme

Under the Old Share Option Scheme, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

23. SHARE OPTIONS (Continued)

Old Share Option Scheme (Continued)

The maximum number of shares in respect of which options may be granted under the Old 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 Old Share Option Scheme. HK\$1 is payable by each eligible employee upon acceptance of the share options. No further share options can be granted upon termination of the Old Share Option Scheme but the existing outstanding share options will continue to be valid and exercisable in accordance with the provisions of the Old Share Option Scheme.

A summary of the movements in share options which were granted under the Old Share Option Scheme to certain eligible employees of the Group on 7th July, 2000 is as follows:

	Number of share options					
	Outstanding at 1st January, 2002	Exercised during 2002	Outstanding at 31st December, 2002	Exercised during 2003	Lapsed during 2003	Outstanding at 31st December, 2003
Category: Directors	5,050,000	(1,010,000)	4,040,000	(1,010,000)	–	3,030,000
Category: Employees	8,400,000	(1,450,000)	6,950,000	(1,450,000)	(1,150,000)	4,350,000
Total all categories	13,450,000	(2,460,000)	10,990,000	(2,460,000)	(1,150,000)	7,380,000

The above share options are exercisable between 7th July, 2000 and 23rd October, 2006 at an exercise price of HK\$0.88 per share as follows:

Exercisable period	Maximum % of share options exercisable
7th July, 2000 to 6th July 2001	Up to 40%
7th July, 2001 to 6th July 2002	Up to 50%
7th July, 2002 to 6th July 2003	Up to 60%
7th July, 2003 to 6th July 2004	Up to 70%
7th July, 2004 to 6th July 2005	Up to 80%
7th July, 2005 to 23rd October, 2006	Up to 100%

Total consideration received from employees, including directors, for the options exercised during the year amounted to approximately HK\$2,165,000 (2002: HK\$2,165,000). The closing price of the Company's shares on the date on which the share options were exercised was HK\$2.25 (2002: HK\$1.75).

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31st December, 2003***23. SHARE OPTIONS (Continued)****New Share Option Scheme**

The purpose of the New Share Option Scheme is to attract and retain high calibre employees, and to motivate them towards higher levels of performance. Under the New Share Option Scheme, the board of directors of the Company shall be entitled to, in its absolute discretion, grant options to eligible employees, including executive directors or chief executive of the Company or any of its subsidiaries, to subscribe for shares in the Company at a price which shall be the highest of (i) the closing price of the Company's shares quoted on the Stock Exchange on the date of offer of the share options; (ii) the average of the closing prices of the Company's shares quoted on the Stock Exchange on the five trading days immediately preceding the date of offer of the share options; and (iii) the nominal value of the shares. The New Share Option Scheme will expire on 27th May, 2013.

An option may be exercised at any time during the period to be determined and notified by the board of directors to the grantee. Such period may commence on the date after the date of acceptance of such option to ten years from the date of acceptance of that option. A consideration of HK\$1 is payable upon acceptance of the offer.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and any other share option scheme established by the Company, if any, is 37,441,000, representing 10% of the issued share capital of the Company at the date of approval of the New Share Option Scheme. The total maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme, if any, shall not exceed 30% of the issued share capital of the Company from time to time.

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

The financial impact of the share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

24. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1st January, 2002	75,464	105,369	58,709	239,542
Issue of shares upon subscription of shares (<i>note 22</i>)	29,600	–	–	29,600
Shares issue expenses	(240)	–	–	(240)
Issue of shares upon exercise of share options	1,919	–	–	1,919
Net profit for the year	–	–	72,816	72,816
Dividends paid	–	–	(59,709)	(59,709)
At 31st December, 2002	106,743	105,369	71,816	283,928
Issue of shares upon exercise of share options	1,919	–	–	1,919
Net profit for the year	–	–	117,248	117,248
Dividends paid	–	–	(86,484)	(86,484)
At 31st December, 2003	108,662	105,369	102,580	316,611

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, 2003

25. DEFERRED TAX LIABILITIES

The following are the major deferred tax (liabilities) assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Other temporary difference <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2002				
– as originally stated	(800)	–	–	(800)
– adjustment on adoption of SSAP 12 (Revised)	(7,796)	319	906	(6,571)
– as restated	(8,596)	319	906	(7,371)
Credit (charge) to consolidated income statement for the year	490	(319)	(155)	16
At 31st December, 2002	(8,106)	–	751	(7,355)
Credit (charge) to consolidated income statement for the year	348	–	(350)	(2)
Effect of change in tax rate	(759)	–	70	(689)
At 31st December, 2003	(8,517)	–	471	(8,046)

At 31st December, 2003, the Group has unused tax losses of HK\$27,892,000 (2002: HK\$24,074,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$16,232,000 (2002: HK\$10,436,000) that will expire from 2004 to 2008. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK\$14,478,000 (2002: HK\$12,647,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

26. DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 <i>HK\$'000</i>
NET ASSETS (LIABILITIES) DISPOSED OF		
Property, plant and equipment	95	37
Inventories	70	748
Debtors, deposits and prepayments	2,553	273
Bank balances and cash	8,282	54
Creditors and accrued charges	(500)	(1,807)
Taxation payable	(598)	–
Minority interests	–	(338)
Net assets (liabilities) disposed of	9,902	(1,033)
Attributable goodwill	6	–
Exchange reserve released	38	(115)
	9,946	(1,148)
Gain on disposal	508	1,647
Cash consideration	10,454	499
Net cash inflow arising on disposal:		
Cash consideration received	10,454	499
Bank balances and cash disposed of	(8,282)	(54)
	2,172	445

The subsidiaries disposed of during the year did not have any significant impact on the Group's cash flows or operating results.

27. MAJOR NON-CASH TRANSACTION

The Group had no major non-cash transaction during the year ended 31st December, 2003.

In 2002, loan from a minority shareholder amounting to HK\$6,492,000 was assigned by the minority shareholder to the Group as part of the arrangement for the acquisition by the Group of additional interest in a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

28. RETIREMENT BENEFIT SCHEME

The Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for its 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 to the MPF Scheme is to make the required contributions under the scheme.

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

At the balance sheet date, forfeited contributions of HK\$9,300 are available to reduce future contributions (2002: Nil).

29. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	7,630	8,300
In the second to fifth year inclusive	18,962	13,854
Over five years	2,148	–
	28,740	22,154

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

The Company had no operating lease commitments at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

29. OPERATING LEASE ARRANGEMENTS (Continued)

The Group as lessor:

Property rental income earned during the year was HK\$376,000 (2002: HK\$398,000). The properties held at the balance sheet date have committed tenants for an average term of two years.

	THE GROUP	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Within one year	276	308
In the second to fifth year inclusive	230	–
	506	308

30. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	4,336	1,132
– leasehold improvements	1,946	1,641
– plant and machinery	924	6,492
– furniture, fixtures and office equipment	83	–
	7,289	9,265

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

31. CONTINGENT LIABILITIES

THE GROUP

	2003 HK\$'000	2002 <i>HK\$'000</i>
Bills discounted with recourse	3,310	–

At 31st December, 2003, the Group had given a corporate guarantee in favour of a financial institution to secure general credit facilities to the extent of HK\$9,750,000 (2002: Nil). The extent of facilities utilised at 31st December, 2003 amounted to approximately HK\$9,750,000 (2002: Nil).

Details of a corporate guarantee given by the Group in favour of the minority shareholder of a subsidiary are set out in note 33.

THE COMPANY

At 31st December, 2003, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$111,130,000 (2002: HK\$119,130,000) granted to its subsidiaries. Other than the bills discounted with recourse amounting to HK\$3,310,000 as stated above, there was no outstanding balance of banking facilities utilised by the subsidiaries at 31st December, 2003 (2002: HK\$1,540,000).

32. PLEDGE OF ASSETS

At 31st December, 2003, leasehold properties with an aggregate net book value amounting to approximately HK\$12,252,000 (2002: HK\$14,236,000) and bank deposits of approximately HK\$18,037,000 (2002: HK\$10,895,000) were pledged to banks to secure short term banking facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

33. RELATED PARTY TRANSACTIONS

	Note	A related company (note 2)	
		2003 HK\$'000	2002 HK\$'000
Sales of goods	1	–	2,167

Notes:

1. These transactions were carried out at prices agreed by the parties concerned.
2. The related company is a wholly owned subsidiary of the then minority shareholder of a subsidiary.

In addition to the above, at the balance sheet dates, 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\$962,000) 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\$1,887,000) granted to this subsidiary. No such facilities were utilised by the aforesaid subsidiary as at 31st December, 2002 and 2003.

34. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2003

34. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued ordinary shares/ contributed capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Arts 1000 Optical Company Limited	British Virgin Islands/PRC	US\$1	–	100%	Retailing of optical frames
Arts Optical Company Limited	Hong Kong	HK\$1,000,000	–	100%	Trading in optical frames
Sin Dak Industrial Limited	Hong Kong	HK\$40,000	–	100%	Property holding
Eyeconcept Limited (Formerly known as Fone Limited)	Hong Kong	HK\$100	–	100%	Trading in optical frames
深圳北方光學實業有限公司 (Shenzhen North Optical Industrial Company Limited)	PRC	HK\$17,675,600	–	51% (Note)	Manufacture of and trading in optical lenses

Note: This subsidiary is registered as a sino-foreign equity joint venture company.

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 debt securities subsisting at 31st December, 2003 or at any time during the year.

FINANCIAL SUMMARY

RESULTS

	Year ended 31st December,				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000 (Restated)	
TURNOVER	469,806	602,542	547,012	602,518	519,411
PROFIT BEFORE TAXATION	87,137	126,778	109,914	117,795	91,509
TAXATION	(6,651)	(9,816)	(9,766)	(13,412)	(9,544)
PROFIT BEFORE MINORITY INTERESTS	80,486	116,962	100,148	104,383	81,965
MINORITY INTERESTS	(200)	(4,734)	(2,304)	(1,304)	(374)
NET PROFIT FOR THE YEAR	80,686	121,696	102,452	105,687	82,339

ASSETS AND LIABILITIES

	31st December,				2003 HK\$'000
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000 (Restated)	
TOTAL ASSETS	468,351	581,629	607,503	693,673	695,000
TOTAL LIABILITIES	(102,607)	(124,723)	(99,266)	(110,093)	(113,845)
MINORITY INTERESTS	(7,565)	(2,831)	(792)	(3,511)	(3,137)
SHAREHOLDERS' FUNDS	358,179	454,075	507,445	580,069	578,018

Note: The above financial summary prior to 2002 has not been adjusted to take into account the effect on the adoption of SSAP 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants as the directors considered that it is not practicable to do so.