



Arts Group
Arts Optical International Holdings Limited

annual report 2004



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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
WONG Chi Wai
CHUNG Hil Lan Eric

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

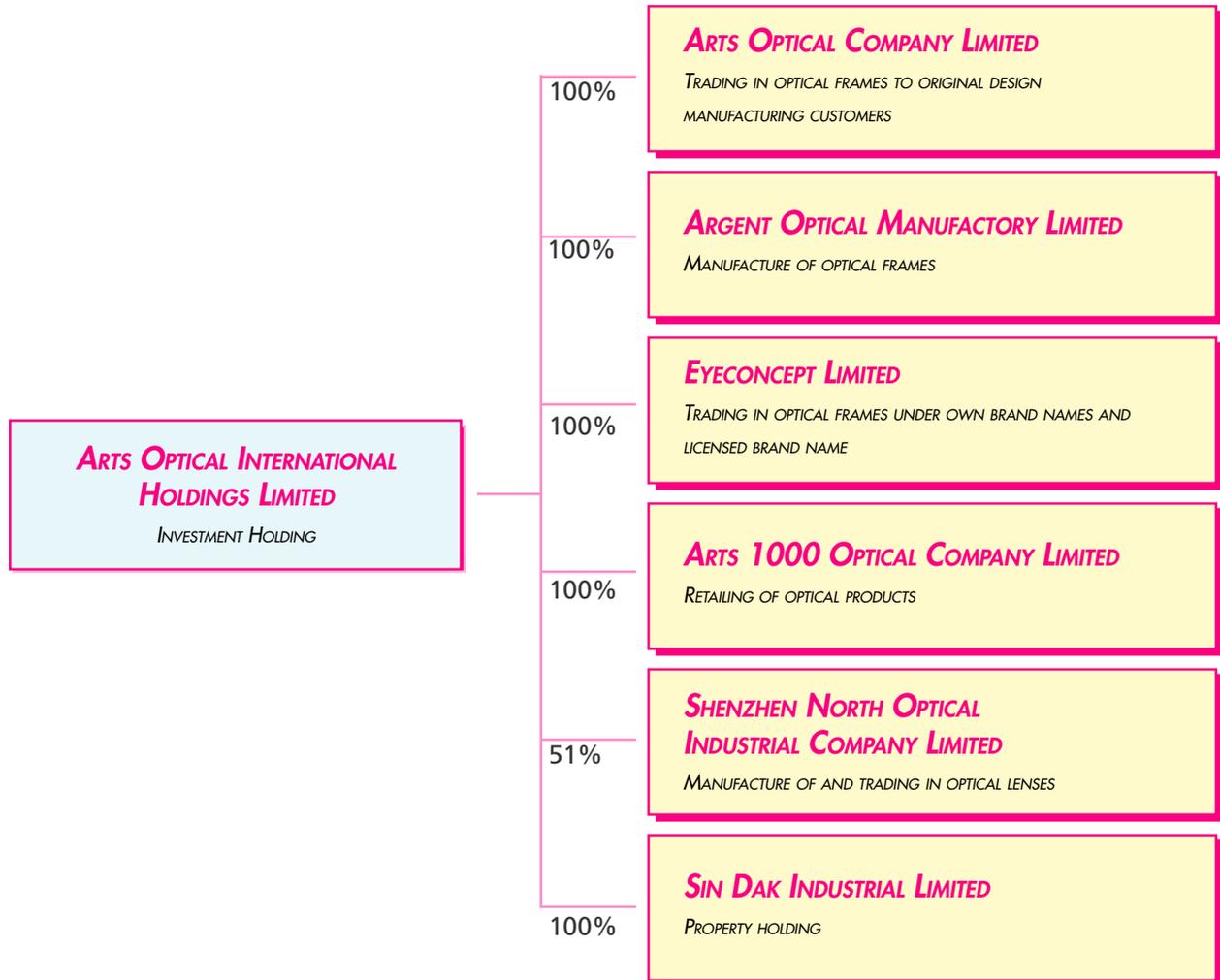
HONG KONG BRANCH SHARE REGISTRAR

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

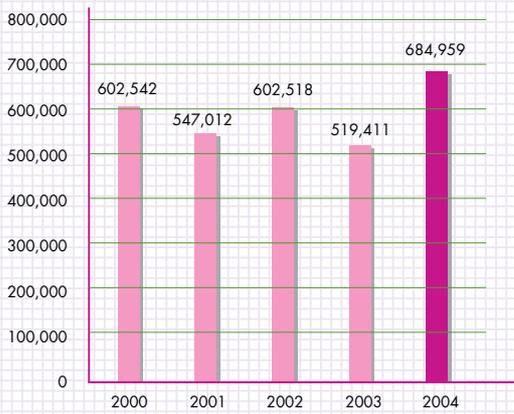
PRINCIPAL BANKERS

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

GROUP STRUCTURE



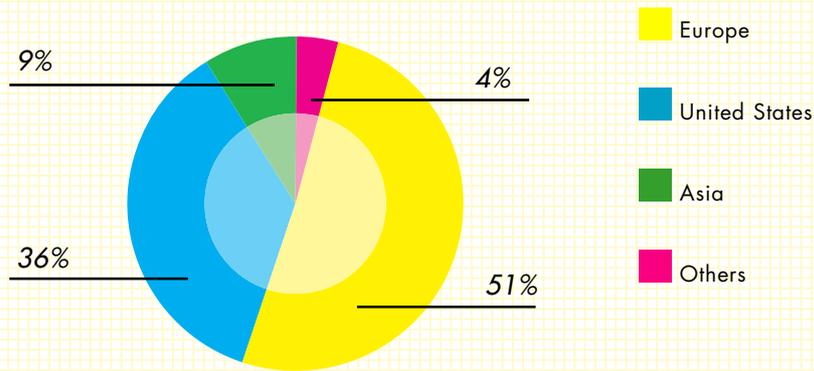
Consolidated turnover (HK\$'000)



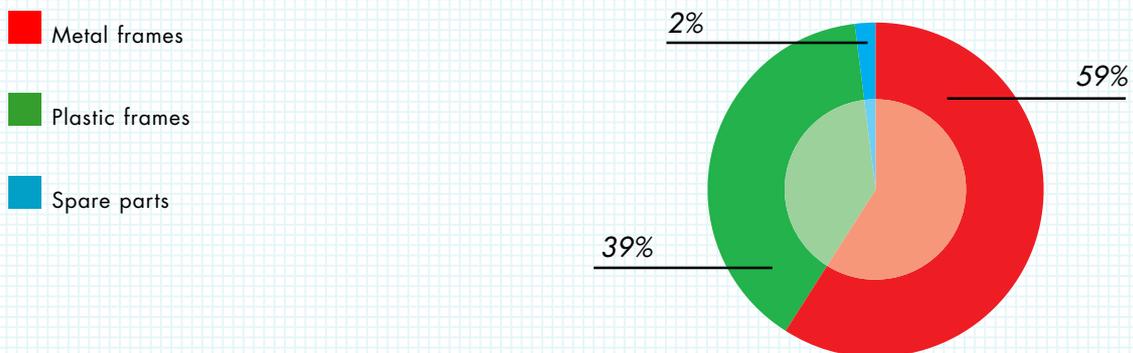
Net profit for the year (HK\$'000)



Consolidated turnover by geographical locations in 2004



Turnover of ODM division by product range in 2004





Arts Group



SUMMARY OF RESULTS

The Group's consolidated turnover and net profit increased by 32% and 24% to HK\$685.0 million (2003: HK\$519.4 million) and HK\$102.4 million (2003: HK\$82.3 million) respectively in 2004. Basic earnings per share increased by 24% to 27.1 cents (2003: 21.9 cents) in 2004.

Increase in production costs arising from higher raw material prices, labour wages and energy prices had fully offset the positive effects of economies of scale. The gross margin of the Group therefore decreased from 33.9% in 2003 to 33.3% in 2004. Nominal average selling prices remained relatively flat despite the increase in complexity of the products. Substantial capital and human resources investments were also made by the Group in the areas of product design and development as well as the application of new production technology in order to differentiate itself from other optical manufacturers. Net profit margin therefore also decreased from 15.9% in 2003 to 15.0% in 2004.

DIVIDENDS

The Directors have resolved to recommend a final dividend of 9 cents per share for the year ended 31st December, 2004. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 27th May, 2005, the final dividend will be payable on 7th June, 2005 to shareholders whose names appear on the register of members of the Company on 27th May, 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24th May, 2005 to 27th May, 2005, 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 23rd May, 2005 in order to qualify for the proposed final dividend mentioned above.

BUSINESS REVIEW

Original design manufacturing (ODM) division

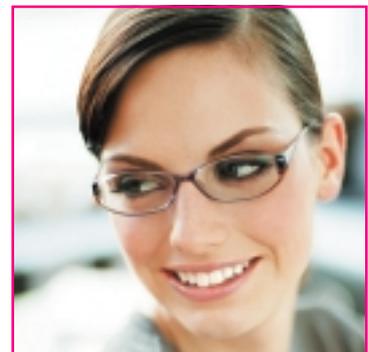
Sales to ODM customers increased by 34% from HK\$460.6 million in 2003 to HK\$616.8 million in 2004. The relatively strong performance of this division was due to the rebound in consumer confidence after the war in the Middle East in 2003 and the strengthening of Euro against United States dollars. Europe and the United States remained as the main export markets of the Group's ODM division and sales to these regions increased by 67% and 8% to HK\$326.2 million and HK\$243.2 million respectively in 2004 (2003: HK\$194.9 million and HK\$225.1 million respectively). On a geographical basis, sales to Europe, United States, Asia and other regions accounted for 53%, 39%, 5% and 3% respectively of the sales of this division in 2004 (2003: 42%, 49%, 5% and 4% respectively). Sales of prescription frames and sunglasses grew by 16% and 85% to HK\$390.1 million and HK\$214.4 million respectively (2003: HK\$335.4 million and HK\$116.1 million respectively). Sunglasses registered a much higher rate of growth as sales of sunglasses was more sensitive to economic performance of the Group's export markets. Sales of metal frames, plastic frames and spare parts accounted for 59%, 39% and 2% respectively of the Group's turnover of ODM business in 2004 (2003: 70%, 28% and 2% respectively).

Distribution division

Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) increased by 54% to HK\$46.5 million in 2004 (2003: HK\$30.1 million). Products carrying the house brand of "STEPPER" and licensed brand of "FIORUCCI" were distributed by appointed distributors in more than 30 countries. Sales to Europe, North America, Asia and other regions accounted for 48%, 20%, 14% and 18% respectively of the Group's turnover of distribution division in 2004 (2003: 44%, 13%, 27% and 16% respectively).

Retailing division

Turnover of the retailing division decreased by 24% to HK\$21.7 million in 2004 (2003: HK\$28.7 million). The Group closed its retailing operations in Nanjing and Shanghai during the year and operated a total of 17 shops (2003: 27 shops) including 11 shops in Beijing and 6 shops in Shenzhen as at 31st December, 2004.



Financial position and liquidity

The current ratio of the Group as at 31st December, 2004 was 3.4 to 1 (2003: 4.1:1) with HK\$442.3 million of current assets (2003: HK\$432.0 million) and HK\$129.8 million of current liabilities (2003: HK\$105.8 million). Inventory balance increased from HK\$82.5 million as at 31st December, 2003 to HK\$119.4 million as at 31st December, 2004 in order to meet the anticipated increase in delivery requirement in the first quarter of 2005. As a result, inventory turnover period (ratio of inventory balance to cost of sales) increased from 88 days in 2003 to 95 days in 2004. Debtors turnover period (ratio of the total of debtor and discounted bills balances to sales) also increased from 99 days in 2003 to 105 days in 2004 due to the extension of trade credit terms to certain key customers of the Group.

Despite the improvement in profitability in 2004, the net cash inflow generated from the Group's operating activities decreased from HK\$113.8 million in 2003 to HK\$84.0 million in 2004, primarily due to the increase in working capital requirement, with net increase in the level of inventories and debtors less creditors increased from HK\$16.4 million in 2003 to HK\$54.7 million in 2004. A relatively higher level of capital expenditure of HK\$69.8 million (2003: HK\$39.1 million) was also incurred during 2004. Payment of the second special dividend for the year 2003 was also made in 2004. As a result of the above factors, the net cash position of the Group (bank and cash balance plus pledged bank deposit less bank borrowing, if any) decreased from HK\$192.2 million as at 31st December, 2003 to HK\$110.5 million as at 31st December, 2004. The Group did not have any interest bearing borrowings at the end of both years of 2003 and 2004.

As at 31st December, 2004, the Group had 379,130,000 shares (2003: 376,870,000 shares) in issue with a total shareholders' equity amounting to HK\$591.8 million (2003: HK\$578.0 million). Net asset value per share was HK\$1.56 (2003: HK\$1.53). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity) were HK\$10.1 million (2003: HK\$8.0 million) and 1.7% (2003: 1.4%) 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 period under review.

Contingent liabilities

	The Group	
	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	3,922	3,310

At 31st December, 2004, 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 (2003: HK\$9,750,000). The extent of facilities utilised at 31st December, 2004 amounted to approximately HK\$9,750,000 (2003: HK\$9,750,000).

At 31st December, 2003, 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, 2003. The facilities expired during the year ended 31st December, 2004.

At 31st December, 2004, the Company had given corporated guarantees in favour of banks to secure general banking facilities to the extent of HK\$120,130,000 (2003: HK\$111,130,000) granted to its subsidiaries. Other than the bills discounted with recourse amounting to HK\$3,922,000 at 31st December, 2004, (2003: HK\$3,310,000) as stated above, there was no outstanding balance of banking facilities utilised by the subsidiaries at 31st December, 2003 and 31st December, 2004.

Pledge of assets

	The Group	
	2004 HK\$'000	2003 HK\$'000
Assets pledged to banks in respect of banking facilities granted to the Group		
– leasehold properties with an aggregate net book value	–	12,252
– bank deposits	2,187	18,037
	2,187	30,289

Employees and remuneration policies

As at 31st December, 2004, the Group employed approximately 7,700 (2003: 6,400) 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

Although the demand for the Group's ODM products remains strong, the challenges facing the Group really lie on the costs side. The performance of this division depends on the ability of the Group to deal with the rising production costs. Any price adjustments to the Group's products will be modest and cannot absorb all the costs increment. Despite the fact that most customers remain bullish about the business outlook, they remain cautious in placing actual purchase orders and keep on demanding shorter delivery lead time, thereby reducing the business visibility of the division. This division currently has 3 months sales orders on hands.

Distribution division

The management expects the sales performance of the "STEPPER" brand will remain strong in 2005. Additional distributors are appointed in certain potential markets (including the United States) for this house brand. The Group has also expanded the distribution rights of the Italian fashion brand "FIORUCCI" from Asia to Europe and new collection of this brand will be launched in the optical fair in Milan in May 2005.

Retailing division

The Group intends to remain focusing on the cities of Beijing and Shenzhen for its expansion of retailing network as the regulatory infrastructure in these two cities are more sophisticated and developed. A few more shops may be added in these two cities in 2005.

Summary

In view of the challenges discussed in the above analysis, the Group will continue to follow its guiding principles of financial prudence, balance sheet management and emphasis on cash earnings. It will also constantly evaluate the impact of gross margin pressure as well as increase in working capital requirement on the Group's profitability and dividend payment capability. Despite the above, the management is cautiously optimistic in reporting a solid financial results to the shareholders in 2005.

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, 15th April, 2005

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 50, 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 37 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. Mr. Ng is the husband of Ms. Hui Pui Woon and the brother of Mr. Ng Kim Ying.

HUI Pui Woon, aged 34, 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 16 years of experience in conducting business in China, including 7 years in the optical products industry. Ms. Hui is the wife of Mr. Ng and the sister-in-law of Mr. Ng Kim Ying.

NG Kim Ying, aged 49, 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 20 years of experience in the optical products industry and is the brother of Mr. Ng and brother-in-law of Ms. Hui Pui Woon.

LEE Wai Chung, aged 38, 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 17 years of experience in accounting and auditing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Francis George MARTIN, aged 64, was formerly the President of the American Chamber of Commerce in Hong Kong and the President and Chief Executive of Security Pacific Asian Bank. Mr. Martin joined the Group in 1996 and has over 37 years of experience in the financial services industry. He was awarded the "Silver Bauhinia Star" by the Government of the Hong Kong Special Administrative Region and the "To Peace and Commerce" medal by the United States Department of Commerce in 2002 and 2005 respectively.

WONG Chi Wai, aged 39, is a Certified Public Accountant (Practising) in Hong Kong and an associate member of The Institute of Chartered Accountants in England and Wales. Mr. Wong has also been admitted as a barrister of the High Court of Hong Kong since 1998. Mr. Wong has over 16 years of experience in the accountancy profession and he currently is the owner of a certified public accountants firm, a senior consultant of another certified public accountants firm and an adviser to a law firm. Mr. Wong is an independent non-executive director of each of Bonjour Holdings Limited and Kin Yat Holdings Limited. He joined the Group in 2004.

CHUNG Hil Lan Eric, aged 40, is a Certified Public Accountant (Practising) in Hong Kong and a fellow member of The Association of Chartered Certified Accountants. He holds a Bachelor degree in Social Sciences from the University of Hong Kong. Mr. Chung has over 17 years of experience in the accountancy profession and he currently is the owner of a certified public accountants firm. He joined the Group in 2004.

SENIOR MANAGEMENT

Li Chi Hung, aged 44, 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 29 years of experience in the optical products industry.

HUNG Chao Chia, aged 52, 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 27 years of experience in the optical products industry.

WONG Kwok Leung, Alan, aged 47, 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 25 years of experience in production management, including 21 years in the optical products industry.

The directors present their annual report and the audited financial statements for the year ended 31st December, 2004.

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, 2004 are set out in the consolidated income statement on page 22.

An interim dividend of 9 cents per share amounting to HK\$34,122,000 was paid to the shareholders of the Company during the year. The directors now recommend the payment of a final dividend of 9 cents per share amounting to HK\$34,122,000 to the shareholders of the Company whose names appear on the register of members on 27th May, 2005 and the retention of the remaining profit for the year.

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, 2004	Number of underlying shares at 31st December, 2004
	Outstanding at 1st January, 2004	Exercised during the year	Lapsed during the year		
Category: Directors					
Ng Hoi Ying, Michael	1,530,000	(510,000)	–	1,020,000	1,020,000
Ng Kim Ying	450,000	(150,000)	–	300,000	300,000
Lee Wai Chung	1,050,000	(350,000)	–	700,000	700,000
	3,030,000	(1,010,000)	–	2,020,000	2,020,000
Category: Employees					
	4,350,000	(1,250,000)	(600,000)	2,500,000	2,500,000
Total all categories	7,380,000	(2,260,000)	(600,000)	4,520,000	4,520,000

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\$2.55.

As at the date of the directors' report, the number of shares available for issue under the Old Share Option Scheme in respect of 4,520,000 shares options outstanding is 4,520,000 shares, representing 1.19% 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 25 and in note 24 to the financial statements respectively.

The Company's reserves available for distribution to shareholders as at 31st December, 2004 amounted to HK\$191,624,000.

INVESTMENT PROPERTY

The investment property of the Group was revalued as at 31st December, 2004 as set out in note 12 to the financial statements. The resulting surplus arising on revaluation, which amounted to HK\$700,000, has been credited directly to the consolidated income statement.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately HK\$69,815,000.

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

Independent non-executive directors:

Francis George Martin
Wong Chi Wai (appointed on 15th September, 2004)
Chung Hil Lan Eric (appointed on 27th September, 2004)
Kwong Kam Kwan Alex (resigned on 27th September, 2004)

In accordance with Bye-laws 86(2), 87(1) and 87(2) of the Company's Bye-laws, Messrs. Ng Kim Ying, Wong Chi Wai and Chung Hil Lan Eric will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In order to fully comply with the requirements as set out in Code A4.1 of the Code on Corporate Governance Practices of the Listing Rules, Mr. Francis George Martin will also retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

DIRECTORS' INTERESTS IN CONTRACTS

Other than the transaction disclosed under the heading "Connected Transaction" below, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

At 31st December, 2004, 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	1,836,000	36,682,000 <i>(Note a)</i>	151,000,000 <i>(Note b)</i>	189,518,000	49.99%
Hui Pui Woon	36,682,000	152,836,000 <i>(Note c)</i>	–	189,518,000	49.99%
Ng Kim Ying	450,000	–	18,500,000 <i>(Note d)</i>	18,950,000	5.00%
Lee Wai Chung	1,380,000	–	–	1,380,000	0.36%

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 Trustcorp Limited ("Trustcorp") 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) 1,836,000 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 Trustcorp as trustee for The Optical 2000 Trust, a discretionary trust, the beneficiaries of which include Mr. Ng Kim Ying and his family members.

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

(continued)

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, 2004, 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' 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

On 29th January, 2004, 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 then 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, 2004, 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	7.72% (Note)
Templeton International, Inc.	29,270,000	7.72% (Note)
Templeton Worldwide, Inc.	29,270,000	7.72% (Note)
Franklin Resources, Inc.	29,270,000	7.72% (Note)
David Michael Webb	19,648,000	5.18%

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.

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, 2004.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2004, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 49% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 17% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 35% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 9% 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, 2004 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.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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. Wong Chi Wai, Chung Hil Lan Eric and Francis George Martin, all 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, Wong Chi Wai and Chung Hil Lan Eric, all 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 that meeting.

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, 15th April, 2005

Deloitte.

德勤

TO THE SHAREHOLDERS OF ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED

雅視光學集團有限公司

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 22 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 Institute of Certified Public 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, 2004 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, 15th April, 2005

	NOTES	2004 HK\$'000	2003 HK\$'000
Turnover	4	684,959	519,411
Cost of sales		(456,996)	(343,433)
Gross profit		227,963	175,978
Other operating income	5	9,830	6,973
Distribution costs		(38,540)	(26,788)
Administrative expenses		(84,105)	(58,332)
Other operating expenses		(3,191)	(6,787)
Profit from operations	6	111,957	91,044
Finance costs	7	(53)	(43)
Gain on disposal of subsidiaries		–	508
Profit before taxation		111,904	91,509
Taxation	9	(9,104)	(9,544)
Profit before minority interests		102,800	81,965
Minority interests		(352)	374
Net profit for the year		102,448	82,339
Dividends	10	68,244	113,062
Earnings per share	11		
– Basic		27.1 cents	21.9 cents
– Diluted		26.8 cents	21.6 cents

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-current Assets			
Investment property	12	3,200	2,500
Property, plant and equipment	13	254,926	237,737
Loan receivable	14	19,851	20,982
Goodwill	15	1,274	1,784
Investment securities	16	13,653	–
		292,904	263,003
Current Assets			
Inventories	19	119,360	82,511
Debtors, deposits and prepayments	20	209,328	157,106
Loan receivable	14	1,131	–
Taxation recoverable		1,980	215
Pledged bank deposits		2,187	18,037
Bank balances and cash		108,309	174,128
		442,295	431,997
Current Liabilities			
Creditors and accrued charges	21	129,709	95,360
Taxation payable		85	10,439
		129,794	105,799
Net Current Assets			
		312,501	326,198
Total Assets less Current Liabilities			
		605,405	589,201
Capital and Reserves			
Share capital	22	37,913	37,687
Reserves		553,887	540,331
		591,800	578,018
Minority Interests			
		3,489	3,137
Non-current Liability			
Deferred tax liabilities	25	10,116	8,046
		605,405	589,201

The financial statements on pages 22 to 57 were approved and authorised for issue by the Board of Directors on 15th April, 2005 and are signed on its behalf by:

Ng Hoi Ying, Michael
DIRECTOR

Ng Kim Ying
DIRECTOR

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-current Assets			
Investments in subsidiaries	17	130,719	130,719
Amount due from a subsidiary	18	174,747	163,154
		305,466	293,873
Current Assets			
Prepayments		237	236
Dividend receivable		35,000	60,000
Taxation recoverable		77	71
Bank balances and cash		618	418
		35,932	60,725
Current Liabilities			
Creditors and accrued charges		1,434	298
Amount due to a subsidiary		2	2
		1,436	300
Net Current Assets		34,496	60,425
Total Assets less Current Liabilities		339,962	354,298
Capital and Reserves			
Share capital	22	37,913	37,687
Reserves	24	302,049	316,611
		339,962	354,298

Ng Hoi Ying, Michael
 DIRECTOR

Ng Kim Ying
 DIRECTOR

	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, 2003	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
Exchange differences arising on translation of financial statements of operations outside Hong Kong and loss not recognised in the consolidated income statement	-	-	-	-	(2)	-	(2)
Issue of shares upon exercise of share options	226	1,763	-	-	-	-	1,989
Net profit for the year	-	-	-	-	-	102,448	102,448
Dividends paid	-	-	-	-	-	(90,653)	(90,653)
At 31st December, 2004	37,913	110,425	(3,269)	(1,000)	506	447,225	591,800

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 (2003: HK\$1,173,000) and HK\$173,000 (2003: HK\$173,000) in respect of goodwill and negative goodwill respectively.

	2004 HK\$'000	2003 HK\$'000
Operating activities		
Profit from operations	111,957	91,044
Adjustments for:		
Depreciation and amortisation of property, plant and equipment	47,412	44,696
Amortisation of goodwill	510	510
Revaluation (increase) decrease in investment property	(700)	400
Interest income	(706)	(1,766)
(Gain) loss on disposal of property, plant and equipment	(626)	1,774
Gain on disposal of other investment	-	(46)
Impairment loss recognised in respect of property, plant and equipment	-	1,400
Dividend income from other investment	-	(76)
Operating cash flows before movements in working capital	157,847	137,936
Increase in inventories	(36,849)	(10,989)
Increase in debtors, deposits and prepayments	(52,222)	(9,680)
Increase in creditors and accrued charges	34,349	4,250
Effect on foreign exchange rate changes	(2)	(115)
Cash generated from operations	103,123	121,402
Hong Kong Profits Tax paid	(19,153)	(7,609)
Net cash from operating activities	83,970	113,793
Investing activities		
Purchase of property, plant and equipment	(69,815)	(39,142)
Purchase of investment securities	(13,653)	-
Decrease (increase) in pledged bank deposits	15,850	(7,142)
Proceeds from disposal of property, plant and equipment	5,840	914
Interest received	706	1,766
Increase in loan receivable	-	(20,982)
Proceeds from disposal of other investment	-	3,806
Disposal of subsidiaries	-	2,172
Dividend received from other investment	-	76
Net cash used in investing activities	(61,072)	(58,532)

	2004 HK\$'000	2003 HK\$'000
Financing activities		
Dividends paid	(90,653)	(86,484)
Interest paid	(53)	(43)
Proceeds from issue of shares	1,989	2,165
Repayment of bank loans	-	(1,540)
Net cash used in financing activities	(88,717)	(85,902)
Net decrease in cash and cash equivalents	(65,819)	(30,641)
Cash and cash equivalents at the beginning of the year	174,128	204,769
Cash and cash equivalents at the end of the year	108,309	174,128
Being:		
Bank balances and cash	108,309	174,128

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

Investment properties

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

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

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

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

Property, plant and equipment

Property, plant and equipment, other than buildings under construction, are stated at cost less accumulated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

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. During the year, the Group changed the method of calculating the cost of inventories from the first-in, first-out method to the weighted average method. In the opinion of the directors, the effects of such changes in accounting method in the financial statements are insignificant. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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 taxable profit nor the accounting profit.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated 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 overseas subsidiaries are translated 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

Payments to the Group's Mandatory Provident Fund Scheme are charged as an expense as they fall due.

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.

4. SEGMENT INFORMATION (continued)

Geographical segments (continued)

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

For the year ended 31st December, 2004

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
Turnover					
External sales	348,563	246,584	59,305	30,507	684,959
Result					
Segment result	63,622	44,840	2,576	5,016	116,054
Unallocated corporate expenses					(4,803)
Interest income on bank deposits					706
Profit from operations					111,957
Finance costs					(53)
Profit before taxation					111,904
Taxation					(9,104)
Profit before minority interests					102,800
Minority interests					(352)
Net profit for the year					102,448

4. SEGMENT INFORMATION (continued)

Geographical segments (continued)

At 31st December, 2004

Balance sheet

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	139,966	90,363	18,444	17,700	266,473
Unallocated corporate assets					468,726
					735,199
Unallocated corporate liabilities					139,910

Other information

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure	-	-	-	-	69,815	69,815
Depreciation and amortisation of property, plant and equipment	-	-	-	-	47,412	47,412
Other non-cash expense	-	-	-	-	510	510

4. SEGMENT INFORMATION (continued)

Geographical segments (continued)

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

4. SEGMENT INFORMATION (continued)

Geographical segments (continued)

At 31st December, 2003

Balance sheet

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
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 HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
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

5. OTHER OPERATING INCOME

Included in other operating income are:

	2004 HK\$'000	2003 HK\$'000
Sales of scrap materials	3,815	3,184
Revaluation increase in investment property	700	–
Interest income on bank deposits	706	1,766
Gain on disposal of property, plant and equipment	626	–
Property rental income less negligible outgoings	320	376
Dividend income from other investment	–	76
Gain on disposal of other investment	–	46

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	2004 HK\$'000	2003 HK\$'000
Auditors' remuneration	1,080	1,050
Amortisation of goodwill (charged to other operating expenses)	510	510
Depreciation and amortisation of property, plant and equipment	47,412	44,696
Operating lease rentals in respect of rented premises	7,432	10,507
Impairment loss recognised in respect of property, plant and equipment	–	1,400
Loss on disposal of property, plant and equipment	–	1,774
Revaluation decrease in investment property	–	400
Staff costs		
– Directors' emoluments (note 8)	2,818	1,922
– Other staff		
– Salaries and other allowances	120,868	98,426
– Retirement benefit scheme contributions net of forfeited contribution of Nil (2003: HK\$268,000)	1,141	908
	124,827	101,256

7. FINANCE COSTS

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

8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The directors' emoluments are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	314	264
	314	264
Other emoluments paid to executive directors:		
Salaries and other benefits (net of amount waived as shown in note below)	1,953	2,159
Performance related incentive payments	463	–
Retirement benefit scheme contributions (net of amount waived as shown in note below)	88	96
	2,504	2,255
	2,818	2,519
Less: Amount waived in respect of emoluments for the year ended 31st December, 2002		
– Performance related incentive payments	–	597
	2,818	1,922

8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES (continued)**Directors' emoluments (continued)**

Note:

During the years ended 31st December, 2003 and 31st December, 2004, an executive director waived part of his emoluments as follows:

	2004 HK\$'000	2003 HK\$'000
Amounts waived in respect of emoluments for the current year		
Salaries and other benefits	1,235	1,265
Retirement benefit scheme contributions	57	59
	1,292	1,324

In addition to the above, rent-free accommodation was provided to two executive directors and the estimated rental values for the accommodation was approximately HK\$46,000 (2003: HK\$221,000).

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, were within the following bands:

	2004 Number of directors	2003 Number of directors
Nil to HK\$1,000,000	7	6
HK\$1,000,001 to HK\$1,500,000	1	–

Highest paid employees

The five highest paid individuals of the Group included two (2003: two) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2003: three) highest paid employees, other than directors of the Company, are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	2,149	2,124
Performance related incentive payments	436	–
Retirement benefit scheme contributions	97	96
	2,682	2,220

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

Highest paid employees (continued)

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

	2004 Number of employees	2003 Number of employees
Nil to HK\$1,000,000	3	3

9. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	7,209	9,184
– Overprovision in respect of prior years	(175)	(331)
	7,034	8,853
Deferred taxation (note 25)		
Current year	2,070	2
Attributable to a change in tax rate	–	689
	2,070	691
	9,104	9,544

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the year.

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

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

9. TAXATION (continued)

Taxation for the year can be reconciled to the profit per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	111,904	91,509
Tax at the Hong Kong Profits Tax rate of 17.5%	19,583	16,014
Tax effect of expenses not deductible for tax purpose	1,805	2,701
Tax effect of income not taxable for tax purpose	(10,939)	(9,996)
Overprovision in respect of prior years	(175)	(331)
Tax effect of tax losses and other deductible temporary differences for current year not recognised	459	1,984
Utilisation of tax losses and other deductible temporary differences for prior years previously not recognised	(1,380)	(404)
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)
Others	(249)	(192)
Taxation for the year	9,104	9,544

10. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim dividend paid in respect of 2004 of 9 cents (2003: 8 cents) per share	34,122	30,150
First special dividend paid in respect of 2003 of 7 cents per share	-	26,381
Final dividend proposed in respect of 2004 of 9 cents (2003: 8 cents) per share	34,122	30,150
Second special dividend proposed in respect of 2003 of 7 cents per share	-	26,381
	68,244	113,062

The final dividend in respect of 2004 of 9 cents (2003: 8 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

11. EARNINGS PER SHARE

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

	2004 HK\$'000	2003 HK\$'000
Earnings for the purposes of basic and diluted earnings per share – Net profit for the year	102,448	82,339
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	377,827,104	375,394,000
Effect of dilutive potential shares in respect of share options	4,018,679	5,397,075
Weighted average number of shares for the purpose of diluted earnings per share	381,845,783	380,791,075

12. INVESTMENT PROPERTY

	THE GROUP HK\$'000
VALUATION	
At 1st January, 2004	2,500
Revaluation increase	700
At 31st December, 2004	3,200

The investment property was revalued at 31st December, 2004 by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers, on an open market value basis. The resulting surplus arising on revaluation of HK\$700,000 has been credited 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.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Buildings under construction HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1st January, 2004	176,004	39,873	241,896	37,361	7,649	6,931	509,714
Additions	7,824	5,706	40,028	3,205	968	12,084	69,815
Disposals	(8,303)	(4,854)	(2,512)	(2,496)	(570)	-	(18,735)
Reclassification	14,517	-	-	-	-	(14,517)	-
At 31st December, 2004	190,042	40,725	279,412	38,070	8,047	4,498	560,794
DEPRECIATION AND AMORTISATION							
At 1st January, 2004	35,200	33,639	170,743	27,591	4,804	-	271,977
Provided for the year	6,569	4,764	30,136	4,690	1,253	-	47,412
Eliminated on disposals	(3,821)	(4,757)	(2,212)	(2,249)	(482)	-	(13,521)
At 31st December, 2004	37,948	33,646	198,667	30,032	5,575	-	305,868
NET BOOK VALUES							
At 31st December, 2004	152,094	7,079	80,745	8,038	2,472	4,498	254,926
At 31st December, 2003	140,804	6,234	71,153	9,770	2,845	6,931	237,737

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's property interests shown above comprise:

	Leasehold properties		Buildings under construction	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Properties situated in the People's Republic of China other than Hong Kong (the "PRC") held under medium-term leases	144,720	128,552	4,498	6,931
Properties situated in Hong Kong held under medium-term leases	7,374	12,252	-	-
	152,094	140,804	4,498	6,931

14. LOAN RECEIVABLE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Amount due:		
- Within one year	1,131	-
- More than one year	19,851	20,982
	20,982	20,982
Less: Amount due within one year shown under current assets	(1,131)	-
	19,851	20,982

The amount is secured and bears interest at market rate.

15. GOODWILL

	THE GROUP HK\$'000
COST	
At 1st January, 2004 and at 31st December, 2004	2,549
AMORTISATION	
At 1st January, 2004	765
Provided for the year	510
At 31st December, 2004	1,275
NET BOOK VALUE	
At 31st December, 2004	1,274
At 31st December, 2003	1,784

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

16. INVESTMENT SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Equity securities, unlisted	13,653	–

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
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, 2004 are set out in note 32.

18. 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.

19. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	36,436	25,427
Work in progress	73,119	48,434
Finished goods	9,805	8,650
	119,360	82,511

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Inventories carried at net realisable value:		
– Raw materials	2,530	4,016
– Finished goods	455	558
	2,985	4,574

20. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 30 days to 120 days to its trade debtors.

Included in the Group's debtors, deposits and prepayments are trade debtors of HK\$193,241,000 (2003: HK\$138,219,000), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Current	148,963	110,025
1 to 90 days overdue	41,265	25,925
More than 90 days overdue	3,013	2,269
	193,241	138,219

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

21. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade creditors of HK\$94,943,000 (2003: HK\$71,224,000), an aging analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Current	67,885	51,374
1 to 90 days overdue	26,911	18,255
More than 90 days overdue	147	1,595
	94,943	71,224

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

22. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
Authorised:		
At beginning and at end of the years 2003 and 2004	1,000,000,000	100,000
Issued and fully paid:		
At 1st January, 2003	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
Issue of shares upon exercise of share options	2,260,000	226
At 31st December, 2004	379,130,000	37,913

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 (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.

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, 2003	Exercised during 2003	Lapsed during 2003	Outstanding at 31st December, 2003	Exercised during 2004	Lapsed during 2004	Outstanding at 31st December, 2004
Category: Directors	4,040,000	(1,010,000)	-	3,030,000	(1,010,000)	-	2,020,000
Category: Employees	6,950,000	(1,450,000)	(1,150,000)	4,350,000	(1,250,000)	(600,000)	2,500,000
Total all categories	10,990,000	(2,460,000)	(1,150,000)	7,380,000	(2,260,000)	(600,000)	4,520,000

23. SHARE OPTIONS (continued)

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\$1,989,000 (2003: HK\$2,165,000). The closing price of the Company's shares on the date on which the share options were exercised was HK\$2.55 (2003: HK\$2.25).

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.

23. SHARE OPTIONS (continued)

New Share Option Scheme (continued)

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.

24. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY				
At 1st January, 2003	106,743	105,369	71,816	283,928
Premium arising on 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
Premium arising on issue of shares upon exercise of share options	1,763	-	-	1,763
Net profit for the year	-	-	74,328	74,328
Dividends paid	-	-	(90,653)	(90,653)
At 31st December, 2004	110,425	105,369	86,255	302,049

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.

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	Other temporary difference	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2003	(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)
Charge to consolidated income statement for the year	(1,063)	(1,007)	(2,070)
At 31st December, 2004	(9,580)	(536)	(10,116)

At 31st December, 2004, the Group has unused tax losses of HK\$13,350,000 (2003: HK\$27,892,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$8,081,000 (2003: HK\$16,232,000) that will expire from 2005 to 2009. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK\$13,316,000 (2003: HK\$14,478,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

26. 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.

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

The retirement benefit scheme contributions arising from the 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 31st December, 2003, forfeited contributions of HK\$9,300 were available to reduce future contributions. There were no forfeited contributions at 31st December, 2004.

27. 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	
	2004 HK\$'000	2003 HK\$'000
Within one year	5,425	7,630
In the second to fifth year inclusive	11,580	18,962
Over five years	908	2,148
	17,913	28,740

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 term of four years.

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

27. OPERATING LEASE ARRANGEMENTS (continued)**The Group as lessor:**

Property rental income earned during the year was HK\$320,000 (2003: HK\$376,000). The property held at the balance sheet date has committed tenant for an average term of two years.

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	230	276
In the second to fifth year inclusive	–	230
	230	506

28. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	12,402	4,336
– leasehold improvements	732	1,946
– plant and machinery	11,074	924
– furniture, fixtures and office equipment	–	83
	24,208	7,289

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

29. CONTINGENT LIABILITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	3,922	3,310

At 31st December, 2004, 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 (2003: HK\$9,750,000). The extent of facilities utilised at 31st December, 2004 amounted to approximately HK\$9,750,000 (2003: HK\$9,750,000).

29. CONTINGENT LIABILITIES (continued)

Details of a corporate guarantee given by the Group in favour of the minority shareholder of a subsidiary are set out in note 31.

THE COMPANY

At 31st December, 2004, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$120,130,000 (2003: HK\$111,130,000) granted to its subsidiaries. Other than the bills discounted with recourse amounting to HK\$3,922,000 at 31st December, 2004 (2003: HK\$3,310,000) as stated above, there was no outstanding balance of banking facilities utilised by the subsidiaries at 31st December, 2003 and 31st December, 2004.

30. PLEDGE OF ASSETS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Assets pledged to banks in respect of banking facilities granted to the Group		
– leasehold properties with an aggregate net book value	–	12,252
– bank deposits	2,187	18,037
	2,187	30,289

31. RELATED PARTY TRANSACTIONS

The Group had the following related party transactions:

- (i) On 29th January, 2004, 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.
- (ii) At 31st December, 2003, 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, 2003. The facilities expired during the year ended 31st December, 2004.

32. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2004 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
Arts 1000 Optical Company Limited	British Virgin Islands/PRC	US\$1	–	100%	Retailing of optical products
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	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 1)	Manufacture of and trading in optical lens
滙駿光學城(河源)有限公司 (known as "Huijun Optical (Heyuan) Limited")	PRC	HK\$10,000,000	–	100% (Note 2)	Inactive
滙聯眼鏡製造廠(河源) 有限公司 (known as "Huilian Optical Manufactory (Heyuan) Limited")	PRC	HK\$10,000,000	–	100% (Note 2)	Inactive

32. 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	
滙龍眼鏡五金配件(河源) 有限公司 (known as "Huilong Optical Manufactory (Heyuan) Limited")	PRC	HK\$10,000,000	–	100%	Inactive (Note 2)

Note:

1. This subsidiary is registered as a sino-foreign equity joint venture company.
2. These subsidiaries are registered as wholly foreign owned companies.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at 31st December, 2004 or at any time during the year.

RESULTS

	Year ended 31st December,				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
TURNOVER	602,542	547,012	602,518	519,411	684,959
PROFIT BEFORE TAXATION	126,778	109,914	117,795	91,509	111,904
TAXATION	(9,816)	(9,766)	(13,412)	(9,544)	(9,104)
PROFIT BEFORE MINORITY INTERESTS	116,962	100,148	104,383	81,965	102,800
MINORITY INTERESTS	4,734	2,304	1,304	374	(352)
NET PROFIT FOR THE YEAR	121,696	102,452	105,687	82,339	102,448

ASSETS AND LIABILITIES

	At 31st December,				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
TOTAL ASSETS	581,629	607,503	693,673	695,000	735,199
TOTAL LIABILITIES	(124,723)	(99,266)	(110,093)	(113,845)	(139,910)
MINORITY INTERESTS	(2,831)	(792)	(3,511)	(3,137)	(3,489)
SHAREHOLDERS' FUNDS	454,075	507,445	580,069	578,018	591,800

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