Arts Group

Arts Optical International Holdings Limited

Annual Report 05

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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
26/F., Tesbury Centre
28 Queen's Road East
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

ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
INVESTMENT HOLDING

100%
ARTS OPTICAL COMPANY LIMITED
TRADING IN OPTICAL FRAMES TO ORIGINAL DESIGN MANUFACTURING CUSTOMERS

100%
ARGENT OPTICAL MANUFACTORY LIMITED
MANUFACTURE OF OPTICAL FRAMES

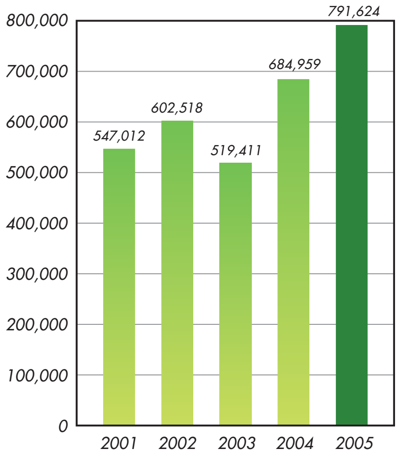
100%
EYECONCEPT LIMITED
TRADING IN OPTICAL FRAMES UNDER OWN BRAND NAMES AND LICENSED BRAND NAME

100%
ARTS 1000 OPTICAL COMPANY LIMITED
RETAILING OF OPTICAL PRODUCTS

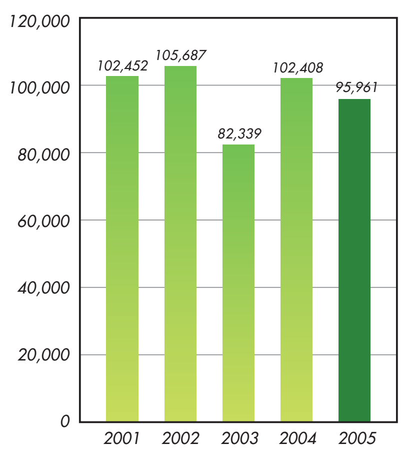
51%
SHENZHEN NORTH OPTICAL INDUSTRIAL COMPANY LIMITED
MANUFACTURE OF AND TRADING IN OPTICAL LENSES

100%
SIN DAK INDUSTRIAL LIMITED
PROPERTY HOLDING

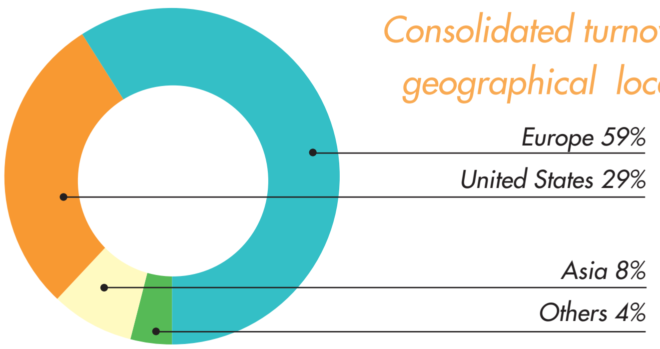
Consolidated turnover (HK$'000)



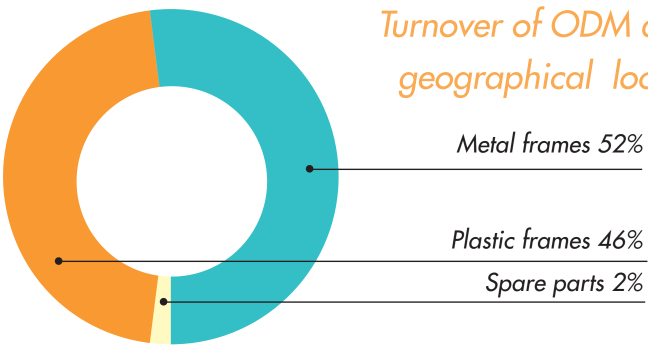
Profit attributable to equity holders of the parent (HK$'000)



Consolidated turnover by geographical locations in 2005



Turnover of ODM division by geographical locations in 2005



BUSINESS REVIEW

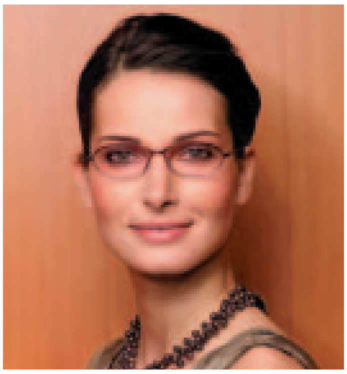
Summary of results

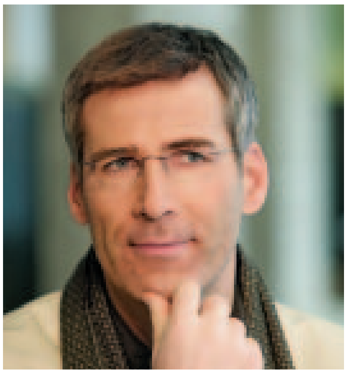
The Group's consolidated turnover increased by 16% to HK$791.6 million (2004: HK$685.0 million) whereas its profit attributable to the equity holders of the Company declined by 6% to HK$96.0 million (2004: HK$102.4 million) in 2005. Basic earnings per share also decreased by 7% to 25.2 cents (2004: 27.1 cents) in 2005.

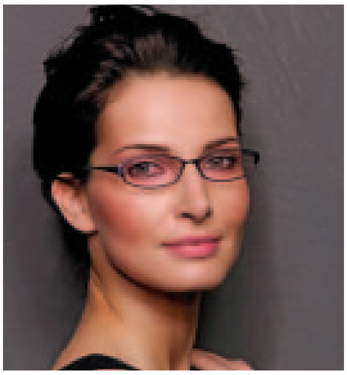
As reported in the interim results, the positive effects generated from the economies of scale were fully offset by the increases in production costs arising from higher raw material costs, labour wages and record energy prices. Increase in proportion of sales of sunglasses and handmade plastic frames in 2005 and appreciation of Renminbi since the second half of year had also adversely affected our gross margin. Gross profit margin declined by 5.2% to 28.1% (2004: 33.3%) in 2005. Although the management managed to cut the total expenses to sales ratio by 2.3% to 16.1% (2004: 18.4%), net profit margin (ratio of profit attributable to the equity holders of the Company to turnover) still decreased by 2.9% to 12.1% (2004: 15.0%) in 2005.

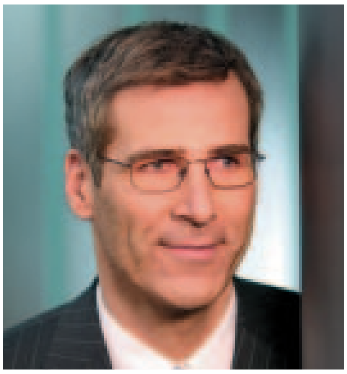
Original design manufacturing (ODM) division

Sales to ODM customers increased by 17% from HK$616.8 million in 2004 to HK$719.7 million in 2005. Sales to Europe, United States, Asia and other regions accounted for 61%, 32%, 5% and 2% respectively of the sales of this division in 2005 (2004: 53%, 39%, 5% and 3% respectively). Sales to Europe registered a satisfactory growth rate of 34% to HK$438.0 million (2004: HK$326.2 million) as more customers sourced their demand from the Fast East following the gradual closing down of eyewear production facilities in Europe. Sales to the United States declined by 6% to HK$228.0 million (2004: HK$243.2 million) as a result of consolidation of the retailing and distribution sectors of the American eyewear market in recent years. The strong demand for sunglasses, especially those made of acetate plastic materials, continued throughout 2005. Sales of prescription frames recorded a marginal growth rate of 6% to HK$413.9 million (2004: HK$390.1 million) whereas sales of sunglasses registered a strong growth rate of 34% in 2005 to HK$287.8 million (2004: HK$214.4 million). Sales of metal frames, plastic frames and spare parts accounted for 52%, 46% and 2% respectively of the Group's turnover of ODM business in 2005 (2004: 59%, 39% and 2% respectively).









Distribution division

Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) increased by 14% to HK$53.1 million in 2005 (2004: HK$46.5 million). Sales to Europe, Asia, North America and other regions accounted for 49%, 20%, 14% and 17% respectively of the Group's turnover of distribution division in 2005 (2004: 48%, 14%, 20% and 18% respectively). STEPPER, the German brand wholly owned by the Group with more than 30 distributors appointed globally, continued to be the best selling brand and key driver to the growth of this business division.

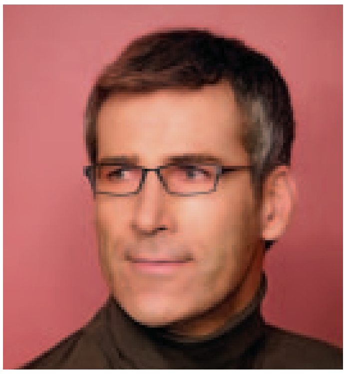
Retailing division

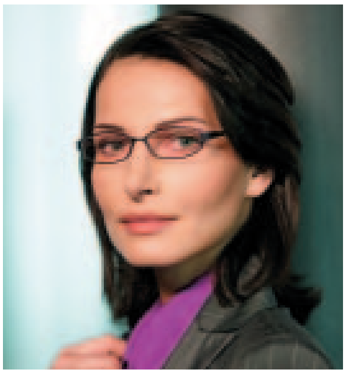
Turnover of the retailing division decreased by 13% to HK$18.8 million in 2005 (2004: HK$21.7 million). Retail operations in Nanjing and Shanghai were closed in 2004 and no longer had any contribution in 2005. The Group operated a total of 18 shops (2004: 17 shops), including 10 shops in Beijing and 8 shops in Shenzhen, at 31st December, 2005.

Financial position and liquidity

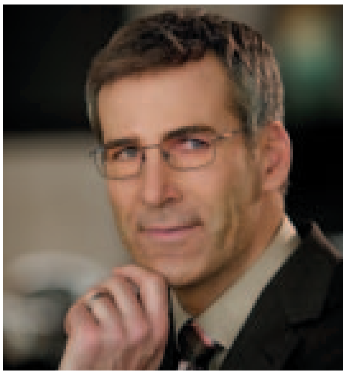
The current ratio of the Group as at 31st December, 2005 was 2.8 to 1 (2004: 3.4:1) with HK$479.2 million of current assets (2004: HK$443.3 million) and HK$170.6 million of current liabilities (2004: HK$129.8 million). To meet the anticipated increase in delivery requirements in the first quarter of 2006, production activity was substantially increased in the last quarter of 2005 and inventory balance increased to HK$162.3 million as at 31st December, 2005 (2004: HK$119.4 million). Inventory turnover period (ratio of inventory balance to cost of sales) also increased from 95 days in 2004 to 104 days in 2005. Debtors turnover period (ratio of the total of debtor and discounted bills balances to sales) increased slightly from 105 days in 2004 to 108 days in 2005.

The Group generated HK$109.1 million net cash inflow from it operating activities in 2005 (2004: HK$84.0 million). A relatively higher level of capital expenditure of HK$92.5 million (2004: HK$69.8 million) was incurred during 2005 for the expansion of the production capacity and upgrading of the equipment. Dividend payments amounted to HK$68.7 million were also made during the year (2004: HK$90.7 million). 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$110.5 million at 31st December, 2004 to HK$65.0 million at 31st December, 2005. The Group did not have any interest bearing borrowings at the end of both years of 2004 and 2005.



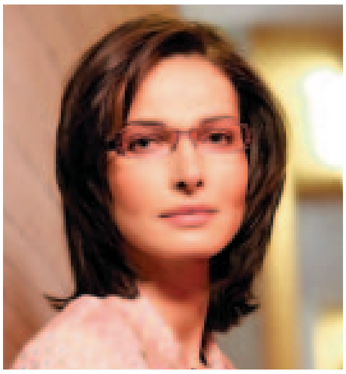


As at 31st December, 2005, the Group had 383,650,000 shares (2004: 379,130,000 shares) in issue with an equity attributable to equity holders of the Company amounting to HK$623.2 million (2004: HK$592.3 million). Net asset value attributable to equity holders of the Company per share was HK$1.62 (2004: HK$1.56). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity were HK$13.3 million (2004: HK$10.0 million) and 2.1% (2004: 1.7%) 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, except for the one-off appreciation of Renminbi against United States dollars in July 2005.

Details of contingent liabilities and pledge of assets are set out in notes 32 and 33 respectively to the financial statements.



Employees and remuneration policies

As at 31st December, 2005, the Group employed approximately 9,500 (2004: 7,700) 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 pace of rising of the cost elements seemed to have slowed down in the second half of 2005, there is no indication that they will be coming down in the near future. The management believes that the upward trend on cost burden will continue in 2006. The strengthening of Renminbi against other currencies continues to put additional pressure on our cost control efforts. Although the Group has adjusted the selling prices of its products since late 2005, the effects will be modest and only reflected in the second half of 2006. On the demand side, our customers remain bullish about the business outlook and this division currently has four months sales orders on hands. To enhance the competitiveness of the Group, substantial capital investment for expansion of production capacity and upgrading of equipment has been made in 2005 and the management expects that this will continue in 2006.

Distribution division

The management will continue to focus on the expansion of distribution network for its house brand STEPPER and licensed brand FIORUCCI. Some new licensed and house brands for the Asian markets may be added to strengthen the brand portfolio of this division in the second half of 2006.

Retailing division

The operational performance of this division has been improving since the Group decided to focus on the cities of Beijing and Shenzhen two years ago. Some non-performing shops will be relocated and the overall scale of operations in these two cities should remain fairly stable in 2006.

Summary

Although the demand for the Group's products remains fairly strong, the substantial capital investment required for maintaining competitiveness, the pressure on gross margin and the increase in working capital requirements have increased the operational and financial risks of the Group's business and affected the operational cash-flow. The management will continue to adopt the guiding principles of financial prudence when executing the expansion plan and carefully monitor the impact of the above factors on cash-flow management and dividend payment capability.

DIVIDENDS

The directors of the Company (the "Directors") have resolved to recommend a final dividend of 7 cents per share for the year ended 31st December, 2005. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 25th May, 2006, the final dividend will be payable on 20th June, 2006 to shareholders whose names appear on the register of members of the Company on 25th May, 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22nd May, 2006 to 25th May, 2006, 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 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 19th May, 2006 in order to qualify for the proposed final dividend mentioned above.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Thursday, 25th May, 2006. For details of the annual general meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 24th April, 2006.

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, 11th April, 2006

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael ("Mr. Ng"), aged 51, 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 38 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 brother of Mr. Ng Kim Ying.

HUI Pui Woon, aged 35, 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 17 years of experience in conducting business in China, including 8 years in the optical products industry.

NG Kim Ying, aged 50, 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 21 years of experience in the optical products industry and is the brother of Mr. Ng.

LEE Wai Chung, aged 39, 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 18 years of experience in accounting and auditing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Francis George MARTIN, aged 65, 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 38 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 40, 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 17 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 41, 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 18 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 45, 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 30 years of experience in the optical products industry.

HUNG Chao Chia, aged 53, 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 28 years of experience in the optical products industry.

WONG Kwok Leung, Alan, aged 48, 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 26 years of experience in production management, including 22 years in the optical products industry.

The directors present their annual report and the audited financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 26.

An interim dividend of 9 cents per share amounting to HK$34,528,500 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 7 cents per share amounting to HK$26,855,500 to the shareholders on the register of members on 25th May, 2006 and the retention of the remaining profit for the year.

INVESTMENT PROPERTY

The investment property of the Group was revalued as at 31st December, 2005 as set out in note 16 to the financial statements. The resulting surplus arising on revaluation, which amounted to HK$400,000, 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$92,541,000.

Details of this and other movements in property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2005 were as follows:

	2005	2004
	HK$'000	HK$'000
Contributed surplus	**105,369**	105,369
Retained earnings	**97,063**	86,255
	202,432	191,624

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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 27 to the financial statements.

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:

SHARE OPTIONS (continued)

	Outstanding at 1st January, 2005	Number of share options Exercised during the year	Outstanding at 31st December, 2005	Number of underlying shares at 31st December, 2005
Category: Directors				
Ng Hoi Ying, Michael	1,020,000	(1,020,000)	–	–
Ng Kim Ying	300,000	(300,000)	–	–
Lee Wai Chung	700,000	(700,000)	–	–
	2,020,000	(2,020,000)	–	–
Category: Employees	2,500,000	(2,500,000)	–	–
Total all categories	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 prices of the Company's shares immediately before the dates on which the share options were exercised were HK$2.575 and HK$2.475, respectively. No further share options can be granted under the Old Share Option Scheme upon its termination.

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.

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
Chung Hil Lan Eric

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Ng Hoi Ying, Michael, Ms. Hui Pui Woon and Mr. Lee Wai Chung will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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

Each of the independent non-executive director was appointed for a term of not more than three years and subject to the retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

At 31st December, 2005, 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 Personal interests	Other interests	Total	Percentage of issued share capital of the Company
Ng Hoi Ying, Michael	2,856,000	151,000,000 *(Note a)*	153,856,000	40.10%
Hui Pui Woon	–	36,682,000 *(Note b)*	36,682,000	9.56%
Ng Kim Ying	950,000	18,500,000 *(Note c)*	19,450,000	5.07%
Lee Wai Chung	1,750,000	–	1,750,000	0.46%

Notes:

(a) 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. The parent company of Trustcorp, Newcorp Limited, its ultimate parent company Newcorp Holdings Limited, Mr. David Henry Christopher Hill, Ms. Rebacca Ann Hill and Mr. David William Roberts are also deemed to be interested in the issued share capital of Ratagan by virtue of their interests and deemed interests in Trustcorp.

(b) These shares are held by Forever Up Group Limited ("Forever Up"). The entire issued share capital of Forever Up is owned by Fortune Smiles Limited which is wholly owned by HSBC International Trustee Limited as trustee for The Saying's Trust, a discretionary trust, the beneficiaries of which include Ms. Hui Pui Woon and her family members.

(c) 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. The parent company of Trustcorp, Newcorp Limited, its ultimate parent company Newcorp Holdings Limited, Mr. David Henry Christopher Hill, Ms. Rebacca Ann Hill and Mr. David William Roberts are also deemed to be interested in the issued share capital of Universal Honour by virtue of their interests and deemed interests in Trustcorp.

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, 2005, 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.

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, 2005, 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
Veer Palthe Voûte NV	26,929,990 *(Note)*	7.02%
David Michael Webb	19,648,000	5.12%

Note: Allianz Aktiengesellschaft, Allianz Finanzbeteiligungs GmbH, Dresdner Bank Aktiengesellschaft and Dresdner Bank Luxembourg S.A., being the parent companies of Veer Palthe Voûte NV, are also deemed to be interested in the same parcel of 26,929,990 shares held by Veer Palthe Voûte NV 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, 2005.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2005, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 46% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 18% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 33% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 11% 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 27 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st December, 2005 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.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee benchmarked against comparable companies in Hong Kong.

The Company has adopted a share option scheme as an incentive to directors and eligible employees. Details of the scheme are set out in note 27 to the financial statements.

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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2005.

CHARITABLE DONATION

During the year, the Group made charitable donation amounting to HK$55,900.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 21 to 24 of this Annual Report.

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, 11th April, 2006

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which came into effect on 1st January, 2005 (with the exception of code provision C.2.1 on internal controls which is only applicable to accounting periods commencing on or after 1st July, 2005). The Company has complied with all applicable code provisions in the Code throughout the year ended 31st December, 2005, except for deviations from code provision A.2.1 of the Code only as disclosed under the paragraph "CHAIRMAN AND CHIEF EXECUTIVE OFFICER" below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the directors of the Company (the "Directors"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31st December, 2005.

BOARD OF DIRECTORS

The Board comprises seven Directors, four of which are executive Directors, namely Mr. Ng Hoi Ying, Michael (the Chairman), Ms. Hui Pui Woon, Mr. Ng Kim Ying and Mr. Lee Wai Chung, and three are independent non-executive Directors, namely Mr. Francis George Martin, Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric.

During the year ended 31st December, 2005, four Board meetings were held. The attendance of each Director is set out as follows:

Directors	Attendance Record
Mr. Ng Hoi Ying, Michael	4/4
Ms. Hui Pui Woon	4/4
Mr. Ng Kim Ying	4/4
Mr. Lee Wai Chung	4/4
Mr. Francis George Martin	4/4
Mr. Wong Chi Wai	4/4
Mr. Chung Hil Lan Eric	4/4

BOARD OF DIRECTORS *(continued)*

The Board is responsible for the formulation of the Group's business and strategic decisions and monitoring the performances of the management team.

Board minutes are kept by the company secretary and are sent to the Directors for records.

Each Board member is entitled to have access to Board papers and all able, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Ng Hoi Ying, Michael ("Mr. Ng") is the founder and chairman of the Group. The Company does not at present have any officer with the title "chief executive officer" and Mr. Ng has been carrying out the duties of both the chairman and chief executive officer since the establishment of the Group and the Company. The Board intends to maintain this structure in the future as it believes that this structure ensures efficient and effective formulation and implementation of business strategies without compromising the balance of power and authority between the Board and management of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

All the independent non-executive Directors, namely Mr. Francis George Martin, Mr. Wong Chi Wai and Mr. Chung Hil Lan Eric, as well as Mr. Ng Kim Ying who is an executive Director, were re-elected as Directors of the Company in the annual general meeting of the Company held on 27th May, 2005 for a term of no more than three years and subject to retirement by rotation in accordance with the Company's Bye-laws.

Mr. Ng Hoi Ying, Michael, Ms. Hui Pui Woon and Mr. Lee Wai Chung will retire at the forthcoming annual general meeting and will offer themselves for re-election. Their proposed term of office shall not be more than three years and is subject to retirement by rotation in accordance with the Bye-laws.

Remuneration Committee

A Remuneration Committee was established in 2003 and currently comprises Messrs. Francis George Martin (Chairman of the Remuneration Committee), Wong Chi Wai and Chung Hil Lan Eric, all of whom are independent non-executive Directors.

One Remuneration Committee meeting was held during the year ended 31st December, 2005 and the attendance of each committee member is set out as follows:

Directors	Attendance Record
Mr. Francis George Martin	1/1
Mr. Wong Chi Wai	1/1
Mr. Chung Hil Lan Eric	1/1

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

1. To determine the remuneration of the Directors.

2. To review the remuneration policy of the Group.

During the year ended 31st December, 2005, the Remuneration Committee has reviewed and determined the remuneration of the Directors and the overall remuneration policy of the Group.

Accountability and Audit

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31st December, 2005, the Directors have adopted suitable accounting policies which are pertinent to the Group's operation and relevant to the financial statements, have made judgements and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis.

Auditors' Remuneration

During the year under review, the remuneration paid to the Company's auditors, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fees paid/payable *HK$'000*
Audit services	1,289
Non-audit services:	
Review on 2005 interim results	300
Tax compliance services	90

AUDIT COMMITTEE

An Audit Committee has been established by the Company since 1998 to act in an advisory capacity and make recommendations to the Board. The Committee currently comprises Messrs. Wong Chi Wai (Chairman of the Audit Committee), Chung Hil Lan Eric and Francis George Martin, all of whom are independent non-executive Directors of the Company. The duties of the Audit Committee include review of the interim and annual reports of the Group as well as various auditing, financial reporting and internal control matters with the management and/or external auditors of the Company. The Audit Committee has performed the above duties during the year ended 31st December, 2005. Three Audit Committee meetings were held during the year ended 31st December, 2005 and the attendance of each member is set out as follows:

Directors	Attendance Record
Mr. Wong Chi Wai	3/3
Mr. Chung Hil Lan Eric	3/3
Mr. Francis George Martin	2/3

Deloitte.
德勤

德勤・關黃陳方會計師行
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Deloitte Touche Tohmatsu
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

TO THE SHAREHOLDERS OF ARTS OPTICAL INTERNATIONAL HOLDINGS LIMITED
雅視光學集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (the "Group") on pages 26 to 75 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 consolidated 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 Hong Kong Standards on Auditing 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate of the circumstances of 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 consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 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
11th April, 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Turnover	6	**791,624**	684,959
Cost of sales		**(569,555)**	(456,996)
Gross profit		**222,069**	227,963
Other income	7	**11,117**	9,830
Distribution costs		**(33,075)**	(38,540)
Administrative expenses		**(91,938)**	(84,054)
Other expenses		**(2,207)**	(3,191)
Finance costs	9	**(21)**	(53)
Profit before taxation		**105,945**	111,955
Taxation	10	**(10,217)**	(9,195)
Profit for the year	11	**95,728**	102,760
Attributable to:			
Equity holders of the parent		**95,961**	102,408
Minority interests		**(233)**	352
		95,728	102,760
Dividends	14		
– Declared		**68,650**	90,653
– Proposed		**26,856**	34,122
		95,506	124,775
Earnings per share	15		
– Basic		**25.2 cents**	27.1 cents
– Diluted		**25.1 cents**	26.8 cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Non-current Assets			
Investment property	16	**3,600**	3,200
Property, plant and equipment	17	**254,745**	213,028
Prepaid lease payments	18	**40,598**	41,245
Loan receivable	19	**17,589**	19,851
Goodwill	20	**1,274**	1,274
Available-for-sale investments	21	**13,358**	–
Deferred tax assets	28	**53**	47
Investment securities	21	**–**	13,653
		331,217	292,298
Current Assets			
Inventories	22	**162,300**	119,360
Debtors, deposits and prepayments	23	**248,385**	209,328
Loan receivable	19	**2,262**	1,131
Prepaid lease payments	18	**972**	970
Taxation recoverable		**263**	1,980
Pledged bank deposits		**–**	2,187
Bank balances and cash	24	**65,006**	108,309
		479,188	443,265
Current Liabilities			
Creditors and accrued charges	25	**170,206**	129,709
Taxation payable		**425**	85
		170,631	129,794
Net Current Assets		**308,557**	313,471
Total Assets less Current Liabilities		**639,774**	605,769
Capital and Reserves			
Share capital	26	**38,365**	37,913
Reserves		**584,844**	554,354
Equity attributable to equity holders of the parent		**623,209**	592,267
Minority interests		**3,256**	3,489
Total equity		**626,465**	595,756
Non-current Liability			
Deferred tax liabilities	28	**13,309**	10,013
		639,774	605,769

The financial statements on pages 26 to 75 were approved and authorised for issue by the Board of Directors on 11th April, 2006 and are signed on its behalf by:

Ng Hoi Ying, Michael
DIRECTOR

Ng Kim Ying
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Attributable to equity holders of the parent								
	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$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2004 as originally stated	37,687	108,662	(3,269)	(1,000)	508	435,430	578,018	3,137	581,155
Effect of changes in accounting policies (see note 2A)	–	–	–	–	–	507	507	–	507
At 1st January, 2004 as restated	37,687	108,662	(3,269)	(1,000)	508	435,937	578,525	3,137	581,662
Exchange differences arising on translation of foreign operation and net loss recognised directly in equity	–	–	–	–	(2)	–	(2)	–	(2)
Profit for the year	–	–	–	–	–	102,408	102,408	352	102,760
Total recognised income and expense for the year	–	–	–	–	(2)	102,408	102,406	352	102,758
Dividends paid	–	–	–	–	–	(90,653)	(90,653)	–	(90,653)
Issue of shares upon exercise of share options	226	1,763	–	–	–	–	1,989	–	1,989
At 1st January, 2005	37,913	110,425	(3,269)	(1,000)	506	447,692	592,267	3,489	595,756
Effect of changes in accounting policies (see note 2A)	–	–	–	1,000	–	(1,000)	–	–	–
At 1st January, 2005 as restated	37,913	110,425	(3,269)	–	506	446,692	592,267	3,489	595,756
Exchange differences arising on translation of foreign operation and net loss recognised directly in equity	–	–	–	–	(346)	–	(346)	–	(346)
Profit for the year	–	–	–	–	–	95,961	95,961	(233)	95,728
Total recognised income and expense for the year	–	–	–	–	(346)	95,961	95,615	(233)	95,382
Dividends paid	–	–	–	–	–	(68,650)	(68,650)	–	(68,650)
Issue of shares upon exercise of share option	452	3,525	–	–	–	–	3,977	–	3,977
At 31st December, 2005	38,365	113,950	(3,269)	–	160	474,003	623,209	3,256	626,465

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.

At 31st December, 2004, the goodwill reserve comprises HK$1,173,000 and HK$173,000 in respect of goodwill and negative goodwill respectively.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	2005 HK$'000	2004 HK$'000 (restated)
OPERATING ACTIVITIES		
Profit before taxation	**105,945**	111,955
Adjustments for:		
Finance costs	**21**	53
Release of prepaid lease payments	**970**	851
Depreciation of property, plant and equipment	**49,105**	46,510
Amortisation of goodwill	**–**	510
Revaluation increase in investment property	**(400)**	(700)
Interest income	**(1,194)**	(706)
Loss (gain) on disposal of property, plant and equipment	**1,400**	(626)
Dividend income from available-for-sale investments	**(416)**	–
Operating cash flows before movements in working capital	**155,431**	157,847
Increase in inventories	**(42,940)**	(36,849)
Increase in debtors, deposits and prepayments	**(39,057)**	(52,222)
Increase in creditors and accrued charges	**40,497**	34,349
Cash generated from operations	**113,931**	103,125
Hong Kong Profits Tax paid	**(4,870)**	(19,153)
NET CASH FROM OPERATING ACTIVITIES	**109,061**	83,972
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(92,541)**	(61,991)
Additions to prepaid lease payments	**–**	(7,824)
Purchase of investment securities	**–**	(13,653)
Decrease in pledged bank deposits	**2,187**	15,850
Proceeds from disposal of property, plant and equipment	**636**	5,840
Interest received	**1,194**	706
Decrease in loan receivable	**1,131**	–
Dividend received from available-for-sale investments	**416**	–
Dividend received from pre-acquisition profits of available-for-sale investments	**295**	–
NET CASH USED IN INVESTING ACTIVITIES	**(86,682)**	(61,072)

For the year ended 31st December, 2005

	2005 HK$'000	2004 HK$'000 (restated)
FINANCING ACTIVITIES		
Dividends paid	**(68,650)**	(90,653)
Interest paid	**(21)**	(53)
Proceeds from issue of shares	**3,977**	1,989
NET CASH USED IN FINANCING ACTIVITIES	**(64,694)**	(88,717)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(42,315)**	(65,817)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**108,309**	174,128
Effect of foreign exchange rate changes	**(988)**	(2)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**65,006**	108,309

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are set out in note 36.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented.

Business combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions after 1st January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK$1,173,000 has been transferred to the Group's retained earnings on 1st January, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group on 1st January, 2005 eliminated the carrying amount of the related accumulated amortisation of HK$1,275,000 with a corresponding decrease in the cost of goodwill (see note 20). The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st January, 2005 of which negative goodwill of HK$173,000 was previously recorded in reserves, with a corresponding increase to the Group's retained earnings.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In relation to share options granted before 1st January, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st January, 2005 in accordance with the relevant transitional provisions. This change has had no material effect on the results for the current or prior years.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1st January, 2005, the Group reclassified its investment securities of HK$13,653,000 which are unlisted equity securities whose fair value cannot be measured reliably to available-for-sale investments and are stated at cost less impairment losses. This change in accounting policy has had no material effect on the financial statements for the current or prior accounting periods.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1st January, 2005 onwards. As a result, the Group's bill receivables discounted with full recourse which were derecognised prior to 1st January, 2005 have not been restated. This change in accounting policy has had no material effect on results for the current year.

Leases

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 2A for the financial impact).

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the SSAP 13 "Accounting for Investment Properties" were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. This change in accounting policy has had no material effect on the financial statements for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated (see note 2A for the financial impact).

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 **HK$'000**	2004 HK$'000
Non-amortisation of goodwill	**510**	–
Decrease in depreciation of property, plant and equipment	**83**	83
Increase in release of prepaid lease payments	**(32)**	(32)
Increase in deferred tax expenses relating to property, plant and equipment and investment property	**(41)**	(91)
Increase (decrease) in profit for the year	**520**	(40)

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated)	Retrospective adjustments Effect of HKAS 17 & INT-21	As at 31st December, 2004 (restated)	Prospective adjustments Effect of HKAS 39	Effect of HKFRS 3	As at 1st January, 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items						
Property, plant and equipment	254,926	(41,898)	213,028	–	–	213,028
Prepaid lease payments	–	42,215	42,215	–	–	42,215
Investment securities	13,653	–	13,653	(13,653)	–	–
Available-for-sale investments	–	–	–	13,653	–	13,653
Deferred tax assets	–	47	47	–	–	47
Deferred tax liabilities	(10,116)	103	(10,013)	–	–	(10,013)
Total effects on assets and liabilities	258,463	467	258,930	–	–	258,930
Retained earnings	447,225	467	447,692	–	(1,000)	446,692
Goodwill reserve	(1,000)	–	(1,000)	–	1,000	–
Total effects on equity	446,225	467	446,692	–	–	446,692

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January 2004 are summarised below:

	As originally stated	Adjustments	As restated
	HK$'000	HK$'000	HK$'000
Retained earnings	435,430	507	435,937

2B. POTENTIAL IMPACT ARISING ON THE NEW OR REVISED ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group except for HKAS 39 and HKFRS 4 (Amendment) Financial guarantee contracts which requires financial guarantee contracts within the scope of HKAS 39 to be initially recognised at fair value for which the directors are still in the process of assessing the impact.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January, 2006.
3 Effective for annual periods beginning on or after 1st December, 2005.
4 Effective for annual periods beginning on or after 1st March, 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st January, 2001 continues to be held in reserves, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

Goodwill arising on acquisitions prior to 1st January, 2005 (continued)

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On subsequent disposal, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Rental income is recognised on a straight-line basis over the terms of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Prepaid lease payment

The prepaid lease payments represent upfront payment for land use right and leasehold land are initially recognised at cost and released to income statement over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment losses (other than goodwill (see the accounting policies in respect of goodwill above))

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those 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. An impairment loss is 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, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

The individual financial statements of group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual entities, transactions in currencies other than the functional currency of that entity are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefit costs

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit 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 items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 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 profits 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 realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into two categories, including "loans and receivables", and "available-for-sale investments". All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables (including debtors, loan receivable and bank deposits) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instruments is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities include creditors and accruals charges are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial assets, the difference between the carrying amount of the financial asset and the sum of the consideration received and cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, which are described in note 3, management has made the following estimations that have effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimating uncertainty at the balance sheet date, that have a significant risk of giving rise to a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowance on bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2005, the carrying amount of goodwill was HK$1,274,000. Details of the recoverable amount calculation are disclosed in note 20.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debtors, loan receivables, available-for-sale investments, creditors and bank deposits. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk.

Certain debtors, deposits and prepayments, loan receivables and available-for-sale investments and creditors of the Group are denominated in foreign currencies. The Group currently has a foreign currency hedging policy. The management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk for bank deposits and bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

6. 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, 2005

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Turnover					
External sales	464,088	232,167	65,537	29,832	791,624
Result					
Segment result	69,444	31,598	4,330	3,578	108,950
Unallocated corporate expenses					(4,178)
Interest income on bank deposits					1,194
Finance costs					(21)
Profit before taxation					105,945
Taxation					(10,217)
Profit for the year					95,728

6. SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

At 31st December, 2005

Balance sheet

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Assets					
Segment assets	195,316	85,464	19,579	30,524	330,883
Unallocated corporate assets					479,522
					810,405
Unallocated corporate liabilities					183,940

Other information

	Unallocated and consolidated HK$'000
Capital expenditure of property, plant and equipment	92,541
Depreciation of property, plant and equipment	49,105
Release of prepaid lease payments	970

6. SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

For the year ended 31st December, 2004

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000 (restated)
Turnover					
External sales	348,563	246,584	59,305	30,507	684,959
Result					
Segment result	63,622	44,840	2,576	4,727	115,765
Unallocated corporate expenses					(4,463)
Interest income on bank deposits					706
Finance costs					(53)
Profit before taxation					111,955
Taxation					(9,195)
Profit for the year					102,760

At 31st December, 2004

Balance sheet

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000 (restated)
Assets					
Segment assets	139,966	90,363	18,444	17,700	266,473
Unallocated corporate assets					469,090
					735,563
Unallocated corporate liabilities					139,807

6. SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

Other information

	Unallocated and consolidated HK$'000
Capital expenditure of property, plant and equipment	61,991
Capital expenditure of prepaid lease payments	7,824
Depreciation of property, plant and equipment	46,510
Release of prepaid lease payments	851
Other non-cash expense	510

7. OTHER INCOME

Included in other income are:

	2005 **HK$'000**	2004 HK$'000
Sales of scrap materials	**6,333**	3,815
Revaluation increase in investment property	**400**	700
Interest income on bank deposits	**1,194**	706
Gain on disposal of property, plant and equipment	**–**	626
Property rental income less negligible outgoings	**286**	320
Dividend income from available-for-sale investments	**416**	–
Net foreign exchange gains	**1,564**	–

8. INCOME STATEMENT CLASSIFICATION

Included in cost of sales is an amount of HK$3,342,000 (2004: Nil) in respect of a write-down of raw materials, work in progress and finished goods to their estimated net realisable values.

9. FINANCE COSTS

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

10. TAXATION

	2005 HK$'000	2004 HK$'000 (restated)
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	**7,541**	7,209
– Overprovision in respect of prior years	**(614)**	(175)
	6,927	7,034
Deferred taxation *(note 28)*		
Current year	**3,290**	2,161
	10,217	9,195

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 subject to taxation in any other jurisdiction in which the Group operates for both years.

Details of the deferred taxation are set out in note 28.

10. TAXATION (continued)

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

	2005 HK$'000	2004 HK$'000 (restated)
Profit before taxation	**105,945**	111,955
Tax at the Hong Kong Profits Tax rate of 17.5%	**18,540**	19,592
Tax effect of expenses not deductible for tax purpose	**1,619**	1,745
Tax effect of income not taxable for tax purpose	**(9,766)**	(10,854)
Overprovision in respect of prior years	**(614)**	(175)
Tax effect of tax losses and other deductible temporary differences for current year not recognised	**282**	459
Utilisation of tax losses and other deductible temporary differences for prior years previously not recognised	**(231)**	(1,380)
Others	**387**	(192)
Taxation for the year	**10,217**	9,195

11. PROFIT FOR THE YEAR

	2005 HK$'000	2004 HK$'000 (restated)
Profit for the year has been arrived at after charging:		
Auditors' remuneration	**1,289**	1,080
Amortisation of goodwill (include in other expenses)	**–**	510
Depreciation of property, plant and equipment	**49,105**	46,510
Total amortisation and depreciation	**49,105**	47,020
Operating lease rentals in respect of rented premises	**7,218**	7,432
Loss on disposal of property, plant and equipment	**1,400**	–
Release of prepaid lease payments	**970**	851
Staff costs		
– Directors' emoluments *(note 12)*	**2,585**	2,818
– Other staff		
– Salaries and other allowances	**148,848**	120,868
– Retirement benefit scheme contributions	**1,010**	1,141
	152,443	124,827
and after crediting:		
Gross rental income	**286**	320
Less: outgoings	**–**	–
Net rental income	**286**	320

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 7 (2004: 8) directors were as follows:

At 31st December, 2005

		Other emoluments			
	Fee HK$'000	**Salaries and other benefits** HK$'000 *(Note a)*	**Performance related incentive bonus** HK$'000 *(Note b)*	**Contributions to retirement benefits scheme** HK$'000 *(Note a)*	**Total** HK$'000
Executive directors:					
Ng Hoi Ying, Michael	–	–	133	8	141
Hui Pui Woon	–	761	–	35	796
Ng Kim Ying	–	195	–	10	205
Lee Wai Chung	–	925	92	42	1,059
	–	1,881	225	95	2,201
Independent non-executive directors:					
Francis George Martin	144	–	–	–	144
Wong Chi Wai	120	–	–	–	120
Chung Hil Lan Eric	120	–	–	–	120
	384	–	–	–	384
Total emoluments	384	1,881	225	95	2,585

12. DIRECTORS' EMOLUMENTS *(continued)*

At 31st December, 2004

		Other emoluments			
	Fee HK$'000	**Salaries and other benefits** HK$'000 *(Note a)*	**Performance related incentive bonus** HK$'000 *(Note b)*	**Contributions to retirement benefits scheme** HK$'000 *(Note a)*	**Total** HK$'000
Executive directors:					
Ng Hoi Ying, Michael	–	31	234	–	265
Hui Pui Woon	–	761	–	35	796
Ng Kim Ying	–	303	69	13	385
Lee Wai Chung	–	858	160	40	1,058
	–	1,953	463	88	2,504
Independent non-executive directors:					
Kwong Kam Kwan Alex	90	–	–	–	90
Francis George Martin	144	–	–	–	144
Wong Chi Wai	40	–	–	–	40
Chung Hil Lan Eric	40	–	–	–	40
	314	–	–	–	314
Total emoluments	314	1,953	463	88	2,818

12. DIRECTORS' EMOLUMENTS (continued)

Notes:

(a) During the years ended 31st December, 2004 and 31st December, 2005, Mr. Ng Hoi Ying, Michael, an executive director, waived emoluments as follows:

	2005 HK$'000	2004 HK$'000
Amounts waived in respect of emoluments for the current year		
Salaries and other benefits	**1,235**	1,235
Retirement benefit scheme contributions	**49**	57
	1,284	1,292

(b) The performance related incentive payment is determined by reference to the financial performance of the Group for the two years ended 31st December, 2005 and 31st December, 2004 respectively.

In 2004, rent-free accommodation was provided to two executive directors and the estimated rental values for the accommodation was approximately HK$46,000.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one was an executive director (2004: two were executive directors) of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining four (2004: three) individuals were as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	**3,047**	2,149
Contributions to retirement benefits schemes	**288**	97
Performance related incentive payments	**138**	436
	3,473	2,682

Their emoluments were within the following bands:

	2005 No. of employees	2004 No. of employees
Nil to HK$1,000,000	**4**	3

14. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Second special dividend paid in respect of 2003 of 7 cents per share	**–**	26,381
Final dividend paid in respect of 2004 of 9 cents (2003: 8 cents) per share	**34,122**	30,150
Interim dividend paid in respect of 2005 of 9 cents (2004: 9 cents) per share	**34,528**	34,122
	68,650	90,653
Final dividend proposed in respect of 2005 of 7 cents (2004: 9 cents) per share	**26,856**	34,122
	95,506	124,775

The final dividend in respect of 2005 of 7 cents (2004: 9 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2005 HK$'000	2004 HK$'000 (restated)
Earnings for the purposes of basic and diluted earnings per share	**95,961**	102,408

	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	**380,692,192**	377,827,104
Effect of dilutive potential shares in respect of share options	**2,015,810**	4,018,679
Weighted average number of shares for the purpose of diluted earnings per share	**382,708,002**	381,845,783

Impact of changes in accounting policies

Changes in Group's accounting policies during the year are described in details in note 2. To the extent that changes have had an impact on results reported for 2005 and 2004, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on both basic and diluted earnings per share:

	Impact on basic earnings per share		Impact on diluted earnings per share	
	2005 HK cents	2004 HK cents	**2005 HK cents**	2004 HK cents
Figures before changes in accounting policies	**25.1**	27.1	**24.9**	26.8
Effect on changes in accounting policies	**0.1**	–	**0.2**	–
Figures after changes in accounting policies	**25.2**	27.1	**25.1**	26.8

16. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1st January, 2004	2,500
Increase in fair value recognised in the consolidated income statement	700
At 31st December, 2004	3,200
Increase in fair value recognised in the consolidated income statement	400
At 31st December, 2005	3,600

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

The fair value of the Group's investment property at 31st December, 2005 have been arrived at on the basis of a valuation carried out on that day by Messrs Vigers Appraisal & Consulting Limited, independent qualified professional valuers not connected with the Group. Messrs Vigers Appraisal & Consulting Limited are members of the Hong Kong Institute of Surveyors ("HKIS") and Royal Institution of Chartered Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation which conforms to the HKIS Valuation Standards on Properties (First Edition 2005) published by the HKIS, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interest held under operating leases to earn rentals is measured using the fair value model and is classified and accounted for as investment property. As at 31st December, 2005, the carrying amount of such property interest amounted to HK$3,600,000 (2004: HK$3,200,000).

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings 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
COST							
At 1st January, 2004 as originally stated	176,004	39,873	241,896	37,361	7,649	6,931	509,714
Effect of changes in accounting policies	(41,351)	–	–	–	–	–	(41,351)
At 1st January, 2004 as restated	134,653	39,873	241,896	37,361	7,649	6,931	468,363
Additions	–	5,706	40,028	3,205	968	12,084	61,991
Disposals	(8,303)	(4,854)	(2,512)	(2,496)	(570)	–	(18,735)
Reclassification	14,517	–	–	–	–	(14,517)	–
At 31st December, 2004	140,867	40,725	279,412	38,070	8,047	4,498	511,619
Exchange adjustments	154	81	245	32	8	82	602
Additions	2,610	6,727	47,269	4,904	227	30,804	92,541
Disposals	(1,450)	(877)	(7,051)	(1,180)	(417)	–	(10,975)
Reclassification	5,726	–	–	–	–	(5,726)	–
At 31st December, 2005	147,907	46,656	319,875	41,826	7,865	29,658	593,787

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings 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
DEPRECIATION AND AMORTISATION							
At 1st January, 2004 as originally stated	35,200	33,639	170,743	27,591	4,804	–	271,977
Effect of changes in accounting policies	(6,375)	–	–	–	–	–	(6,375)
At 1st January, 2004 as restated	28,825	33,639	170,743	27,591	4,804	–	265,602
Provided for the year	5,667	4,764	30,136	4,690	1,253	–	46,510
Eliminated on disposals	(3,821)	(4,757)	(2,212)	(2,249)	(482)	–	(13,521)
At 31st December, 2004	30,671	33,646	198,667	30,032	5,575	–	298,591
Exchange adjustments	18	56	181	22	8	–	285
Provided for the year	5,971	4,925	33,330	3,916	963	–	49,105
Eliminated on disposals	(638)	(742)	(6,099)	(1,072)	(388)	–	(8,939)
At 31st December, 2005	36,022	37,885	226,079	32,898	6,158	–	339,042
CARRYING VALUES							
At 31st December, 2005	111,885	8,771	93,796	8,928	1,707	29,658	254,745
At 31st December, 2004	110,196	7,079	80,745	8,038	2,472	4,498	213,028

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the estimated useful lives of 25 years or the term of the leases, if shorter
Leasehold improvements	Over the estimated useful lives of 3 years or the term of the lease, if shorter
Furniture, fixtures and office equipment	Over 3 to 5 years
Others	Over 5 years

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group's property interests shown above comprise:

	Buildings		Buildings under construction	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Properties situated on land in the People's Republic of China other than Hong Kong (the "PRC") held under medium-term leases	**110,370**	108,535	**29,658**	4,498
Properties situated on land in Hong Kong held under medium-term leases	**1,515**	1,661	**–**	–
	111,885	110,196	**29,658**	4,498

18. PREPAID LEASE PAYMENTS

	2005	2004
	HK$'000	HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	**5,888**	6,030
Leasehold land outside Hong Kong:		
Medium-term lease	**35,682**	36,185
	41,570	42,215
Analysed for reporting purposes as:		
Current asset	**972**	970
Non-current asset	**40,598**	41,245
	41,570	42,215

19. LOAN RECEIVABLE

	2005 HK$'000	2004 HK$'000
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the balance sheet date)	**2,262**	1,131
Non-current assets (receivable after 12 months from the balance sheet date)	**17,589**	19,851
	19,851	20,982

The loan receivable is secured by all financial assets of the borrower and carry interest at fixed interest rate at 5% per annum and are repayable through 10 equal annual installments of HK$2,262,000 each from 2005 to 2015.

The directors consider the fair value of the Group's loan receivable as at 31st December, 2005, estimated based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date, approximates to the corresponding carrying amount.

20. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1st January, 2004 and 1st January, 2005	2,549
Elimination of amortisation accumulated prior to the adoption of HKFRS 3	(1,275)
At 31st December, 2005	1,274
AMORTISATION	
At 1st January, 2004	765
Amortisation for the year	510
At 1st January, 2005	1,275
Elimination of amortisation accumulated prior to the adoption of HKFRS 3	(1,275)
At 31st December, 2005	–
CARRYING VALUES	
At 31st December, 2005	1,274
At 31st December, 2004	1,274

20. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL (continued)

Until 31st December, 2004, goodwill was being amortised using the straight-line method over its estimated useful life of 5 years.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill of HK$1,274,000 was wholly allocated to cash-generating unit in trading in optical frames of a subsidiary (the "Unit").

Upon the application of HKFRS 3, the Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

During the year ended 31st December, 2005, the management of the Group determined that there is no impairment of the Unit which goodwill has been allocated.

The recoverable amounts of the Unit have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain key assumptions. All value in use calculations use cash flow projections based on latest financial budgets approved by the Company's management covering a period of 5 years with zero growth rate, and at a discount rate of 7.75%. Cash flow projections during the budget period for the Unit are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

21. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES

On 1st January, 2005, investments in securities of HK$13,653,000 were reclassified to available-for-sale investments.

Available-for-sale investments as at 31st December, 2005 comprise:

	2005	2004
	HK$'000	HK$'000
Equity securities, unlisted	**13,358**	–

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated overseas. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

22. INVENTORIES

	2005	2004
	HK$'000	HK$'000
Raw materials	**55,301**	36,436
Work in progress	**95,433**	73,119
Finished goods	**11,566**	9,805
	162,300	119,360

23. Debtors, deposits and prepayments

The Group has a policy of allowing 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$233,670,000 (2004: HK$193,241,000), an aging analysis of which at the balance sheet date is as follows:

	2005 **HK$'000**	2004 HK$'000
Current	**180,277**	148,963
1 to 90 days overdue	**49,082**	41,265
More than 90 days overdue	**4,311**	3,013
	233,670	193,241

The directors consider that fair value of the Group's debtors, deposits and prepayments at 31st December, 2005 approximates to the corresponding carrying amount.

24. Bank balances and cash

Bank balances and cash comprise short-term bank deposits at prevailing market interest rates and short-term bank deposits at fixed interest rates ranging from 1.8% to 3.5%.

25. Creditors and accrued charges

Included in the Group's creditors and accrued charges are trade creditors of HK$133,818,000 (2004: HK$94,943,000), an aging analysis of which at the balance sheet date is as follows:

	2005 **HK$'000**	2004 HK$'000
Current	**90,089**	67,885
1 to 90 days overdue	**41,121**	26,911
More than 90 days overdue	**2,608**	147
	133,818	94,943

The directors consider that the fair value of the Group's creditors and accrued charges at 31st December, 2005 approximates to the corresponding carrying amount.

26. SHARE CAPITAL

Movements during the year in the share capital of the Company were as follows:

	Number of shares		Nominal value	
	2005	2004	**2005 HK$'000**	2004 HK$'000
Ordinary shares of HK$0.1 each:				
Authorised:				
At beginning and end of year	**1,000,000,000**	1,000,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of the year	**379,130,000**	376,870,000	**37,913**	37,687
Issued of shares upon exercise of share options	**4,520,000**	2,260,000	**452**	226
At end of the year	**383,650,000**	379,130,000	**38,365**	37,913

All the new shares issued during the year rank pari passu in all respects with the existing shares.

27. SHARE OPTIONS

At the annual general meeting of the Company held on 28th May, 2003, the Company's share option scheme adopted on 24th October, 1996 (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.

27. 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, 2004	Exercised during 2004	Lapsed during 2004	Outstanding at 31st December, 2004	Exercised during 2005	Outstanding at 31st December, 2005
Category: Directors	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 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$3,977,600 (2004: HK$1,989,000). The closing prices of the Company's shares on the dates on which the share options were exercised were HK$2.55 and HK$2.50 (2004: HK$2.55).

27. 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.

28. DEFERRED TAX (LIABILITIES) ASSETS

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

	Accelerated tax depreciation HK$'000	**Other temporary difference** HK$'000	**Total** HK$'000
At 1st January, 2004 as originally stated	(8,517)	471	(8,046)
Effect of changes in accounting policies	241	–	241
At 1st January, 2004 as restated	(8,276)	471	(7,805)
Charge to consolidated income statement for the year	(1,154)	(1,007)	(2,161)
At 31st December, 2004	(9,430)	(536)	(9,966)
Charge to consolidated income statement for the year	(1,583)	(1,707)	(3,290)
At 31st December, 2005	(11,013)	(2,243)	(13,256)

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2005 **HK$'000**	2004 HK$'000
Deferred tax assets	**53**	47
Deferred tax liabilities	**(13,309)**	(10,013)
	(13,256)	(9,966)

At 31st December, 2005, the Group has unused tax losses of HK$11,875,000 (2004: HK$11,283,000) 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$9,346,000 (2004: HK$8,081,000) 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$13,019,000 (2004: HK$13,316,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

29. 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 provincial governments for its employees in the PRC. After the contribution, the Group has no further obligation for actual payment of the retirement benefits.

The retirement benefit scheme contributions arising from the 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, 2004, forfeited contributions of HK$9,300 were available to reduce future contributions. There were no forfeited contribution at 31st December, 2005.

30. 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:

	2005 HK$'000	2004 HK$'000
Within one year	**5,342**	5,425
In the second to fifth year inclusive	**10,639**	11,580
Over five years	**–**	908
	15,981	17,913

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.

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease repayments:

The Group as lessor:

	2005 HK$'000	2004 HK$'000
Within one year	**242**	230

Property rental income earned during the year was HK$286,000 (2004: HK$320,000). The property held at the balance sheet date has committed tenant for an average term of two years.

31. CAPITAL COMMITMENTS

	2005 HK$'000	2004 HK$'000
Capital expenditure contracted for but not provided in the financial statements		
– buildings under construction	**18,081**	12,402
– leasehold improvements	**961**	732
– plant and machinery	**9,597**	11,074
– furniture, fixtures and office equipment	**317**	–
	28,956	24,208

32. CONTINGENT LIABILITIES

	2005 HK$'000	2004 HK$'000
Bills discounted with recourse	**–**	3,922

At 31st December, 2005, 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 (2004: HK$9,750,000). The extent of facilities utilised at 31st December, 2005 amounted to approximately HK$9,750,000 (2004: HK$9,750,000).

33. PLEDGE OF ASSETS

	2005 HK$'000	2004 HK$'000
Assets pledged to banks in respect of banking facilities granted to the Group		
– bank deposits	**–**	2,187

34. 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) **Compensation of key management personnel**

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

	2005 **HK$'000**	2004 HK$'000
Short-term benefits	**6,058**	5,500

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. Summarised balance sheet of the Company

	2005 **HK$'000**	2004 HK$'000
Investments in subsidiaries	**139,040**	130,719
Amount due from a subsidiary	**181,113**	174,747
Other current assets	**35,955**	35,932
Amounts due to subsidiaries	**–**	(2)
Other current liabilities	**(1,361)**	(1,434)
	354,747	339,962
Share capital	**38,365**	37,913
Reserves	**316,382**	302,049
	354,747	339,962

36. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2005 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

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

Notes:

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, 2005 or at any time during the year.

RESULTS

	Year ended 31st December,				
	2001 HK$'000	2002 HK$'000	2003 HK$'000	2004 HK$'000 (restated)	**2005** **HK$'000**
TURNOVER	547,012	602,518	519,411	684,959	**791,624**
PROFIT BEFORE TAXATION	109,914	117,795	91,509	111,955	**105,945**
TAXATION	(9,766)	(13,412)	(9,544)	(9,195)	**(10,217)**
PROFIT FOR THE YEAR	100,148	104,383	81,965	102,760	**95,728**
MINORITY INTERESTS	2,304	1,304	374	(352)	**233**
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	102,452	105,687	82,339	102,408	**95,961**

ASSETS AND LIABILITIES

	At 31st December,				
	2001 HK$'000	2002 HK$'000	2003 HK$'000	2004 HK$'000 (restated)	**2005** **HK$'000**
TOTAL ASSETS	607,503	693,673	695,000	735,563	**810,405**
TOTAL LIABILITIES	(99,266)	(110,093)	(113,845)	(139,807)	**(183,940)**
MINORITY INTERESTS	(792)	(3,511)	(3,137)	(3,489)	**(3,256)**
SHAREHOLDERS' FUNDS	507,445	580,069	578,018	592,267	**623,209**

Note: The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1st January, 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in Note 2 to the financial statements. Financial information for 2004 has been restated for these new and revised policies in accordance with the transitional provisions and as disclosed in Note 2. Financial information for earlier years have not been adjusted to take into account the effect on the adoption of these new and revised HKFRSs as the directors considered that it is not practicable to do so.