Arts Group

Arts Optical International Holdings Limited

Stock Code : 1120

ANNUAL REPORT 2006

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

NG Hoi Ying, Michael - Chairman
HUI Pui Woon
NG Kim Ying
LEE Wai Chung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Francis George MARTIN
WONG Chi Wai
CHUNG Hil Lan Eric

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

LEE Wai Chung

AUDITOR

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

WEBSITE

www.artsgroup.com

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 name and licensed brand name

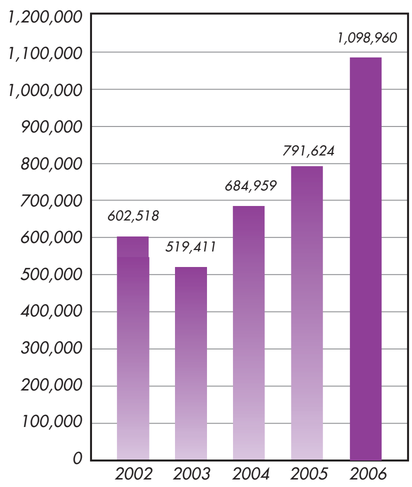
51% — **Eyeworkz Limited**
Trading in optical frames under own brand name and licensed brand names

100% — **Arts 1000 Optical Company Limited**
Retailing of optical products

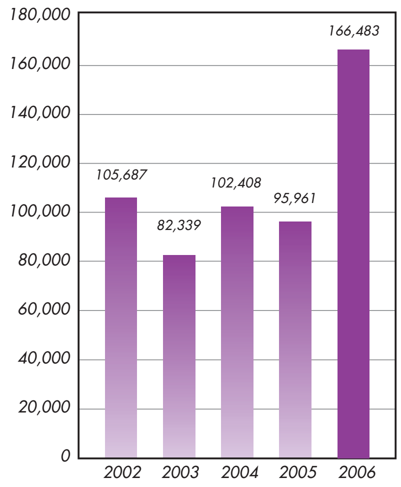
51% — **Shenzhen North Optical Industrial Company Limited**
Retailing of optical products

FINANCIAL HIGHLIGHTS

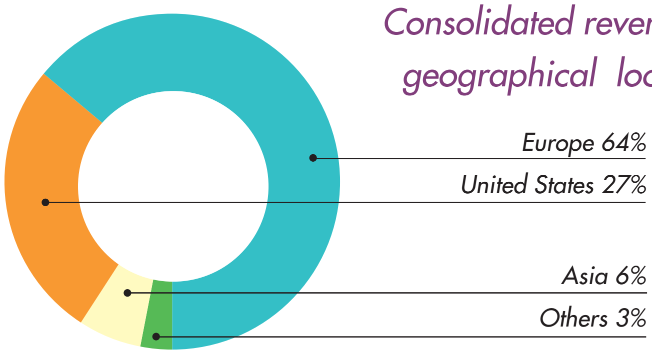
Consolidated revenue (HK$'000)



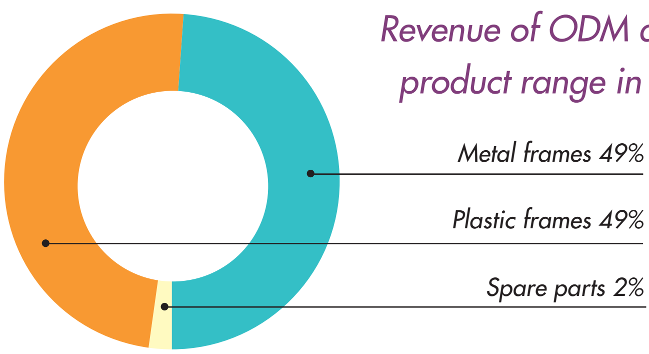
Profit attributable to equity holders of the parent (HK$'000)



Consolidated revenue by geographical locations in 2006



Revenue of ODM division by product range in 2006



CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Summary of results

The consolidated revenue of the Company and its subsidiaries (the "Group") and profit attributable to the equity holders of the Company increased by 39% and 73% to HK$1,099.0 million and HK$166.5 million respectively (2005: HK$791.6 million and HK$96.0 million respectively) in the year ended 31st December 2006. The Group also recorded a net gain of HK$18.1 million from the disposal of two pieces of vacant land in Shenzhen during the year ended 31st December 2006. The profit attributable to equity holders of the Company would have increased by 55% to HK$148.4 million if this one-off gain of land disposal was excluded. Basic earnings per share increased by 72% to 43.4 HK cents (2005: 25.2 HK cents) in 2006.

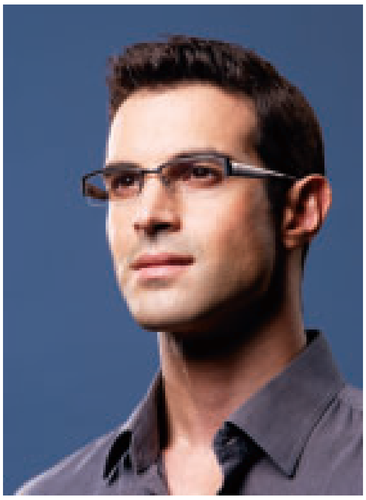
The Group's gross margin was still under severe pressure arising from adverse trends in its various cost factors including higher raw material costs, labour wages, record energy prices and gradual appreciation of Renminbi. Despite the above challenges, the trend of declining gross profit margin percentage (ratio of gross profit to revenue) since 2003 was reversed in 2006, primarily due to the positive effects of the economies of scale. The output volume of the Group's products had increased by 28% in 2006. Gross profit margin percentage improved by 0.6% from 28.1% in 2005 to 28.7% in 2006. Net profit margin percentage (ratio of profit attributable to the equity holders of the Company to revenue) also increased by 3.0% from 12.1% in 2005 to 15.1% (or by 1.4% to 13.5% after excluding the above one-off gain of land disposal) in 2006.

Original design manufacturing (ODM) division

To cope with the demand for the Group's products and meet the challenge from an industry which is increasingly fashion-focused, substantial capital expenditure had been incurred by the Group since 2004 for the expansion of the production capacity and upgrading of the product quality. As a result, sales to ODM customers increased by 38% from HK$719.7 million in 2005 to HK$996.6 million in 2006. Sales to Europe and the United States registered a satisfactory growth rates of 51% and 25% and increased to HK$661.8 million and HK$285.7 million respectively (2005: HK$438.0 million and HK$228.0 million respectively) in 2006. On a geographical basis, sales to Europe, United States, Asia and other regions accounted for 66%, 29%, 3% and 2% respectively of the sales of this division in 2006 (2005: 61%, 32%, 5% and 2% respectively). The strong market demand for sunglasses with fashion labels, especially those made of acetate plastic materials with trendy designs, continued in 2006. Sales of sunglasses registered a strong growth rate of 54% in 2006 to HK$444.0 million (2005: HK$287.8 million). Meanwhile, sales of prescription frames also recorded a satisfactory growth rate of 29% to HK$534.9 million (2005: HK$413.9 million). Sales of metal frames, plastic frames and spare parts accounted for 49%, 49% and 2% respectively in 2006 (2005: 52%, 46% and 2% respectively).

Distribution and retailing divisions

The Group's distribution division continued to report encouraging results in 2006. Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) recorded a strong growth of 63% to HK$86.4 million in 2006 (2005: HK$53.1 million). Sales to Europe, Asia, North America and other regions increased by 67%, 131%, 25% and 3% respectively and accounted for 50%, 28%, 11% and 11% respectively of the Group's turnover of distribution division in 2006 (2005: 49%, 20%, 14% and 17% respectively). Leveraging on an extensive global distribution network of over 30 distributors, STEPPER eyewear, the German brand owned by the Group, remained as the best selling brand and key growth engine among the brand portfolio of this division. FIORUCCI eyewear, the licensed Italian fashion brand, also recorded strong business growth in both Europe and Asia. The Group also launched a new house brand, OOPZ eyewear, targeting at the youth market in Asia in the last quarter of 2006.



As a result of the closure of some non-performing shops in both Beijing and Shenzhen and temporary closure of its flagship shop in Shenzhen for renovation works, turnover of the retailing division decreased by 15% to HK$16.0 million in 2006 (2005: HK$18.8 million). As at 31st December, 2006, the Group operated a total of 13 shops (31st December, 2005: 18) including 8 shops in Beijing and 5 shops in Shenzhen (31st December, 2005: 10 and 8 respectively).

Financial position and liquidity

The Group generated HK$162.6 million net cash inflow from its operating activities in 2006 (2005: HK$109.1 million). Capital expenditure which was wholly financed by the Group's internal resources had increased substantially to HK$146.7 million in 2006 (2005: HK$92.5 million). Dividend payments amounted to HK$53.7 million were also made during the year (2005: HK$68.7 million). The net cash position of the Group (bank and cash balance less bank borrowing, if any) increased from HK$65.0 million as at 31st December, 2005 to HK$69.1 million as at 31st December, 2006. The Group did not have any interest bearing borrowings at the end of both years of 2006 and 2005.

The current ratio of the Group as at 31st December, 2006 was 2.5 to 1 (2005: 2.8:1) with HK$605.7 million of current assets (2005: HK$479.2 million) and HK$244.8 million of current liabilities (2005: HK$170.6 million). As a result of the strenuous efforts made by the management including internal streamlining of the operations and installations of more advanced semi-automatic equipment, the inventory turnover period (ratio of inventory balance to cost of sales) decreased from 104 days in 2005 to 86 days in 2006. Such a reduction in delivery lead time was crucial in maintaining the competitive edge of the Group in this industry. Debtors turnover period (ratio of the total of debtor and discounted bills balances, if any, to revenue) increased slightly by 3 days to 111 days in 2006 (2005 : 108 days).

The Group had 383,650,000 shares in issue as at both 31st December, 2006 and 31st December, 2005 with an equity attributable to equity holders of the Company amounting to HK$754.2 million and HK$623.2 million as at 31st December, 2006 and 31st December, 2005 respectively. Net asset value per share (equity attributable to equity holders of the Company divided by the total number of shares in issue) as at 31st December, 2006 was HK$1.97 (31st December, 2005: HK$1.62). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity attributable to equity holders of the Company) were HK$13.7 million (31st December, 2005: HK$13.3 million) and 1.8% (31st December, 2005: 2.1%) 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 to the extent of the gradual continuous appreciation of Renminbi against both the United States dollars and Hong Kong dollars.

Details of contingent liabilities are set out in note 34 to the consolidated financial statements.

Employees and remuneration policies

As at 31st December, 2006, the Group employed approximately 11,300 (2005: 9,500) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performances, experiences and prevailing market salaries while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

PROSPECTS

ODM division

The primary challenges that the Group will be facing include:

(a) fluctuating commodity prices and shortage of skilful labour in China which push up the cost structure of the Group's products on a long term basis;

(b) risks of slowdown in the American economy as the United States is the single largest export market of the Group and its key customers; and

(c) changes in the government policies including tax reforms and specific regulations applicable to this industry, particularly in mainland China and Hong Kong.

In view of the above challenges, the key focus of the management for 2007 will be:

(a) identification of opportunities for cost reduction including continual internal operational review and diversification of procurement sources;

(b) pro-active improvement in its product quality, reduction of the delivery lead time and better integration with the customers' supply chain so as to maintain its competitive edge in this industry; and

(c) commencement of commercial production of its new factory in Heyuan for assembling production processes in late 2007 while its factories in Shenzhen and Zhongshan will be focusing on higher value added production processes as well as research and development.

Export performance in the first quarter of 2007 is satisfactory and within the management's expectation. The Group currently has three months sales orders on hand and still needs to make substantial capital investment in 2007 for its expansion plan. Such capital investment will be primarily funded by internal resources and the management will carefully execute the plan with close monitoring of its impact on the cashflow management.

Distribution and retailing divisions

The organic growth of established sales network of distributors and continued expansion of the network provide a platform to further grow the sales of both STEPPER and FIORUCCI eyewear. The Group has also secured the global licensing rights for an American brand, PANTONE UNIVERSE eyewear, and its commercial launch will begin in the middle of 2007. OOPZ eyewear, the house brand launched in 2006, will provide further growth momentum to the distribution division.

The flagship shop in Shenzhen has been recording satisfactory sales performance after the completion of renovation work in late 2006. The Group intends to maintain the current scale of operations in both Beijing and Shenzhen and will open new shops only for strategic purposes.

Summary

It has been 10 years since the shares of the Company were listed in 1996. Both the revenue and profitability of the Group have increased substantially over this period and this has demonstrated the success of its guiding principles of financial prudence when executing the expansion plan with emphasis on balance sheet management and cash earnings. Despite the challenges discussed above, the directors of the Company (the "Directors") are still optimistic about the financial performance of the Group in 2007.

DIVIDENDS

The Directors have resolved to recommend a final dividend of 7 HK cents per share for the year ended 31st December, 2006. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 23rd May, 2007, the final dividend will be payable on 20th June, 2007 to shareholders whose names appear on the register of members of the Company on 23rd May, 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21st May, 2007 to 23rd May, 2007, 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 18th May, 2007 in order to qualify for the proposed final dividend mentioned above.

CHAIRMAN'S STATEMENT

Annual General Meeting

The annual general meeting of the Company will be held on Wednesday, 23rd May, 2007. 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 27th April, 2007.

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, 17th April, 2007

Executive Directors

NG Hoi Ying, Michael ("Mr. Ng"), aged 52, 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 39 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 was the President of the Hong Kong Optical Manufacturers Association Ltd. (the "HKOMA") during 2002 and 2006 and is currently a committee member of the HKOMA, 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 36, 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 18 years of experience in conducting business in China, including 9 years in the optical products industry.

NG Kim Ying, aged 51, 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 22 years of experience in the optical products industry and is the brother of Mr. Ng.

LEE Wai Chung, aged 40, 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 (Practising) and Certified Public Accountant in Hong Kong and the United States respectively and a non-practising member of the Chinese Institute of Certified Public Accountants. He has 19 years of experience in accounting and auditing.

Independent Non-Executive Directors

Francis George MARTIN, aged 66, 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 39 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 41, 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 18 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 42, is a Certified Public Accountant (Practising) in Hong Kong and an associate member of The Institute of Chartered Accountants in England and Wales. He holds a Bachelor degree in Social Sciences from the University of Hong Kong. Mr. Chung has over 19 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 46, 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 31 years of experience in the optical products industry.

HUNG Chao Chia, aged 54, 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 29 years of experience in the optical products industry.

WONG Kwok Leung, Alan, aged 49, 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 27 years of experience in production management, including 23 years in the optical products industry.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2006.

Principal Activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 37 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 28.

An interim dividend of 7 HK cents per share amounting to HK$26,855,500 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 7 HK cents per share amounting to HK$26,855,500 to the shareholders on the register of members on 23rd May, 2007 and the retention of the remaining profit for the year.

Investment Property

The investment property of the Group was revalued as at 31st December, 2006 as set out in note 16 to the consolidated financial statements. The resulting surplus arising on revaluation, which amounted to HK$1,200,000, 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$146,708,000.

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 consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company are set out in note 27 to the consolidated financial statements.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31st December, 2006 were as follows:

	2006	2005
	HK$'000	*HK$'000*
Contributed surplus	**105,369**	105,369
Retained earnings	**104,403**	97,063
	209,772	202,432

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

Particulars of the share option scheme (the "New Share Option Scheme") of the Company adopted at the 2003 Annual General Meeting are set out in note 28 to the consolidated financial statements. 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' REPORT

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. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Francis George Martin will retire at the forthcoming annual general meeting and, being eligible, 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 of 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, 2006, 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)

	Number of issued shares held			Percentage of issued share capital of
Name of director	**Personal interests**	**Other interests**	**Total**	**the Company**
Ng Hoi Ying, Michael	2,856,000	151,000,000 *(Note a)*	153,856,000	40.10%
Ng Kim Ying	950,000	18,500,000 *(Note b)*	19,450,000	5.07%
Hui Pui Woon	–	17,682,000 *(Note c)*	17,682,000	4.61%
Lee Wai Chung	1,750,000	–	1,750,000	0.46%

Notes:

(a) These shares were held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan was held by Trustcorp Limited ("Trustcorp") as trustee for The Arts 1996 Trust, a discretionary trust, the beneficiaries of which included 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 were 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 were held by Universal Honour Developments Limited ("Universal Honour"). The entire issued share capital of Universal Honour was held by Trustcorp as trustee for The Optical 2000 Trust, a discretionary trust, the beneficiaries of which included 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 were 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)

(c) These shares were held by Fortune Smiles Limited. The entire issued share capital of Fortune Smiles Limited was 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.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Ratagan in trust for the Group, as at 31st December, 2006, none of the directors, chief executive 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 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, 2006, 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 and short positions in the issued share capital of the Company:

Shares in the Company (Long Position)

Name of shareholder	Capacity	Number of issued shares held	Percentage of issued share capital of the Company
Veer Palthe Voûte NV	Beneficial owner	34,589,990 *(Note a)*	9.02%
David Michael Webb	Beneficial owner	3,224,000	0.84%
	Held by controlled corporation	19,900,000 *(Note b)*	5.19%
Preferable Situation Assets Limited	Beneficial owner	19,900,000 *(Note b)*	5.19%

Notes:

(a) Allianz SE, Allianz Finanzbeteiligungs GmbH, Dresdner Bank Aktiengesellschaft and Dresdner Bank Luxembourg S.A., being the parent companies of Veer Palthe Voûte NV, were also deemed to be interested in the same parcel of 34,589,990 shares held by Veer Palthe Voûte NV under Part XV of the SFO.

(b) Mr. David Michael Webb was deemed to be interested in the 19,900,000 shares held by Preferable Situation Assets Limited 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 disclosed no other person as having a notifiable interests or short positions in the issued share capital of the Company at 31st December, 2006.

Major Customers and Suppliers

For the year ended 31st December, 2006, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 51% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 17% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 31% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 9% of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

Convertible Securities, Options, Warrants or Similar Rights

Other than the New Share Option Scheme disclosed under the heading "Share Options" above and in note 28 to the consolidated financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st December, 2006 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 executive directors of the Company were determined by the Remuneration Committee benchmarked against comparable companies in Hong Kong. The emoluments of the independent non-executive directors of the Company were determined by the Remuneration Committee benchmarked against comparable companies in Hong Kong before the 2006 Annual General Meeting and thereafter recommended by the board of directors of the Company and approved by the shareholders at the annual general meeting.

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 28 to the consolidated 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, 2006.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 22 to 25 of this Annual Report.

Auditor

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

On behalf of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 17th April, 2007

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"). The Company has complied with all applicable code provisions in the Code throughout the year ended 31st December, 2006, 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, 2006.

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, 2006, 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	3/4
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 key business and strategic decisions of the Company and its subsidiaries (collectively the "Group") and monitoring the performances of the management team. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's business to 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.

Mr. Ng Hoi Ying, Michael, Ms. Hui Pui Woon and Mr. Lee Wai Chung were re-elected as Directors of the Company in the annual general meeting of the Company held on 25th May, 2006 for a term of no more than three years and subject to retirement by rotation in accordance with the Company's Bye-laws.

Mr. Wong Chi Wai, Mr. Chung Hil Lan Eric and Mr. Francis George Martin 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, 2006 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 executive Directors.

2. To review the remuneration policy of the Group.

During the year ended 31st December, 2006, the Remuneration Committee has reviewed and determined the remuneration of the executive Directors and the overall remuneration policy of the Group. The remuneration of independent non-executive Directors was determined by the Remuneration Committee benchmarked against comparable companies in Hong Kong before the annual general meeting held on 25th May, 2006 and thereafter recommended by the Board and approved by the shareholders of the Company at the annual general meeting.

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, 2006, 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.

A statement by the auditor about their reporting responsibilities is included in the Independent Auditor's Report on pages 26 to 27.

Auditor's Remuneration

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

Services rendered	Fees paid/payable *HK$'000*
Audit services	1,408
Non-audit services:	
Review on 2006 interim results	290
Tax compliance services	141
Review on 2006 preliminary annual results	10

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 auditor of the Company. The Audit Committee has performed the above duties during the year ended 31st December, 2006. Three Audit Committee meetings were held during the year ended 31st December, 2006 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	3/3

Internal Controls

It is the responsibility of the Board to ensure that the Group maintains sound and effective internal controls to safeguard the shareholders' investments and the Group's assets.

The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective check and balances.

The Board, with the assistance of RSM Nelson Wheeler Consulting Limited, assessed the effectiveness of the Group's internal control system which covered all material controls, including financial, operational and compliance controls as well as risk management functions during the year ended 31st December, 2006. No major issue but areas for improvement had been identified and appropriate measures had been taken.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of Arts Optical International Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 28 to 75, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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

17th April, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Revenue	6	**1,098,960**	791,624
Cost of sales		**(783,330)**	(569,555)
Gross profit		**315,630**	222,069
Other income	7	**42,688**	11,117
Distribution costs		**(49,300)**	(33,075)
Administrative expenses		**(112,597)**	(91,938)
Other expenses		**(15,327)**	(2,207)
Finance costs	9	**(49)**	(21)
Profit before taxation		**181,045**	105,945
Taxation	10	**(17,676)**	(10,217)
Profit for the year	11	**163,369**	95,728
Attributable to:			
Equity holders of the parent		**166,483**	95,961
Minority interests		**(3,114)**	(233)
		163,369	95,728
Dividends	14		
– Declared		**53,711**	68,650
– Proposed		**26,856**	26,856
		80,567	95,506
Earnings per share	15		
– Basic		**43.4 HK cents**	25.2 HK cents
– Diluted		**N/A**	25.1 HK cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-current Assets			
Investment property	16	**4,800**	3,600
Property, plant and equipment	17	**350,373**	254,745
Prepaid lease payments	18	**26,145**	40,598
Intangible assets	19	**4,680**	–
Loan receivable	20	**15,229**	17,589
Goodwill	21	**–**	1,274
Available-for-sale investments	22	**5,858**	13,358
Deferred tax assets	29	**53**	53
		407,138	331,217
Current Assets			
Inventories	23	**184,621**	162,300
Debtors, deposits and prepayments	24	**348,784**	248,385
Loan receivable	20	**2,247**	2,262
Prepaid lease payments	18	**652**	972
Tax recoverable		**265**	263
Bank balances and cash	25	**69,134**	65,006
		605,703	479,188
Current Liabilities			
Creditors and accrued charges	26	**234,442**	170,206
Tax liabilities		**10,381**	425
		244,823	170,631
Net Current Assets		**360,880**	308,557
Total Assets less Current Liabilities		**768,018**	639,774

CONSOLIDATED BALANCE SHEET

At 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Capital and Reserves			
Share capital	27	**38,365**	38,365
Reserves		**715,843**	584,844
Equity attributable to equity holders of the parent		**754,208**	623,209
Minority interests		**142**	3,256
Total equity		**754,350**	626,465
Non-current Liabilities			
Deferred tax liabilities	29	**13,054**	13,309
Loan from a minority shareholder of a subsidiary	30	**614**	–
		13,668	13,309
		768,018	639,774

The consolidated financial statements on pages 28 to 75 were approved and authorised for issue by the Board of Directors on 17th April, 2007 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, 2006

	Attributable to equity holders of the parent								
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Other reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2005	37,913	110,425	(3,269)	–	506	446,692	592,267	3,489	595,756
Exchange differences arising on translation of foreign operation recognised directly in equity	–	–	–	–	(346)	–	(346)	–	(346)
Profit (loss) 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 options	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
Exchange differences arising on translation of foreign operation recognised directly in equity	–	–	–	–	17,582	–	17,582	–	17,582
Profit (loss) for the year	–	–	–	–	–	166,483	166,483	(3,114)	163,369
Total recognised income and expense for the year	–	–	–	–	17,582	166,483	184,065	(3,114)	180,951
Dividends paid	–	–	–	–	–	(53,711)	(53,711)	–	(53,711)
Deemed contribution from a minority shareholder of a subsidiary *(note 30)*	–	–	–	645	–	–	645	–	645
At 31st December, 2006	38,365	113,950	(3,269)	645	17,742	586,775	754,208	142	754,350

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.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2006

	2006	2005
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before taxation	**181,045**	105,945
Adjustments for:		
Finance costs	**49**	21
Release of prepaid lease payments	**900**	970
Depreciation of property, plant and equipment	**56,531**	49,105
Impairment loss in respect of goodwill	**1,274**	–
Increase in fair value of investment property	**(1,200)**	(400)
Interest income	**(1,012)**	(1,194)
Impairment loss in respect of available-for-sale investments	**7,500**	–
Dividend income from available-for-sale investments	**(940)**	(416)
Net (gain) loss on disposal of prepaid lease payments and property, plant and equipment	**(18,045)**	1,400
Operating cash flows before movements in working capital	**226,102**	155,431
Increase in inventories	**(20,656)**	(42,940)
Increase in debtors, deposits and prepayments	**(99,153)**	(39,057)
Increase in creditors and accrued charges	**64,236**	40,497
Cash generated from operations	**170,529**	113,931
Hong Kong Profits Tax paid	**(7,977)**	(4,870)
NET CASH FROM OPERATING ACTIVITIES	**162,552**	109,061
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(146,708)**	(92,541)
Additions to prepaid lease payments	**(962)**	–
Purchase of intangible assets	**(4,680)**	–
Decrease in pledged bank deposits	**–**	2,187
Proceeds from disposal of property, plant and equipment	**2,898**	636
Proceeds from disposal of prepaid lease payments	**38,460**	–
Interest received	**1,012**	1,194
Decrease in loan receivable	**2,375**	1,131
Dividend received from available-for-sale investments	**940**	416
Dividend received from pre-acquisition profits of available-for-sale investments	**–**	295
NET CASH USED IN INVESTING ACTIVITIES	**(106,665)**	(86,682)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2006

	2006 HK$'000	2005 HK$'000
FINANCING ACTIVITIES		
Dividends paid	**(53,711)**	(68,650)
Interest paid	**(15)**	(21)
Proceeds from issue of shares	**–**	3,977
Advance from a minority shareholder of a subsidiary	**1,225**	–
NET CASH USED IN FINANCING ACTIVITIES	**(52,501)**	(64,694)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,386**	(42,315)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**65,006**	108,309
Effect of foreign exchange rate changes	**742**	(988)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**69,134**	65,006

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 addresses of the registered office and principal place of business of the Company are disclosed in the corporate information on page 2 of this 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 37.

The consolidated financial statements are presented in Hong Kong dollars which is different from the functional currency of the Company, which is in United States dollars, as directors of the Company consider that Hong Kong dollar is the most appropriate presentation currency in view of its place of listing.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("INTs") ("new HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material financial impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2009.
[3] Effective for annual periods beginning on or after 1st March, 2006.
[4] Effective for annual periods beginning on or after 1st May, 2006.
[5] Effective for annual periods beginning on or after 1st June, 2006.
[6] Effective for annual periods beginning on or after 1st November, 2006.
[7] Effective for annual periods beginning on or after 1st March, 2007.
[8] Effective for annual periods beginning on or after 1st January, 2008.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for investment property, which is measured at fair value, 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation (continued)

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

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 from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalty arrangement that is based on sales is recognised by reference to the underlying arrangement.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill (continued)

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year when the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised but not yet impaired is included in the determination of the amount of profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment other than buildings under construction, 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, other than buildings under construction, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Buildings under construction represents property, plant and equipment in the course of construction for production or for its own use purposes. Buildings under construction is carried at cost less any recognised impairment loss. Buildings under construction is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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 consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid lease payment

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

Investment property

On initial recognition, investment property is 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 consolidated income statement in the year in which the item is derecognised.

Intangible assets

Intangible assets represent trademarks with indefinite useful lives and are carried at cost less any subsequent accumulated impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When 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 impairment loss is recognised as income immediately.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

3. Significant Accounting Policies *(continued)*

Impairment losses (other than goodwill and indefinite life intangibles)

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.

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 consolidated 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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial assets *(continued)*

Loans and receivables

Loans and receivables 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 (including debtors, loan receivable and bank balances) 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.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, 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 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 profit or loss in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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 instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities (including creditors and accrued charges and loan from a minority shareholder) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

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 asset, the difference between the carrying amount of the financial asset and the sum of the consideration received is recognised in profit or loss.

For financial liabilities, they are removed from the Group's consolidated balance sheet 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 and payable is recognised in profit or loss.

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 lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 consolidated 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.

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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 (exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit costs

Payments to the defined contribution retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Equity settled share-based payment transactions

Share options granted to directors and employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share options reserve.

The Group has applied HKFRS 2 "Share-based payments" to share options granted on or after 1st January, 2005. The above policy is applied to all equity-settled share-based payments that were granted after 7th November, 2002 and vested after 1st January, 2005. In relation to share options granted before 1st January, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted after 7th November, 2002 and vested before 1st January, 2005, no amount has been recognised in the consolidated financial statements in respect of the equity-based payments.

4. Key Sources of Estimation Uncertainty

In the process of applying the Group'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.

Estimated impairment of debtors

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units. 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. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 19.

5. Financial Instruments

a. Financial risk management objectives and policies

The Group's major financial instruments include debtors, loan receivables, available-for-sale investments, creditors, bank deposits and loan from a minority shareholder. 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.

5. FINANCIAL INSTRUMENTS *(continued)*

a. Financial risk management objectives and policies (continued)

Market risk

Currency risk

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

Certain debtors, deposits, loan receivables and available-for-sale investments and creditors of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's bank balances have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure of the short-term bank deposits to interest rate risk is not significant as interest bearing bank balances are with short maturity periods.

The Group currently does not have interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Credit risk

As at 31st December, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount disclosed in note 34.

The Group's credit risk is primarily attributable to its debtors and loan receivable. The amounts presented in the consolidated balance sheet are net of allowances for doubtful debts.

5. Financial Instruments *(continued)*

a. Financial risk management objectives and policies (continued)

Credit risk (continued)

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.

b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The directors consider that the carrying amounts of financial assets and financial liabilities in the consolidated financial statements approximate their fair values.

6. Segment Information

Revenue

Revenue 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 (the "PRC").

6. SEGMENT INFORMATION *(continued)*

Geographical segments (continued)

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

For the year ended 31st December, 2006

	Europe *HK$'000*	United States *HK$'000*	Asia *HK$'000*	Other regions *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	708,957	291,866	69,925	28,212	1,098,960
Result					
Segment result	149,340	63,900	18,581	4,158	235,979
Unallocated income					20,956
Unallocated corporate expenses					(76,853)
Interest income on bank deposits					1,012
Finance costs					(49)
Profit before taxation					181,045
Taxation					(17,676)
Profit for the year					163,369

6. Segment Information *(continued)*

Geographical segments (continued)

At 31st December, 2006

Balance sheet

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Assets					
Segment assets	272,638	109,253	28,171	38,913	448,975
Unallocated corporate assets					563,866
					1,012,841
Unallocated corporate liabilities					258,491

Other information

	Unallocated and consolidated HK$'000
Capital expenditure of property, plant and equipment	146,708
Depreciation of property, plant and equipment	56,531
Release of prepaid lease payments	900

6. SEGMENT INFORMATION *(continued)*

Geographical segments (continued)

For the year ended 31st December, 2005

	Europe	United States	Asia	Other regions	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
External sales	464,088	232,167	65,537	29,832	791,624
Result					
Segment result	94,663	44,475	14,364	4,597	158,099
Unallocated income					3,136
Unallocated corporate expenses					(56,463)
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

7. Other Income

Included in other income are:

	2006	2005
	HK$'000	*HK$'000*
Sales of scrap materials	**12,861**	6,333
Compensation from customers	**5,444**	412
Increase in fair value of investment property	**1,200**	400
Interest income on bank deposits	**1,012**	1,194
Property rental income less negligible outgoings	**290**	286
Dividend income from available-for-sale investments	**940**	416
Net gain on disposal of prepaid lease payments and property, plant and equipment	**18,045**	–
Royalty income on intangible assets	**1,873**	–
Net foreign exchange gains	**–**	1,564

8. Income Statement Classification

Included in cost of sales is an amount of HK$15,645,000 (2005: HK$3,342,000) in respect of a write-down of raw materials, work in progress and finished goods to their estimated net realisable values.

9. Finance Costs

	2006	2005
	HK$'000	*HK$'000*
Interest on bank borrowing wholly repayable within five years	**15**	21
Imputed interest on loan from a minority shareholder of a subsidiary	**34**	–
	49	21

10. TAXATION

	2006 **HK$'000**	2005 HK$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	**16,822**	7,541
– Under(over)provision in respect of prior years	**1,109**	(614)
	17,931	6,927
Deferred taxation *(note 29)*		
– Current year	**1,356**	3,290
– Overprovision in respect of prior year	**(1,611)**	–
	(255)	3,290
	17,676	10,217

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 of the Company, that portion of the Group's profit is not subject to taxation in any other jurisdiction in which the Group operates for both years.

10. TAXATION *(continued)*

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

	2006 **HK$'000**	2005 HK$'000
Profit before taxation	**181,045**	105,945
Tax at the applicable rate of 17.5% (2005: 17.5%)	**31,683**	18,540
Tax effect of expenses not deductible for tax purpose	**2,789**	1,619
Tax effect of income not taxable for tax purpose	**(2,874)**	(1,652)
Tax effect of Hong Kong Profits Tax on 50:50 apportionment basis	**(16,554)**	(8,114)
Overprovision in respect of prior years	**(502)**	(614)
Tax effect of tax losses and other deductible temporary differences for current year not recognised	**1,922**	282
Utilisation of tax losses and other deductible temporary differences for prior years previously not recognised	**(69)**	(231)
Others	**1,281**	387
Taxation for the year	**17,676**	10,217

11. Profit for the Year

	2006	2005
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Auditor's remuneration	**1,408**	1,289
Cost of inventories recognised as an expense	**783,330**	569,555
Depreciation of property, plant and equipment	**56,531**	49,105
Impairment loss on goodwill	**1,274**	–
Impairment loss recognised in respect of available-for-sale investments	**7,500**	–
Loss on disposal of property, plant and equipment	**4,680**	1,400
Net foreign exchange loss	**5,476**	–
Operating lease rentals in respect of rented premises	**6,485**	7,218
Release of prepaid lease payments	**900**	970
Staff costs:		
Directors' emoluments *(note 12)*	**2,907**	2,585
Other staff		
– Salaries and other allowances	**206,023**	148,848
– Retirement benefit scheme contributions	**1,118**	1,010
Total staff costs	**210,048**	152,443

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2005: seven) directors were as follows:

At 31st December, 2006

	Fee HK$'000	Other emoluments: Salaries and other benefits HK$'000 (Note a)	Other emoluments: Performance related incentive bonus HK$'000 (Note b)	Other emoluments: Contributions to retirement benefits scheme HK$'000 (Note a)	Total HK$'000
Executive directors:					
Ng Hoi Ying, Michael	–	–	226	6	232
Hui Pui Woon	–	761	–	35	796
Ng Kim Ying	–	195	–	9	204
Lee Wai Chung	–	1,012	200	47	1,259
	–	1,968	426	97	2,491
Independent non-executive directors:					
Francis George Martin	144	–	–	–	144
Wong Chi Wai	136	–	–	–	136
Chung Hil Lan Eric	136	–	–	–	136
	416	–	–	–	416
Total emoluments	416	1,968	426	97	2,907

12. DIRECTORS' EMOLUMENTS *(continued)*

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)

Notes:

(a) During the years ended 31st December, 2006 and 31st December, 2005, Mr. Ng Hoi Ying, Michael, an executive director, waived emoluments as follows:

	2006 **HK$'000**	2005 HK$'000
Amounts waived in respect of emoluments for the current year		
Salaries and other benefits	**1,235**	1,235
Retirement benefit scheme contributions	**51**	49
	1,286	1,284

(b) The performance related incentive payment is determined by reference to the financial performance of the Group and the performance of the individual director for the two years ended 31st December, 2006 and 31st December, 2005 respectively.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2005: one) was an executive director of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining four (2005: four) individuals were as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**3,212**	3,047
Contributions to retirement benefits schemes	**146**	288
Performance related incentive payments	**589**	138
	3,947	3,473

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2006

13. Employees' Emoluments *(continued)*

Their emoluments were within the following bands:

	2006 No. of employees	2005 No. of employees
Nil to HK$1,000,000	**2**	4
HK$1,000,001 to HK$1,500,000	**2**	–

14. Dividends

	2006 HK$'000	2005 HK$'000
Dividend recognised as distribution during the year:		
Final dividend paid in respect of 2005 of 7 HK cents (2004: 9 HK cents) per share	**26,856**	34,122
Interim dividend paid in respect of 2006 of 7 HK cents (2005: 9 HK cents) per share	**26,855**	34,528
	53,711	68,650
Final dividend proposed in respect of 2006 of 7 HK cents (2005: 7 HK cents) per share	**26,856**	26,856
	80,567	95,506

The final dividend in respect of 2006 of 7 HK cents (2005: 7 HK cents) per share has been proposed by the directors of the Company 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:

	2006	2005
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share	**166,483**	95,961
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	**383,650,000**	380,692,192
Effect of dilutive potential shares in respect of share options	**–**	2,015,810
Weighted average number of shares for the purpose of diluted earnings per share	**383,650,000**	382,708,002

16. Investment Property

	HK$'000
FAIR VALUE	
At 1st January, 2005	3,200
Increase in fair value recognised in the consolidated income statement	400
At 31st December, 2005	3,600
Increase in fair value recognised in the consolidated income statement	1,200
At 31st December, 2006	4,800

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, 2006 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.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Buildings under construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1st January, 2005	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
Exchange adjustments	8,673	2,309	17,477	1,538	252	1,236	31,485
Additions	9,371	6,688	78,453	9,444	612	42,140	146,708
Disposals	(4,232)	(2,269)	(13,885)	(2,261)	(1,251)	–	(23,898)
Reclassification	31,688	–	–	–	–	(31,688)	–
At 31st December, 2006	193,407	53,384	401,920	50,547	7,478	41,346	748,082
DEPRECIATION AND AMORTISATION							
At 1st January, 2005	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
Exchange adjustments	2,149	2,036	12,942	1,117	212	–	18,456
Provided for the year	7,528	5,723	38,612	3,986	682	–	56,531
Eliminated on disposals	(1,114)	(2,194)	(10,395)	(1,633)	(984)	–	(16,320)
At 31st December, 2006	44,585	43,450	267,238	36,368	6,068	–	397,709
CARRYING VALUES							
At 31st December, 2006	148,822	9,934	134,682	14,179	1,410	41,346	350,373
At 31st December, 2005	111,885	8,771	93,796	8,928	1,707	29,658	254,745

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

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
Plant and machinery and motor vehicles	Over 5 years

The Group's property interests shown above comprise:

	Buildings		**Buildings under construction**	
	2006 **HK$'000**	2005 *HK$'000*	**2006** **HK$'000**	2005 *HK$'000*
Properties situated on land in the PRC other than Hong Kong held under medium-term leases	**147,453**	110,370	**41,346**	29,658
Properties situated on land in Hong Kong held under medium-term leases	**1,369**	1,515	**–**	–
	148,822	111,885	**41,346**	29,658

18. PREPAID LEASE PAYMENTS

	2006 HK$'000	2005 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	**5,747**	5,888
Leasehold land outside Hong Kong:		
Medium-term lease	**21,050**	35,682
	26,797	41,570
Analysed for reporting purposes as:		
Current asset	**652**	972
Non-current asset	**26,145**	40,598
	26,797	41,570

19. INTANGIBLE ASSETS AND IMPAIRMENT TESTING ON INTANGIBLE ASSETS

The trademark purchased from a third party in current year is considered by the management of the Group as having an indefinite useful life.

The recoverable amount of the trademark has been determined on the basis of value in use calculations. The recoverable amount is 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 10%. Cash flow projections during the budget period for the trademark 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.

During the year ended 31st December, 2006, the trademark has been tested for impairment by comparing its carrying amount with its recoverable amount. The management of the Group determined that there is no impairment loss was charged for the current year.

20. LOAN RECEIVABLE

	2006 **HK$'000**	2005 HK$'000
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the balance sheet date)	**2,247**	2,262
Non-current assets (receivable after 12 months from the balance sheet date)	**15,229**	17,589
	17,476	19,851

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 9 equal annual installments of HK$2,247,000 each from 2006 to 2015.

21. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL

	HK$'000
COST	
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	1,274
IMPAIRMENT	
At 1st January, 2005 and 31st December, 2005	–
Impairment loss recognised	1,274
At 31st December, 2006	1,274
CARRYING VALUES	
At 31st December, 2006	–
At 31st December, 2005	1,274

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").

21. GOODWILL AND IMPAIRMENT TESTING ON GOODWILL *(continued)*

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% (2005: 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.

Due to the effects caused by the uncertainty about the market conditions, the Group has revised its cash flow forecasts for the Unit during the year. The Unit has therefore been reduced to its recoverable amount through recognition of an impairment loan against goodwill of HK$1,274,000 for the year ended 31st December, 2006.

However, the impairment loss recognised in respect of goodwill by natures does not have any effect on the Group's cash flow.

22. AVAILABLE-FOR-SALE INVESTMENTS

	2006 ***HK$'000***	2005 *HK$'000*
Equity securities, unlisted at cost	**13,358**	13,358
Less: Impairment loss recognised	**(7,500)**	–
	5,858	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.

23. Inventories

	2006	2005
	HK$'000	*HK$'000*
Raw materials	**61,725**	55,301
Work in progress	**111,857**	95,433
Finished goods	**11,039**	11,566
	184,621	162,300

24. 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$333,632,000 (2005: HK$233,670,000), an aging analysis of which at the balance sheet date is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**259,328**	180,277
1 to 90 days overdue	**74,304**	49,082
More than 90 days overdue	**–**	4,311
	333,632	233,670

25. Bank Balances and Cash

Bank balances and cash comprise short-term bank deposits at prevailing market interest rates and short-term bank deposits at market rates range from 2.3% to 4.0% (2005: 1.8% to 3.5%).

26. Creditors and Accrued Charges

Included in the Group's creditors and accrued charges are trade creditors of HK$163,339,000 (2005: HK$133,818,000), an aging analysis of which at the balance sheet date is as follows:

	2006 **HK$'000**	2005 HK$'000
Current	**108,991**	90,089
1 to 90 days overdue	**52,635**	41,121
More than 90 days overdue	**1,713**	2,608
	163,339	133,818

27. Share Capital

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

	Number of shares		**Nominal value**	
	2006	2005	**2006** **HK$'000**	2005 HK$'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	**383,650,000**	379,130,000	**38,365**	37,913
Issued of shares upon exercise of share options	**–**	4,520,000	**–**	452
At end of the year	**383,650,000**	383,650,000	**38,365**	38,365

28. 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.

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, 2005	Exercised during 2005	Lapsed during 2005	Outstanding at 31st December, 2005	Exercised during 2006	Outstanding at 31st December, 2006
Category: Directors	2,020,000	(2,020,000)	–	–	–	–
Category: Employees	2,500,000	(2,500,000)	–	–	–	–
Total all categories	4,520,000	(4,520,000)	–	–	–	–

28. SHARE OPTIONS *(continued)*

Old Share Option Scheme (continued)

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

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

Total consideration received from employees, including directors, for the options exercised during 2005 amounted to approximately HK$3,977,600. The closing prices of the Company's shares on the dates on which the share options were exercised during 2005 were HK$2.55 and HK$2.50.

New Share Option Scheme

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 purpose of the New Share Option Scheme is to attract and retain high calibre employees, and to motivate them towards higher levels of performance. 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.

28. Share Options (continued)

New Share Option Scheme (continued)

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

29. 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, 2005	(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)
Charge to consolidated income statement for the year	(145)	400	255
At 31st December, 2006	(11,158)	(1,843)	(13,001)

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:

	2006 ***HK$'000***	2005 *HK$'000*
Deferred tax assets	**53**	53
Deferred tax liabilities	**(13,054)**	(13,309)
	(13,001)	(13,256)

At 31st December, 2006, the Group has unused tax losses of HK$15,559,000 (2005: HK$11,875,000) 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$10,608,000 (2005: HK$9,346,000) that will expire from 2006 to 2009. Other losses may be carried forward indefinitely.

29. Deferred Tax (Liabilities) Assets *(continued)*

At the balance sheet date, the Group has deductible temporary differences of HK$19,921,000 (2005: HK$13,019,000). 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.

30. Loan from a Minority Shareholder of a Subsidiary

The amount is unsecured and interest-free. The minority shareholder of a subsidiary has confirmed that the principal amount of the loan is not repayable within the next twelve months from the balance sheet date. On application of HKAS 39 "Financial Instruments: Recognition and Measurement", the fair value of the loan from a minority shareholder of a subsidiary is determined based on an effective interest of 7.75% on initial recognition.

31. Retirement Benefit Scheme

The Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying 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.

The total cost charged to income of HK$1,215,000 (2005: HK$1,105,000) represents contributions payable to these schemes by the Group. At the balance sheet date, there was no forfeited contributions available to reduce future contributions in both years.

32. 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:

	2006 **HK$'000**	2005 HK$'000
Within one year	**5,296**	5,342
In the second to fifth year inclusive	**12,087**	10,639
Over five years	**3,021**	–
	20,404	15,981

In addition to the above, none (2005: one) of the leases of the Group are subject to contingent rents based on a fixed percentage of the annual gross turnover and receipts in excess of the minimum lease. Contingent rent of HK$65,000 for the year ended 31st December, 2005 is included in operating lease rentals in respect of rented premises in note 11.

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:

	2006 **HK$'000**	2005 HK$'000
Within one year	**315**	242

Property rental income earned during the year was HK$290,000 (2005: HK$286,000). The property held at the balance sheet date has committed tenant for an average term of two years.

33. CAPITAL COMMITMENTS

	2006 **HK$'000**	2005 *HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements:		
– buildings under construction	**56,069**	18,081
– leasehold improvements	**1,078**	961
– plant and machinery	**36,976**	9,597
– furniture, fixtures and office equipment	**–**	317
	94,123	28,956

34. CONTINGENT LIABILITIES

	2006 **HK$'000**	2005 *HK$'000*
Corporate guarantee to a financial institution in respect of banking facilities granted to a trade debtor	**9,687**	9,750

The directors consider that the fair values of these financial guarantee contract at its initial recognition is insignificant on the basis of short maturity periods and low applicable default rates. The financial guarantee contract has not been recognised in the consolidated financial statements.

35. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2006 **HK$'000**	2005 *HK$'000*
Short-term benefits	**6,611**	5,675
Post-employment benefits	**243**	383
	6,854	6,058

The remuneration of the executive directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends. The remuneration of independent non-executive directors was determined by the Remuneration Committee before the annual general meeting held on 25th May, 2006 and thereafter recommended by the board of directors and approved by the shareholders of the Company at the annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2006

36. Summarised Balance Sheet of the Company

	2006 HK$'000	2005 HK$'000
Investments in subsidiaries	**139,040**	139,040
Amount due from a subsidiary	**194,433**	181,113
Other current assets	**31,628**	35,955
Other current liabilities	**(3,014)**	(1,361)
	362,087	354,747
Share capital	**38,365**	38,365
Reserves	**323,722**	316,382
	362,087	354,747

37. Principal Subsidiaries

Particulars of the principal subsidiaries at 31st December, 2006 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

37. 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
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
Eyeworkz Limited	Hong Kong	HK$100	–	51%	Trading in optical frames
深圳北方光學實業有限公司 (Shenzhen North Optical Industrial Company Limited)	PRC	HK$17,675,600	–	51% *(Note 1)*	Retailing of optical products
滙駿光學城(河源)有限公司 (known as "Huijun Optical (Heyuan) Limited")	PRC	HK$48,800,000	–	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$3,000,000	–	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$1,500,000	–	100% *(Note 2)*	Inactive

37. PRINCIPAL SUBSIDIARIES *(continued)*

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, 2006 or at any time during the year.

FINANCIAL SUMMARY

RESULTS

	Year ended 31st December,				
	2002 *HK$'000*	2003 *HK$'000*	2004 *HK$'000* (restated)	2005 *HK$'000*	**2006** ***HK$'000***
REVENUE	602,518	519,411	684,959	791,624	**1,098,960**
PROFIT BEFORE TAXATION	117,795	91,509	111,955	105,945	**181,045**
TAXATION	(13,412)	(9,544)	(9,195)	(10,217)	**(17,676)**
PROFIT FOR THE YEAR	104,383	81,965	102,760	95,728	**163,369**
MINORITY INTERESTS	1,304	374	(352)	233	**3,114**
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	105,687	82,339	102,408	95,961	**166,483**

ASSETS AND LIABILITIES

	At 31st December,				
	2002 *HK$'000*	2003 *HK$'000*	2004 *HK$'000* (restated)	2005 *HK$'000*	**2006** ***HK$'000***
TOTAL ASSETS	693,673	695,000	735,563	810,405	**1,012,841**
TOTAL LIABILITIES	(110,093)	(113,845)	(139,807)	(183,940)	**(258,491)**
	583,580	581,155	595,756	626,465	**754,350**
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	580,069	578,018	592,267	623,209	**754,208**
MINORITY INTERESTS	3,511	3,137	3,489	3,256	**142**
	583,580	581,155	595,756	626,465	**754,350**

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. Financial information for 2004 has been restated for these new and revised policies in accordance with the transitional provisions. Financial information for earlier years have not been adjusted to take into account of the effect on the adoption of these new and revised HKFRSs as the directors considered that it is not practicable to do so.