

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the period from 1 April 2002 to 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries comprise the design, manufacture, distribution and retail of optical products. There were no significant changes in the nature of the Group's principal activities during the period.

CHANGE OF ACCOUNTING YEAR END DATE

During the period, the Group changed its accounting year end date from 31 March to 31 December and the financial statements for the period were prepared for the nine months ended 31 December 2002.

RESULTS AND DIVIDENDS

The Group's profit for the period from 1 April 2002 to 31 December 2002 and the state of affairs of the Company and the Group at 31 December 2002 are set out in the financial statements on pages 32 to 90.

An interim dividend of HK5.6 cents per ordinary share was paid on 18 March 2003. The directors recommend the payment of a final dividend of HK4.4 cents per ordinary share in respect of the period, to shareholders on the register of members on 26 May 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 4. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the Group's fixed assets during the period are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the period, together with the reasons therefore, are set out in notes 33 and 34 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period, the Company repurchased certain of its shares on the Hong Kong Stock Exchange and these shares were subsequently cancelled by the Company. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company. Further details of these transactions are set out in note 33 to the financial statements.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

RESERVES

Details of movements in the reserves of the Company and the Group during the period are set out in note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with The Companies Act 1981 of Bermuda (as amended), amounted to HK\$198,877,000, which included the retained profits and contributed surplus, of which HK\$17,673,000 has been proposed as a final dividend for the period.

CHARITABLE CONTRIBUTIONS

During the period, the Group made charitable contributions totalling HK\$104,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the period under review, sales to the Group's five largest customers accounted for approximately 30% of the Group's total sales for the period and sales to the largest customer included therein amounted to approximately 8%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the period.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

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DIRECTORS

The directors of the Company during the period were:

Executive directors:

Ma Bo Kee — *Chairman*

Ma Bo Fung — *Vice chairman*

Ma Bo Lung — *Vice chairman*

Ma Lit Kin, Cary — *Managing director*

Ma Hon Kin, Dennis

Tong Ka Wai, Dicky

Wong Piu Lung, Peter

Non-executive directors:

Ng Tai Chiu, David*

Chau Cham Son* (resigned on 2 April 2002)

Lee Meow Chan, Derrick (resigned on 2 July 2002)

Lee Kiu Wing, Kenneth

Lee Sin Mei, Olivia

Chan Wing Wah, Ivan*

Poon Yick Pang, Philip (resigned on 25 April 2002)

(Alternate director to Lee Meow Chan, Derrick)

Yu Kit Wai, Laetitia

(Alternate director to Lee Kiu Wing, Kenneth)

* *Independent non-executive directors*

Subsequent to the balance sheet date, on 17 February 2003, Mr. Wong Piu Lung, Peter, and on 18 March 2003, Mr. Lee Kiu Wing, Kenneth and Ms. Yu Kit Wai, Laetitia, resigned as directors of the Company.

In accordance with the bye-laws of the Company, Messrs. Ma Bo Lung and Ma Hon Kin, Dennis, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 20 to 23 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the period.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of the Company

Name of director	Notes	Number of shares held and nature of interest			
		Personal	Family	Corporate	Other
Ma Bo Kee	(a)	250,000	—	—	166,011,464
Ma Bo Fung	(a)	250,000	—	—	166,011,464
Ma Bo Lung	(a)	250,000	—	—	166,011,464
Ma Lit Kin, Cary	(b)	250,000	—	—	167,301,185
Ma Hon Kin, Dennis	(c)	158,384	—	—	167,225,319
Tong Ka Wai, Dicky		150,000	—	—	—
Lee Sin Mei, Olivia		42,670	—	—	—
Chan Wing Wah, Ivan		1,000,094	—	—	—

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES *(continued)*

The interests of the directors in the share options of the Company are separately disclosed in note 34 to the financial statements.

Notes:

- (a) These "other" shares are owned by KFL Holdings Limited, the entire capital of which is held by BNP Jersey Trust Corporation Limited as trustee for the Ma Family Trust, a discretionary trust whose objects include Messrs. Ma Bo Kee, Ma Bo Fung, Ma Bo Lung, Ma Lit Kin, Cary, Ma Hon Kin, Dennis and their family members.
- (b) 166,011,464 of these "other" shares are held as explained in note (a) above. In addition, 1,289,721 of these "other" shares are held by United Will Holdings Limited for and on behalf of Mr. Ma Lit Kin, Cary.
- (c) 166,011,464 of these "other" shares are held as explained in note (a) above. In addition, 1,213,855 of these "other" shares are held by United Will Holdings Limited for and on behalf of Mr. Ma Hon Kin, Dennis.

Save as disclosed above and other than shares in subsidiaries held by the directors in trust for the Company, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed in the share option scheme disclosures in note 34 to the financial statements, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the period, the detailed disclosures relating to the Company's share option scheme have been moved to note 34 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest of 10% or more of the issued share capital of the Company that was required to be recorded in the register kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS DISCLOSED UNDER RULE 14.25(2)(a) OF THE LISTING RULES

The Company has entered into guarantee agreements whereby the banking facilities granted by its bankers to non-wholly owned subsidiaries of the Group were guaranteed by the Company by ways of letters of guarantee issued in favour of the bankers. The details of the guarantees are as follows:

Date of agreement	Guaranteed amount HK\$'000	Non-wholly owned subsidiaries
13 May 2000	8,000	Creative Eyewear Limited
5 January 2002	17,136	Metzler International (Asia) Limited (formerly known as Moulin Optical (Far East) Limited)
8 January 2002	9,000	Bold Ware Optical (Metal) Manufactory Limited
9 October 2002	32,614	Active Sino Group Limited Bold Ware Optical (Metal) Manufactory Limited Metzler International (Asia) Limited (formerly known as Moulin Optical (Far East) Limited)
26 November 2002	35,000	Active Sino Group Limited Bold Ware Optical (Metal) Manufactory Limited

PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of one of the Group's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan agreement dated 25 October 2002 relating to a 42-month syndicated loan of HK\$440,000,000 granted to the Group, the Company's controlling shareholder (including Mr. Ma Bo Kee, his family members, close relatives, related trusts and companies controlled by him, his close relatives or related trusts) is required to maintain at least a 35% interest, in aggregate, in the issued share capital of the Company. A breach of such obligation will cause a default in respect of the loan, which is significant to the operations of the Group.

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CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the provisions of the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors of the Company and one non-executive director of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Ma Bo Kee

Chairman

Hong Kong

28 April 2003