THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Moulin International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

MOULIN
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MOULIN INTERNATIONAL HOLDINGS LIMITED
泰興光學集團有限公司*

(Incorporated in Bermuda with limited liability)

STOCK CODE: 389

(1) VERY SUBSTANTIAL ACQUISITION — PROPOSED ACQUISITION OF A MAJORITY SHAREHOLDING INTEREST IN ECCA TO BE EFFECTED BY WAY OF THE MERGER OF A SUBSIDIARY OF MOULIN INTERNATIONAL HOLDINGS LIMITED WITH AND INTO ECCA; AND

(2) CHANGE OF AUDITORS

A notice convening a special general meeting of Moulin International Holdings Limited to be held at 4/F, Kenning Industrial Building, 19 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Monday, February 28, 2005 at 10:00 a.m. is set out on pages 158 and 159 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

February 12, 2005

* *For identification purposes only*

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In this circular, the following expressions have the following meanings, unless the context requires otherwise:

"Advisory Agreements"	as defined in the section headed "Information on Merger Holdco and the GGC Entities — Advisory Agreements" in the Letter from the Board contained in this circular
"Agreement"	the agreement and plan of merger dated December 2, 2004 entered into between ECCA, Thomas H. Lee Equity Fund IV, L.P. (solely in its capacity as representative of ECCA's shareholders), Merger Sub and Merger Holdco in respect of the Merger
"Announcement"	the announcement dated December 6, 2004 issued by the Company
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day, other than a Saturday, Sunday or a day on which the banks or national securities exchanges located in New York, New York shall be authorised or required by law to close
"BVI Holdco"	Ample Faith Investments Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
"Bye-laws"	the existing bye-laws of the Company
"Cayman Holdco"	ECCA Holdings (Cayman) Limited, a company incorporated in the Cayman Islands and an indirect wholly-owned subsidiary of the Company
"China" or "PRC"	the People's Republic of China, excluding Hong Kong, Macau and Taiwan
"Closing"	the closing of the Merger under the Agreement
"Company"	Moulin International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"connected person"	has the meaning ascribed to it under the Listing Rules
"Debt Tender"	a cash tender offer commenced by ECCA on January 3, 2005 to purchase all of the outstanding Notes and the solicitation by ECCA of the consent of the holders of the Notes to amend the Indenture to eliminate all material covenants and related defaults and otherwise to permit the transactions contemplated by the Agreement, which purchase and acceptance for payment of the Notes is conditional upon consummation of the Merger
"Deloittes"	Deloitte Touche Tohmatsu
"Directors"	the directors of the Company

"E&Y"	Ernst & Young
"ECCA"	Eye Care Centers of America, Inc., a company incorporated in Texas, USA with limited liability of which over 80% is owned by Thomas H. Lee Equity Fund IV, L.P. and certain of its affiliates and co-investors
"ECCA Group"	ECCA and its subsidiaries
"Effective Time"	the effective time of the Merger, being the time at which a certificate of merger executed in accordance with Texas law is duly filed with the Secretary of State of the State of Texas or such other time as Merger Holdco and ECCA shall agree and shall specify in the certificate of merger
"Enlarged Group"	the Company and its subsidiaries immediately after completion of the Merger
"GGC"	Golden Gate Private Equity, Inc.
"GGC Administration, LLC"	an affiliate of GGC
"GGC Entities"	GGC and its affiliates who will become owners of shares in Joint Venture Co
"Group"	the Company and its subsidiaries
"HK" or "Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HK GAAP" or "Hong Kong GAAP"	accounting principles that are generally accepted in Hong Kong
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IFRS"	financial reporting standards and interpretations approved by the International Accounting Standards Board and includes all International Accounting Standards and interpretations issued under the former International Accounting Standards Committee from time to time
"Indenture"	the indenture dated April 23, 1998 as amended governing the Notes
"Joint Venture Co"	Merger Holdco
"Latest Practicable Date"	February 7, 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information included in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Merger"	the merger of Merger Sub with and into ECCA pursuant to the terms of the Agreement

"Merger Holdco"	ECCA Holdings Corporation, a company incorporated in Delaware, USA with limited liability and an indirect wholly-owned subsidiary of the Company
"Merger Sub"	LFS-Merger Sub, Inc., a company incorporated in Texas, USA with limited liability which is wholly owned by Merger Holdco
"Minimum Tender Requirement"	the requirement that there shall have been tendered and not withdrawn not less than 51% of the aggregate principal amount of the outstanding Notes pursuant to the Debt Tender, on terms and conditions reasonably satisfactory to Merger Holdco and Merger Sub
"Notes"	the 9$^1/_8$% senior subordinated notes due 2008 and the floating interest rate subordinated term securities due 2008 of ECCA
"Put Agreement"	as defined in the section headed "Information on Merger Holdco and the GGC Entities — Put Agreement" in the Letter from the Board contained in this circular
"Restraint"	temporary restraining order, preliminary or permanent injunction or other judgment or order by or pending before any court of competent jurisdiction or other statute, law, rule, legal restraint or prohibition
"Restricted Stock Grant(s)"	grant(s) of stock in Joint Venture Co by the Company to one or more of its executive officers, which stock will initially be subject to a right of forfeiture in favour of the Company
"Rollover ECCA Options"	options or other rights to acquire from any member of the ECCA Group securities convertible into or exchangeable or exercisable for shares in any member of the ECCA Group, held by certain shareholders of ECCA who are members of the management of ECCA as set forth in an exhibit to the Agreement, which exhibit may be amended prior to the Effective Time by each such shareholder and Merger Sub
"Rollover ECCA Shares"	the shares of company common stock held by certain shareholders of ECCA who are members of the management of ECCA as set forth in an exhibit to the Agreement, which exhibit may be amended prior to the Effective Time by each such shareholder and Merger Sub
"Sale Right"	as defined in the section headed "Information on Merger Holdco and the GGC Entities — Shareholders' Agreement" in the Letter from the Board contained in this circular
"SEC"	the Securities and Exchange Commission of the USA
"Senior Credit Agreement"	the senior credit agreement and related documents to be entered into by Merger Sub with a syndicate of financial institutions at Closing in connection with the transactions contemplated by the Agreement

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened for the purpose of approving the Agreement and the related transactions and the appointment of auditors
"Shareholders"	holders of the Shares
"Shareholders' Agreement"	the stockholders agreement dated December 2, 2004 entered into among Merger Holdco, Cayman Holdco, BVI Holdco, the GGC Entities and the Company in respect of Joint Venture Co
"Shares"	shares of HK$0.50 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed to it under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and "subsidiaries" shall be construed accordingly
"Supply Agreement"	the supply agreement dated December 2, 2004 between Merger Sub and the Company
"Supply Agreement Breach"	any breach by the Company of its obligation under the Supply Agreement to (i) notify Merger Sub of better price terms for any products sold or provided to any person and apply such better price terms to products sold to Merger Sub, such breach not having been cured within 30 days of receiving notice from Merger Sub; or (ii) make payments of volume incentives to Merger Sub and a one-off payment of US$300,000 (HK$2.34 million) to Merger Sub on or prior to December 31, 2005, such breach remaining uncured more than 30 days after notice from Merger Sub
"Surviving Corporation"	ECCA as the surviving corporation in the Merger
"US" or "USA"	the United States of America
"US$"	United States dollars, the lawful currency of the USA
"%"	per cent.

MOULIN INTERNATIONAL HOLDINGS LIMITED

泰興光學集團有限公司*

(Incorporated in Bermuda with limited liability)

STOCK CODE: 389

Executive Directors:

Ma Bo Kee *(Chairman)*
Ma Bo Fung *(Vice Chairman)*
Ma Bo Lung *(Vice Chairman)*
Ma Lit Kin, Cary *(Chief Executive Officer)*
Ma Hon Kin, Dennis
Tong Ka Wai, Dicky
Joseph A. Barrett

Independent Non-Executive Directors:

Ng Tai Chiu, David
Chan Wing Wah, Ivan
So Kwan Hon, Danny

Registered Office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal Place of Business:

4/F, Kenning Industrial Building
19 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

February 12, 2005

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION — PROPOSED ACQUISITION OF A MAJORITY SHAREHOLDING INTEREST IN ECCA TO BE EFFECTED BY WAY OF THE MERGER OF A SUBSIDIARY OF MOULIN INTERNATIONAL HOLDINGS LIMITED WITH AND INTO ECCA; AND

(2) CHANGE OF AUDITORS

INTRODUCTION

On December 6, 2004, the Directors announced that Merger Holdco (an indirect wholly-owned subsidiary of the Company), Merger Sub (a company wholly-owned by Merger Holdco), Thomas H. Lee Equity Fund IV, L.P. (solely in its capacity as representative of ECCA's shareholders) and ECCA entered into the Agreement for the acquisition of ECCA by the Company, to be effected by way of the merger of Merger Sub with and into ECCA.

* *For identification purposes only*

The Agreement and the related transactions set out in this circular constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and are therefore subject to Shareholders' approval pursuant to Rule 14.49 of the Listing Rules.

On December 30, 2004, the Directors announced that E&Y had resigned as the auditors of the Company with effect from December 30, 2004. The Board had resolved to propose to the Shareholders the appointment of Deloittes as the new auditors of the Company.

The purpose of this circular is (i) to give the Shareholders further information in relation to the Agreement and the related transactions and the proposed appointment of auditors; (ii) to give the Shareholders notice of the SGM at which ordinary resolutions will be proposed to approve the Agreement and the related transactions and the appointment of auditors and (iii) to provide the Shareholders with such information concerning the Company as required by the Listing Rules.

THE AGREEMENT DATED DECEMBER 2, 2004

Parties

(i) ECCA

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, ECCA, ECCA's shareholders, ECCA's optionholders and their respective ultimate beneficial owners and associates are third parties independent of the Company and any connected person of the Company.

(ii) Thomas H. Lee Equity Fund IV, L.P. (solely in its capacity as representative of ECCA's shareholders)

(iii) Merger Sub

(iv) Merger Holdco

The acquisition

The acquisition of ECCA will be effected by way of the merger of Merger Sub with and into ECCA.

The Merger

Pursuant to the Agreement, at the Effective Time, Merger Sub will be merged with and into ECCA. Following the Effective Time, the separate corporate existence of Merger Sub will cease, and ECCA will continue as the Surviving Corporation and will succeed to and assume all the rights and obligations of Merger Sub.

As of the Effective Time:

(i) each issued and outstanding share of common stock of Merger Sub will be converted into and become one validly issued and fully paid share of common stock, with a par value of US$0.01 per share, of the Surviving Corporation;

(ii) all shares of common stock (apart from the Rollover ECCA Shares held by certain members of ECCA's management who will hold shares in Merger Holdco after the Merger), with a par value of US$0.01 per share, of ECCA will be cancelled; and

(iii) all shares of preferred stock, with a par value of US$0.01 per share, of ECCA will be cancelled.

Immediately prior to the Effective Time, each Rollover ECCA Share will be transferred to Merger Holdco in exchange for shares in Merger Holdco. Each Rollover ECCA Option will be exchanged for shares or options for shares in Merger Holdco. It is currently expected that there will be no Rollover ECCA Options immediately prior to the Effective Time.

At or prior to the Effective Time, all outstanding options and warrants issued by the ECCA Group convertible into or exchangeable or exercisable for shares in any member of the ECCA Group (other than the Rollover ECCA Options), whether vested or unvested, will be terminated.

After the Merger, the Surviving Corporation will be wholly owned by Merger Holdco.

The directors and officers of Merger Sub immediately prior to the Effective Time will be the directors and officers, respectively, of the Surviving Corporation. It is the Company's expectation that the key members of ECCA's management will remain intact to manage the Surviving Corporation. Please refer to the section headed "Information on the ECCA Group — Board composition" for further information on the composition of ECCA's board.

Consideration

The total consideration payable by Merger Holdco is equal to US$450 million (HK$3.51 billion), plus (a) the amount outstanding under a certain promissory note issued by one of ECCA's former officers in favour of ECCA that will be repaid at Closing (estimated to be approximately US$1.6 million (HK$12.48 million)), less (b) the sum of (i) the outstanding net debt of the ECCA Group immediately prior to the Effective Time (estimated to be approximately US$221.4 million (HK$1.73 billion)), (ii) the expenses incurred by the ECCA Group in connection with the transactions contemplated by the Agreement (estimated to be approximately US$5 million (HK$39 million)), (iii) approximately US$3.1 million (HK$24.2 million) of management bonuses to be paid by the Surviving Corporation to its employees concurrently with Closing and (iv) any amount in excess of US$750,000 (HK$5.85 million) for obtaining and maintaining for six years after the Effective Time directors' and officers' liability insurance covering acts or omissions occurring prior to the Effective Time (estimated to be nil). Based on the above formula, the consideration is estimated to be approximately US$222.1 million (HK$1.73 billion).

The consideration will be subject to adjustment at and after Closing, depending on (a) whether ECCA's final net working capital will be less than or greater than the target net working capital by over US$1 million (HK$7.8 million), (b) the differences between the estimated and actual amounts of items (a) and (b)(i) to (iv) set out in the preceding paragraph, and (c) whether any tax refund will be received by the Surviving Corporation (any adjustment relating to tax refund will not exceed US$5.9 million (HK$46.0 million)). If ECCA's net working capital at Closing is less than the targeted net working capital deficit of US$715,000 (HK$5.58 million) by more than US$1 million (HK$7.8 million), the consideration will be decreased by the full amount of the shortfall up to a maximum of US$3 million (HK$23.4 million). If ECCA's net working capital at Closing is greater than the targeted net working capital by more than US$1 million (HK$7.8 million), the consideration will be increased by the full amount of the excess up to a maximum of US$3 million (HK$23.4 million). It is currently estimated that the consideration after adjustment will be within the range of US$219.1 million (HK$1.71 billion) to US$231 million (HK$1.8 billion). However, if the estimates of the amounts of items (a) and (b)(i) to (iv) set out in the preceding paragraph turn out to be materially different from the actual amounts, the final consideration may fall outside the range mentioned above.

Any shareholder of ECCA who is entitled to dissent from and who did not vote in favour of the Merger pursuant to and in accordance with Texas law will not receive the consideration under the Agreement, but will receive payment of the fair cash value of such shares in accordance with Texas law. Under the Agreement, the Surviving Corporation will be indemnified by the ECCA shareholders on a dollar-for-dollar basis for any payment made by the Surviving Corporation to a holder of dissent shares in excess of the portion of the consideration such holder would have received if the above rights to receive fair cash value are not exercised. The dissenting shareholders of ECCA cannot prohibit the Merger from being consummated if the majority of the shareholders of ECCA approves the Merger. There will not be any dissenting shareholder of ECCA as all ECCA shareholders have voted in favour of the Merger.

The consideration is payable by Merger Holdco in cash to holders of vested ECCA options (other than the Rollover ECCA Options) upon the Effective Time, and to holders of ECCA shares at or as soon as practicable after the Effective Time upon surrender of their share certificates.

The consideration was determined based on the expected earnings and future growth potential of the ECCA Group. The pricing of a recent comparable transaction in the US optical industry was also taken into account when determining the consideration. The consideration for the Merger was arrived at after arm's length negotiations between all parties to the Agreement. The Directors consider that the consideration for the Merger is fair and reasonable.

Funding of the Merger

The Merger will be funded by shareholders equity of Merger Holdco in the amount of approximately US$163 million (HK$1.271 billion) and by the issue of debt securities and bank borrowings in the amount of US$315 million (HK$2.457 billion), as follows:

(i) The Company, GGC and ECCA's management will make equity investments in Merger Holdco in the aggregate amount of approximately US$163 million (HK$1.271 billion) in proportion to their shareholding interests in Merger Holdco. The Company will make an equity investment of approximately US$93 million (HK$725.4 million) less the amount of ECCA management's equity contribution, which is currently estimated to be US$1.5 million (HK$11.7 million). The Company will make its equity investment from internal cash resources.

(ii) Merger Sub has issued US$152 million (HK$1.186 billion) of 10¾% senior subordinated notes due 2015 at an issue price of 98.495% by way of a private placement to institutional investors both inside and outside the US. The total issue price of the notes is US$149.7 million (HK$1.168 billion). This circular is not an offer of such notes for sale. Upon consummation of the Merger, Merger Sub will be merged with and into ECCA as the Surviving Corporation and the Surviving Corporation will assume all of the obligations of Merger Sub under the notes. The notes are unsecured and are guaranteed on a senior subordinated basis by all existing subsidiaries and any future domestic subsidiary of ECCA (which will become the Surviving Corporation after the Merger). The gross proceeds from the sale of the notes are placed in escrow pending the completion of the Merger. If the Merger is not consummated on or prior to April 1, 2005, or if the Agreement is terminated prior to such time, Merger Sub will be required to redeem the notes at 100% of the issue price of the notes, plus accrued and unpaid interest to the date of redemption.

(iii) Merger Sub will enter into the Senior Credit Agreement with a syndicate of financial institutions at Closing, comprising a US$165 million (HK$1.287 billion) term loan facility, maturing in 2012, and a US$25 million (HK$195 million) revolving credit facility, maturing in 2010. The Company expects Merger Sub to draw approximately US$0.3 million (HK$2.34

million) of the revolving credit facility at Closing. The senior credit facility will be secured by substantially all of the assets of ECCA (which will become the Surviving Corporation after the Merger), including its capital stock and the capital stock of its subsidiaries, and guaranteed by Merger Holdco and all existing subsidiaries and any future domestic subsidiary of ECCA (which will become the Surviving Corporation after the Merger).

The total consideration for the Merger is estimated to be approximately US$222.1 million (HK$1.73 billion) (subject to adjustment), and the Company's portion of the consideration is estimated to be approximately US$124.4 million (HK$970.3 million) (subject to adjustment). The total consideration will be funded partly by the US$163 million (HK$1.271 billion) equity investment referred to in paragraph (i) above (including an equity investment of approximately US$91.3 million (HK$712 million) from the Company), and partly with the proceeds of the notes issue referred to in paragraph (ii) above and the bank borrowings referred to in paragraph (iii) above. The rest of the proceeds of the notes issue and the bank borrowings amounting to approximately US$260 million (HK$2 billion) will be used by the Enlarged Group for other purposes, including repaying ECCA's existing debts and liabilities and paying transaction fees and expenses.

Conditions precedent

Under the Agreement, each party's obligation to effect the Merger is subject to the satisfaction or waiver of the following conditions:

(i) the waiting period, filings or approvals applicable to the Merger under relevant antitrust laws shall have expired, been terminated, been made or been obtained. This condition has been satisfied;

(ii) no Restraint shall be in effect preventing or restraining the consummation of the Merger and no governmental authority shall have threatened ECCA, Merger Holdco or Merger Sub with any such Restraint; and

(iii) Merger Holdco and Merger Sub shall have received proceeds of the equity contributions by the Company and the GGC Entities, the debt securities issue and bank borrowings contemplated to be made by Merger Holdco and Merger Sub to fund the consideration for the Merger.

The obligations of Merger Holdco and Merger Sub to effect the Merger are further subject to the satisfaction or waiver of the following conditions:

(i) certain representations and warranties of ECCA shall be true and correct in all material respects, and the cumulative effect of all breaches and inaccuracies of all other representations and warranties has not and would not be reasonably likely to have a material adverse effect on ECCA;

(ii) the Company shall have obtained shareholder approval for the Agreement and the transactions contemplated under the Agreement as required by the Listing Rules;

(iii) all agreements between the ECCA Group and any director, officer or shareholder owning 5% or more of the capital stock of ECCA shall have been terminated;

(iv) ECCA shall have obtained shareholder approval for the Agreement and the Merger. This condition has been satisfied;

(v) ECCA shall have performed in all material respects all obligations required to be performed by it under the Agreement at or prior to the date of Closing;

(vi) holders of not more than 3% of the capital stock of ECCA shall have exercised and perfected their right to dissent from the Merger and receive payment of the fair cash value of their capital stock in accordance with Texas law. This condition has been satisfied; and

(vii) either (a) the Minimum Tender Requirement shall have been satisfied or (b) the requirements of the Indenture with respect to the redemption of all outstanding Notes and discharge of the Indenture shall have been satisfied. This condition was satisfied on January 14, 2005.

In connection with the execution of the Agreement, Thomas H. Lee Equity Fund IV, L.P. and other related funds have irrevocably agreed to vote all of the shares of ECCA's stock each of them owns in favour of the Merger at any meeting of the shareholders of ECCA or in connection with any written consent of the shareholders of ECCA. All the ECCA shareholders have voted in favour of the Merger.

The obligation of ECCA to effect the Merger is further subject to the satisfaction or waiver of the following conditions:

(i) the representations and warranties of Merger Holdco and Merger Sub shall be true and correct in all material respects, provided that this condition shall be deemed satisfied if the cumulative effect of all inaccuracies of the representations and warranties would not be reasonably likely to have a material adverse effect on Merger Holdco; and

(ii) Merger Holdco and Merger Sub shall have performed in all material respects all obligations required to be performed by them under the Agreement at or prior to the date of Closing.

Closing

Closing shall take place on a date to be specified by the parties, which shall be no later than the second Business Day after satisfaction or waiver of the conditions for the Merger (other than those conditions that by their terms are to be satisfied at Closing, but subject to the satisfaction or waiver of those conditions), unless another date is agreed to in writing by the parties to the Agreement.

Closing is currently expected to take place by the end of February 2005. After the completion of the Merger, ECCA will become a subsidiary of the Company and a member of the Group.

Termination

The Agreement may be terminated at any time prior to the Effective Time:

(i) by mutual written consent of Merger Holdco and Merger Sub on the one hand and ECCA on the other hand;

(ii) by either Merger Holdco or ECCA if (a) the Merger shall not have been consummated on or before February 28, 2005 or (b) any Restraint preventing or restraining the consummation of the Merger shall be in effect and shall have become final and non-appealable;

(iii) by Merger Holdco if ECCA shall have materially breached or failed to perform any of its representations, warranties, covenants or agreements set forth in the Agreement, which breach or failure to perform is not cured within 30 days following receipt of written notice from Merger Holdco; or

(iv) by ECCA if Merger Holdco shall have materially breached or failed to perform any of its representations, warranties, covenants or agreements set forth in the Agreement, which breach or failure to perform is not cured within 30 days following receipt of written notice from ECCA.

SUPPLY AGREEMENT

On December 2, 2004, Merger Sub and the Company entered into the Supply Agreement, pursuant to which the Company will supply Merger Sub with sunglasses, ophthalmic frames, reading glasses and other eyewear products and accessories.

Upon completion of the Merger, Merger Sub will be merged with and into ECCA and hence ECCA as the Surviving Corporation will become a party to the Supply Agreement. The terms of the Supply Agreement include a ''most favored nations'' price provision (''MFN Pricing'') that requires the Company to supply ECCA frames at a price at least equal to the lowest price the Company offers other customers. The Supply Agreement does not include any minimum volume purchase requirements and does not restrict ECCA's ability to purchase from other suppliers. The Supply Agreement also provides for a semi-annual rebate payable to ECCA as the Surviving Corporation based on the dollar volume of frames ECCA purchases from the Company.

The parties to the Supply Agreement have entered into an amended and restated Supply Agreement dated as of January 28, 2005 to, inter alia, amend the original seven-year term of the Supply Agreement so that the Supply Agreement will terminate on the fifth anniversary of the Merger, but will automatically renew for up to two additional one-year terms, provided that at the fifth and sixth anniversary dates GGC and its affiliates own at least 15% of Merger Holdco. The Company may terminate the Supply Agreement at its option in the event of a sale of all of the equity securities of Joint Venture Co or a sale of all or substantially all of the assets of Joint Venture Co and its subsidiaries on a consolidated basis pursuant to an exercise of the Sale Right by the GGC Entities.

Through ECCA's new relationship with the Company, the Company believes that ECCA can reduce its cost of goods sold. Currently, ECCA purchases 100% of its frames from US-based distributors, despite the fact that these frames are primarily manufactured in China. In 2004 ECCA commenced an internal initiative to purchase frames directly from these manufacturers at a lower cost, and the Company believes the Merger will accelerate this process. ECCA intends to transition substantially all of the manufacturing of its private label frames to the Company over the next two years. Also, the Company intends to acquire substantially all of ECCA's non-branded frames directly from the current manufacturers in China and supply them to ECCA (as the Surviving Corporation) at lower prices than what ECCA's existing distributors currently charge ECCA. Furthermore, the Company believes ECCA can lower the costs of its branded frames by replacing approximately 15% of its existing branded frame volume that it currently purchases through distributors with new brands that it can purchase directly from the Company at significantly lower costs.

Although ECCA expects to begin transitioning its purchasing to the Company upon consummation of the Merger, ECCA believes it will take approximately two years to transition fully to the percentage of frame volume ECCA expects to purchase from the Company. Also, because ECCA carries approximately six months of frame inventory in its stores and central warehouse, the Company does not believe that ECCA will begin to realise significant cost reductions on its income statement until 2006.

The Supply Agreement is not a connected transaction of the Company under the Listing Rules. In the event that the Supply Agreement subsequently becomes a continuing connected transaction of the

Company, the Company will comply with all applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules.

INFORMATION ON MERGER HOLDCO AND THE GGC ENTITIES

Shareholding structure of Merger Holdco

Merger Holdco is wholly owned by Cayman Holdco which is in turn wholly owned by BVI Holdco. BVI Holdco is indirectly wholly owned by the Company through two intermediate holding companies. All of Merger Sub, Merger Holdco, Cayman Holdco and BVI Holdco were established by the Company specifically for the proposed Merger.

The GGC Entities will acquire approximately 43% of ECCA by way of equity contribution to Merger Holdco. Both the Company and the GGC Entities have committed to contribute equity to Merger Holdco in proportion to shareholding for paying the consideration of the Merger. The GGC Entities had made an election to satisfy its commitment directly into Merger Holdco and not Cayman Holdco, and under the Shareholders' Agreement both BVI Holdco and the GGC Entities will be bound to contribute equity to Merger Holdco and not Cayman Holdco. The Company intends to dissolve Cayman Holdco and to have BVI Holdco directly hold Merger Holdco after the Merger. Please refer to the section headed "Shareholding Structure of ECCA" for the expected shareholding structure after the Merger.

Merger Holdco, Cayman Holdco, BVI Holdco, the GGC Entities and the Company entered into the Shareholders' Agreement on December 2, 2004 to, inter alia, regulate the shareholder relationship in and provide for the management of Joint Venture Co. Members of ECCA management who will hold Rollover ECCA Shares and therefore be issued shares of Joint Venture Co at Closing will be added as parties to the Shareholders' Agreement upon the issuance of shares in Joint Venture Co to them. It is expected that after the Merger BVI Holdco will hold one class of preferred stock in Joint Venture Co and the GGC Entities will hold another class of preferred stock, both of which are entitled to a preferential dividend at the rate of 20% per annum. Members of ECCA management holding Rollover ECCA Shares will hold common stock in Joint Venture Co after the Merger.

Contingent on the Closing, the Company will make a Restricted Stock Grant of stock equal to 3% of Joint Venture Co's issued stock at a 90% discount to fair market value as at Closing to a member of senior management who is neither a director nor a connected person of the Company with a key role in planning the Company's acquisition strategy and in negotiating and structuring the proposed Merger, as soon as practicable following the Closing but no later than February 28, 2005. The shares under the Restricted Stock Grant will be treated by the Company as possessing the same rights and features as the shares held by GGC pursuant to the Shareholders' Agreement. The Company is currently considering making further Restricted Stock Grants of up to 2% of Joint Venture Co's issued stock to other executive officers of the Company shortly after Closing. The purpose of the Restricted Stock Grants is to recognise such executive officers' contribution in planning, structuring and negotiating the Merger. In the event that any Restricted Stock Grant will be a connected transaction of the Company under the Listing Rules, the Company will comply with all applicable reporting, disclosure and/or shareholder approval requirements under Chapter 14A of the Listing Rules.

After the completion of the Merger but before the Restricted Stock Grant referred to above is made, Joint Venture Co is expected to be owned approximately 56% by the Company (indirectly through BVI Holdco), 43% by the GGC Entities and 1% by the members of ECCA management holding Rollover ECCA Shares. After the Restricted Stock Grant of 3% of Joint Venture Co's issued stock is made, the

Company is expected to own approximately 53% of Joint Venture Co indirectly through BVI Holdco. The exact number of Rollover ECCA Shares and the terms of their exchange into Joint Venture Co shares have not yet been agreed. Please refer to the section headed ''Shareholding Structure of ECCA'' for the expected shareholding structure of ECCA after the Merger.

GGC is a San Francisco-based private equity investment firm with approximately US$2.5 billion of capital under management. GGC is dedicated to partnering with world class management teams to invest in change-intensive, growth businesses. They target investments of up to US$100 million in situations where there is a demonstrable opportunity to significantly enhance a company's value. The principals of GGC have a long and successful history of investing with management partners across a wide range of industries and transaction types, including leveraged buyouts, recapitalizations, corporate divestitures and spin-offs, build-ups and venture stage investing. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the GGC Entities and their ultimate beneficial owners are not connected persons of the Company, are third parties independent of the Company and any connected person of the Company, and do not have any shareholding interest in the Company. Neither the GGC Entities nor their ultimate beneficial owners have the right to appoint directors to the Company's board.

Shareholders' Agreement

The Shareholders' Agreement contains certain provisions for the protection of the GGC Entities as minority shareholders of Joint Venture Co, including:

(i) restrictions on transfers of shares held by BVI Holdco to persons other than the Company and wholly-owned subsidiaries of the Company;

(ii) if BVI Holdco proposes to transfer its shares to any person after the sixth anniversary of the Effective Time, the GGC Entities will have the right (the ''Tag-Along Right'') to participate in the proposed transfer on the same terms and conditions;

(iii) the right of the GGC Entities to designate two directors to a five-member board of Joint Venture Co (the other three directors are to be designated by BVI Holdco, one of which shall be David McComas for so long as he is chief executive officer of ECCA), which will be increased to seven members upon the occurrence of certain events, including (a) a breach by Joint Venture Co for two consecutive calendar quarters of any financial covenant in the Senior Credit Agreement (if such breaches are not waived), (b) a payment default by Joint Venture Co under the Senior Credit Agreement, (c) the exercise by the GGC Entities of the Sale Right and (d) a Supply Agreement Breach, in which case the GGC Entities will be entitled to designate two additional board members;

(iv) the quorum of the board consisting of a majority of directors, including, inter alia, at least two directors designated by the GGC Entities; and

(v) the requirement for certain important decisions (the ''Super Majority Decisions'') to be made by at least, inter alia, two directors designated by the GGC Entities. The Super Majority Decisions principally include the declaration of dividends, any agreement to issue debt or equity securities, merger or material disposal of assets, liquidation or capital reorganisation, acquisition or joint venture in non-optical business, related party arrangements, increase in number of directors and approval of annual budget.

Under the Shareholders' Agreement:

(a) if the GGC Entities shall after the fifth anniversary of the Effective Time desire to transfer all of their shares to persons not related to them, the GGC Entities will have the right to offer to BVI Holdco and Joint Venture Co the right (the "First Offer Right") to purchase such shares for a cash payment equal to the greater of: (i) the aggregate amount that all the GGC Entities would receive in exchange for their shares if an amount equal to the fair market value of Joint Venture Co on a going concern basis were distributed in liquidation and (ii) an amount equal to the sum of the GGC Entities' initial investment amount plus a compounded annual return of 20%. Upon (i) the expiry of such First Offer Right, (ii) BVI Holdco and Joint Venture Co notifying the GGC Entities that the First Offer Right will not be exercised, or (iii) the transfer by BVI Holdco and Joint Venture Co of the First Offer Right to a third party (whichever is the earliest), the Company will make an announcement in accordance with the requirements of the Listing Rules; and

(b) if (i) the First Offer Right is not exercised, (ii) BVI Holdco or Joint Venture Co has elected to exercise the First Offer Right but fails to fully consummate the closing of the purchase of the GGC Entities' shares in Joint Venture Co, (iii) breaches of the Super Majority Decisions and restrictions on transfers provisions in the Shareholders' Agreement have occurred and remain uncured for 30 days, (iv) the Company or its subsidiaries breach any representation or obligation under the Put Agreement which remains uncured for 30 days after receiving a second notice (except that for breaches of certain representations by the Company, the breach is required to have had or reasonably be expected to have a material adverse effect) or (v) the Company or its subsidiaries have not purchased all of the put securities in accordance with the terms of the Put Agreement after the GGC Entities have exercised their put right under the Put Agreement, the GGC Entities shall have a right (the "Sale Right") to cause the shareholders in Joint Venture Co to sell all the shares of Joint Venture Co or to cause Joint Venture Co to sell all or substantially all of the assets of Joint Venture Co and its subsidiaries on a consolidated basis to any one or more third parties.

Put Agreement

The Company, certain subsidiaries of the Company and the GGC Entities entered into a put agreement (the "Put Agreement") on December 2, 2004, whereby the GGC Entities shall have the right at any time after the fourth anniversary of the Effective Time to require the Company and certain subsidiaries to use reasonable best efforts to purchase all of the GGC Entities' shares in Joint Venture Co, at a price equal to the original issuance price of those shares plus interest at 20% per annum from the date of Closing (compounding on an annual basis), less distributions received by the GGC Entities from Joint Venture Co. The purchase price of the original issue price plus 20% per annum was determined based on arms' length negotiations between the parties and the preferential dividend rate of 20% per annum of the preferred stock in Joint Venture Co that is proposed to be held by the GGC Entities. If the Company and the subsidiaries do not purchase such shares, the GGC Entities shall be entitled to exercise the Sale Right in accordance with the Shareholders' Agreement.

Upon (i) the expiry of the put right under the Put Agreement, (ii) the GGC Entities notifying the Company that the put right will not be exercised, or (iii) the transfer by the GGC Entities of the put right to a third party (whichever is the earliest), the Company will make an announcement in accordance with the requirements of the Listing Rules.

If after the fourth anniversary of the Effective Time, the GGC Entities have sold their shares for less than the price they originally paid for them, then the Company and certain subsidiaries will be obliged to pay the GGC Entities the difference between the price they received and the price they originally paid.

The Directors consider that the terms of the Shareholders' Agreement and the Put Agreement, in particular those relating to Super Majority Decisions, the Sale Right, the First Offer Right, the put right and the payment of the difference if the GGC Entities sell their shares for less than the price they originally paid, are fair and reasonable and are in the interests of the Company and its Shareholders as a whole. The Directors have based their conclusion on the advice of the Company's advisers and the Directors' knowledge of the current market practice for equity arrangements between strategic partners and economic partners in transactions involving similarly situated companies as ECCA.

Advisory Agreements

Merger Holdco and Merger Sub have entered into an advisory agreement with each of (i) GGC Administration, LLC and (ii) the Company (together, the "Advisory Agreements"), for an initial term of ten years from the date of Closing and which may be extended on a year to year basis thereafter. The Advisory Agreements will terminate on the date on which GGC or the Company, as the case may be, ceases to be a direct or indirect holder of equity interests of Joint Venture Co. Under the Advisory Agreements, GGC Administration, LLC and the Company, each for a yearly fee of US$1 million, will perform such services for the Surviving Corporation and/or its subsidiaries as agreed with Merger Holdco, which may include, without limitation, general executive and management services, services relating to acquisitions, dispositions, financing alternatives, finance functions, marketing functions and human resources functions. The yearly fee of US$1 million to each of GGC Administration, LLC and the Company was arrived at after arm's length negotiations between the parties.

The Advisory Agreements are not connected transactions of the Company under the Listing Rules. In the event that any Advisory Agreement subsequently becomes a continuing connected transaction of the Company, the Company will comply with all applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules.

INFORMATION ON THE ECCA GROUP

Shareholding

As at the Latest Practicable Date, Thomas H. Lee Equity Fund IV, L.P. and certain of its affiliates and co-investors owned over 80% of ECCA. The other shareholders of ECCA included certain members of ECCA's management.

Principal business activities

ECCA is the second largest optical retail chain as measured by net revenues and the largest company focused solely on the optical retail sector in the US. ECCA operates 378 stores in 33 states in the US, including 314 directly-owned optical stores and 64 stores owned by an optometrist's professional entity and managed by ECCA under management agreements.

ECCA currently maintains approximately 2.5% market share in the overall US optical retail market, and approximately 6.3% of the US optical retail chain market. ECCA has achieved the first or second share position in all of its top ten markets in the US, under the key banners of EyeMasters and Binyon's (178 shops), Visionworks (53 shops), Dr. Bizer's VisionWorld (25 shops), Hour Eyes

(22 shops), VisionWorld (36 shops), Doctor's VisionWorks (34 shops), Stein Optical Express (15 shops) and Eye Dr. Rx (15 shops).

Founded in 1984, ECCA is headquartered in San Antonio, Texas, USA. ECCA's key regions, where the most of its stores are located, are the US Southwest, Midwest, Southeast, Central and Pacific Northwest regions (EyeMasters, Binyon's, VisionWorld, Stein Optical Express, VisionWorks, Hour Eyes and Dr. Bizer's VisionWorld), as well as the Mid-Atlantic and Northeast regions (Hour Eyes and Eye Dr. Rx). ECCA is actively exploring aggressive expansion plans in both existing and new markets in the USA. ECCA currently has no plans to expand the ECCA brand names to other countries.

Financial information

Based on the Form 10-Q (quarterly report) filed by ECCA on November 9, 2004 with the SEC, the unaudited consolidated net liabilities of the ECCA Group as at September 25, 2004 was approximately US$50.3 million (HK$392.3 million). Based on the Form 10-K (annual report) filed by ECCA on March 24, 2004 with the SEC, for the two financial years ended December 28, 2002 and December 27, 2003, the audited consolidated net profit after taxation and extraordinary items of the ECCA Group was US$14.2 million (HK$110.8 million) and US$25.8 million (HK$201.2 million) respectively. During the same periods, the audited consolidated net profit before taxation and extraordinary items of the ECCA Group was US$15.8 million (HK$123.2 million) and US$16.2 million (HK$126.4 million) respectively.

Board composition

As at the Latest Practicable Date, the board of ECCA comprises seven directors, namely David McComas, Bernard W Andrews, Charles A Brizius, Anthony J DiNovi, Norman S Matthews, Warren C Smith Jr and Antoine G Treuille. Upon the completion of the Merger, all the then existing directors of ECCA will retire from their directorships and the directors of Merger Sub immediately prior to the Effective Time will become directors of ECCA as the Surviving Corporation. The size of the Surviving Corporation's board of directors will initially be set at five members, with three nominees selected by the Company and two nominees designated by GGC. The Company intends to nominate David McComas, Cary Ma and one other senior executive of the Company to ECCA's board after the completion of the Merger. GGC intends to nominate Prescott H. Ashe and Jesse T. Rogers to ECCA's board after the completion of the Merger. It is the Company's expectation that the key members of ECCA's management will remain intact to manage the Surviving Corporation.

Filings with SEC

ECCA has issued debt securities which are publicly traded in the US and voluntarily files certain information with the SEC. The filings contain further information on the business, management, financial condition and results of operations of ECCA. They can be viewed on the SEC website at http://www.sec.gov/.

PRINCIPAL BUSINESS ACTIVITIES OF THE GROUP

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries comprise the design, manufacture, distribution and retail of quality eyewear products to customers worldwide. The Group has effectively built a comprehensive global distribution network operating in over seventy countries worldwide, through subsidiaries in Europe, the USA and the Asia Pacific region. The Company is the largest eyewear manufacturer in Asia and the third largest worldwide, with production volumes exceeding fifteen million frames per year.

REASONS FOR THE MERGER

The rapid consolidation of the US retail market will continue to have a substantial impact on manufacturing and distribution businesses throughout the entire optical industry. The Company firmly believes that in order to thrive during this rapid period of change, it must re-evaluate its business plans regularly and seize opportunities when they arise.

The acquisition of ECCA presents the Company with an excellent platform that can be used to expand its presence in the crucial North American market. Moreover, the Company's expertise in manufacturing in China and global distribution represents tremendous potential to support ECCA's organic growth strategy in the consolidating US retail market. The management teams of the Company and ECCA enjoy an excellent relationship based on corresponding views of both the optical industry and the factors critical to long term success. The Company is dedicated to leveraging its strengths in cutting-edge design, low cost manufacturing and streamlined supply chain operations to offer the best overall value proposition in the optical industry. ECCA's retail growth strategy is rooted in offering consumers the best optical buying experience for their money, based on a combination of market-leading service, frame selection and lens technologies. Given the complimentary strengths and similar strategic vision of the Company and ECCA, the Directors believe that the Merger will generate value for the Group's customers and shareholders. The companies are expecting product and sourcing synergies from the Merger. The Company expects to leverage its manufacturing capabilities, China sourcing network and supply chain expertise to impact ECCA's operating profit through the porting of products to the Company's factories, economies of scale in purchasing power and disintermediation of the Company's current vendor base. The Merger is expected to reduce costs while simultaneously increasing the efficiency of ECCA's operations.

The Company also believes in the benefits of partnering with experienced players when approaching new markets. GGC has a proven track record with regard to successful expansion in the US retail market. In addition to their financial support, they provide an excellent base of retail knowledge and a network of valuable contacts to help the Company circumvent avoidable obstacles and remain on the best track for rapid and stable growth.

The Directors consider that the terms of the Agreement and the related transactions are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

FINANCIAL EFFECT OF THE MERGER AND RELATED TRANSACTIONS

The proposed acquisition of ECCA through the Merger will complete the transformation of the Group from an Asian eyewear manufacturing and distribution company to a vertically integrated eyewear player with global operations.

In this circular, the proposed acquisition of ECCA is accounted for in accordance with HK Accounting Standard 31 ("HKSA 31") "Interests in Joint Venture" issued by the Hong Kong Institute of Certified Public Accountants. HKSA 31 shall be effective for annual periods beginning on or after January 1, 2005. For illustration purposes only, this accounting standard has been applied in preparing the pro forma financial information in Appendix III to this circular.

Combining ECCA's revenue of HK$2,859 million increased the Enlarged Group's revenue to HK$4,097 million representing an increase of 231% from the Group's financial year 2003 turnover of

HK$1,238 million. On a pro forma consolidated basis, the Enlarged Group recorded a turnover of HK$2,839 million and profit attributable to shareholders of HK$256 million and, based on a weighted average number of 429,236,296 ordinary shares in issue during the year, an earnings per share of HK$59.7 cents, representing increases of 129%, 41% and 41% respectively over the turnover of HK$1,238 million, profit attributable to shareholders of HK$182 million and earnings per share of HK$42.3 cents of the Group for the year ended December 31, 2003. Total assets of the Enlarged Group amounted to HK$5,350 million as compared to HK$3,716 million of the Group representing the consolidation of HK$206 million of current assets, HK$717 million of non current assets of ECCA and a goodwill and other assets of HK$1,423 million incurred as a result of the acquisition and the reduction in cash of HK$712 million for the Group's 56% investment in ECCA.

The increase in total assets of HK$1,634 million is financed by HK$290 million of current liabilities and HK$981 million of non current liabilities of ECCA and the net increase in bank borrowings of HK$416 million.

Given the strong cash generating capability of ECCA, having provided a total of US$57 million (HK$445 million) in free cashflow in the last three fiscal years, and the funding arrangements of Merger Sub are without recourse to the Group, the Directors believe that the additional debts incurred to fund the Merger will not have any material negative impact on the Group. Even though the Enlarged Group's gearing ratio of 120.5% on a pro forma basis for fiscal year 2003, based on net borrowings of HK$2,424 million and the Group's equity of HK$2,011 million, has increased from the Group's gearing ratio of 14.7% for fiscal year 2003, the Group will benefit from the integrated design, manufacturing and distribution network to streamline the supply chain and to shorten cash conversion cycle resulting in reduced working capital requirements.

The above pro forma financial information and that set out in Appendix III to this circular is for information purposes only and should not be taken as an indication of the future financial performance of the Enlarged Group.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As the international optical retail sector consolidates, the Group has the opportunity to continue its downstream expansion into the retail sector. Retail sector integration would significantly benefit the Group because of the significant economies of scale and related synergies that could be obtained. For example, significant procurement synergies can be obtained by reducing retailers' diverse and inefficient supplier base. Also, by reducing order lead-times retailers can deploy their working capital in a much more efficient manner. The integration synergies would bring benefits to the Group in the long-run.

Having successfully integrated the businesses of the acquired distribution companies in 2003, the Company now occupies a principal position in the middle-tier global frame market. By cross-selling its portfolio of brands throughout the Group's global distribution platform, the Company expects the synergy effects to contribute substantially in the years ahead. Additionally, the Company continues to accelerate its competitive advantages by attracting further international brands into its portfolio. Currently, the Group is pursuing several renowned fashion labels in the US and in Europe. The brands would add further value to the existing brand mix should the negotiations turn into successful collaborations. The combination of market share vertically integrated with its own distribution channels makes the Company an attractive option for international labels seeking greater exposure. In addition, the Company is applying its proven North American business model towards distribution to mass merchant retailers in Europe. Actively pursuing opportunities with chain retailers in Europe, and leveraging recent gains in the Czech Republic and Slovakia, the Group expects to achieve further gains as Eastern Europe operations begin to benefit from European Union membership.

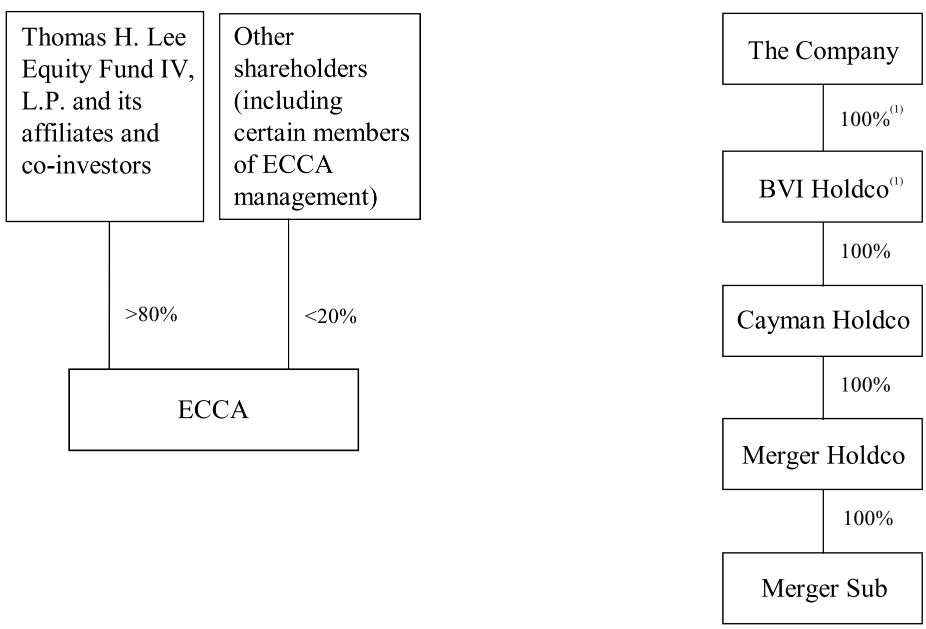
Plans for expansion in the PRC include the opening of 4 to 5 new stores in the Shanghai area in the second half of 2004. The Group's Shanghai retail operations are also pursuing possible acquisition targets outside Shanghai to develop a broader regional retail presence.

In order to enhance the Group's production and ensure it remains at the forefront of the industry, the Company is establishing a cutting-edge research, development and production facility in Shenzhen. This new ''state of the art'' facility has been developed to transfer the Group's European manufacturing technologies to its China factories. In addition to the development and production of more complex frame styles, the facility will serve as a training center for engineers and labors throughout the Group's PRC plants.

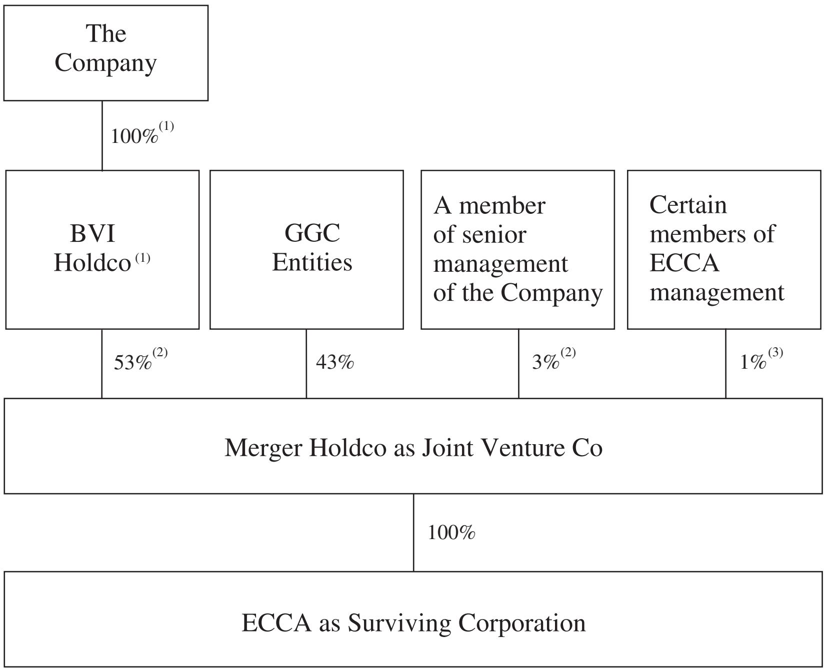
SHAREHOLDING STRUCTURE OF ECCA

The shareholding structure of ECCA before the Merger and the expected shareholding structure of ECCA after the Merger are as follows:

Before the Merger



After the Merger



Notes:

(1) BVI Holdco is indirectly wholly owned by the Company through two intermediate holding companies.

(2) The above shareholding structure reflects the position after the Restricted Stock Grant of 3% of Joint Venture Co's issued stock is made by the Company. The Company is currently considering making further Restricted Stock Grants of up to 2% of Joint Venture Co's issued stock to other executive officers.

(3) The exact number of Rollover ECCA Shares and the terms of their exchange into Joint Venture Co shares have not yet been agreed. However, it is currently expected that ECCA management will own approximately 1% of Joint Venture Co after the Merger.

PROPOSED APPOINTMENT OF AUDITORS

E&Y had resigned as the auditors of the Company with effect from December 30, 2004. The Board had resolved to propose to the Shareholders the appointment of Deloittes as the new auditors of the Company to fill the vacancy arising from E&Y's resignation until the conclusion of the next annual general meeting of the Company.

The Company had made progressive steps in the past few years to further its vertical integration strategy in view of developing a solid platform for long-term growth and leadership in the rapidly changing optical industry. The Board had considered the present scale and growth of the Company's business and during the process of reviewing the audit service of E&Y, the Board could not reach an agreement with them on the audit fees for the financial year ended December 31, 2004. Consequently, E&Y had resigned as auditors of the Company with effect from December 30, 2004. Prior to their resignation, E&Y had not engaged in any audit work in respect of the accounts of the Company and its subsidiaries for the financial year ended December 31, 2004.

E&Y had confirmed that there were no circumstances connected with their resignation which they considered should be brought to the attention of the Shareholders or creditors of the Company. The Board also confirms that there are no circumstances in respect of the proposed change of auditors which it considers should be brought to the attention of the Shareholders or creditors of the Company and, in connection with E&Y's resignation, there is or was no disagreement between the Board and E&Y. The Board expects that the proposed change of the Company's auditors will not affect the audit and the release of the annual results of the Company for the financial year ended December 31, 2004.

SPECIAL GENERAL MEETING

The Agreement and the related transactions set out in this circular constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and are therefore subject to Shareholders' approval in general meeting of the Company pursuant to Rule 14.49. The Directors confirm that, to the best of their knowledge, no Shareholder will be required to abstain from voting at the SGM. Messrs. Ma Bo Kee, Ma Bo Fung, Ma Bo Lung, Ma Lit Kin, Cary, Ma Hon Kin, Dennis and a company owned by their family trust, a discretionary trust whose objects include them and their family members, together holding approximately 35.11% shareholding in the Company as at the Latest Practicable Date and who can exercise control over the voting right in respect of such shareholding, whose interest is no different from that of the other shareholders of the Company, have agreed with ECCA that they will vote in favour of the resolution for approving the Agreement and the related transactions at the SGM.

In addition, pursuant to Bye-law 157 of the Bye-laws, a special general meeting will have to be convened as soon as practicable to fill the vacancy of the office of auditors created by the resignation of E&Y on December 30, 2004.

The SGM will be held at 4/F, Kenning Industrial Building, 19 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong on Monday, February 28, 2005 to approve the abovementioned matters. A notice convening the SGM is set out on pages 158 and 159 of this circular.

Enclosed is a form of proxy for use at the SGM. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's principal place of business in Hong Kong at 4/F, Kenning Industrial Building, 19 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

PROCEDURES BY WHICH SHAREHOLDERS MAY DEMAND A POLL

Pursuant to Bye-law 66 of the Bye-laws, a resolution put to the vote of any general meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by the Chairman of the meeting or:

(i) by at least three shareholders present in person or by duly authorised representative in the case of a shareholder being a corporation or by proxy for the time being entitled to vote at the meeting;

(ii) by any shareholder or shareholders present in person or by duly authorised representative in the case of a shareholder being a corporation or by proxy and representing not less than one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting; or

(iii) by any shareholder or shareholders present in person or by duly authorised representative in the case of a shareholder being a corporation or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

RECOMMENDATION

The Directors consider that the terms of the Agreement and the related transactions are fair and reasonable, and the Agreement and the related transactions and the appointment of Deloittes as auditors are in the interests of the Company and its Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favour of the resolutions to approve the Agreement and the related transactions and the appointment of auditors at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By the order of the Board
Ma Bo Kee
Chairman

A. SUMMARY OF AUDITED FINANCIAL INFORMATION OF THE GROUP

The following financial information has been extracted from the audited financial statements of the Group for the year ended 31 December 2003, the period from 1 April 2002 to 31 December 2002 and the year ended 31 March 2002. In 2002, the Group changed its accounting year end date from 31 March to 31 December and the published financial statements for that period were prepared for the nine months ended 31 December 2002. References to page numbers in the extract reproduced below are to pages contained in the Company's 2003 annual report.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Year ended 31 December 2003 *HK$'000*	Period from 1 April 2002 to 31 December 2002 *HK$'000*	Year ended 31 March 2002 *HK$'000*
TURNOVER	5	1,237,732	888,753	1,114,799
Cost of sales		(532,884)	(354,185)	(511,722)
Gross profit		704,848	534,568	603,077
Other revenue and gains	5	59,618	63,587	60,134
Selling and distribution costs		(183,916)	(147,423)	(155,428)
Administrative expenses		(207,167)	(192,445)	(246,580)
Other operating expenses, net		(132,161)	(82,305)	(68,591)
Restructuring costs		—	(10,706)	(8,020)
PROFIT FROM OPERATING ACTIVITIES	6	241,222	165,276	184,592
Finance costs	7	(39,089)	(46,541)	(44,105)
PROFIT BEFORE TAX		202,133	118,735	140,487
Tax	10	(21,017)	(17,275)	(19,915)
PROFIT BEFORE MINORITY INTERESTS		181,116	101,460	120,572
Minority interests		494	(457)	22,784
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	181,610	101,003	143,356
DIVIDENDS	12			
Additional final dividend in respect of the prior year		1,759	148	—
Interim		31,164	22,569	28,338
Proposed final		23,962	17,673	30,100
		56,885	40,390	58,438
EARNINGS PER SHARE	13			
Basic		42.31 cents	25.09 cents	35.33 cents
Diluted		42.12 cents	25.03 cents	34.28 cents

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2003 HK$'000	31 December 2002 HK$'000	31 March 2002 HK$'000
NON-CURRENT ASSETS				
Fixed assets	14	841,499	782,411	770,666
Intangible assets	15	53,773	15,331	13,020
Goodwill	16	213,342	163,812	200,799
Long term investments	18	3,279	3,755	35,547
Promissory notes	19	23,400	20,662	40,595
Staff loans	20	3,614	6,814	5,614
Deferred tax assets	31	18,261	7,850	—
Prepayments for frame board space	21	50,004	39,987	50,130
Due from a PRC subcontractor	36(b)(iv)	97,000	—	—
Deposits with a non-bank financial institution	36(b)(v)	24,000	54,000	—
		1,328,172	1,094,622	1,116,371
CURRENT ASSETS				
Inventories	22	412,491	393,752	449,508
Trade and other receivables	23	1,082,075	1,192,958	1,054,486
Short term investments	24	2,286	37,157	2,014
Tax recoverable		1,244	4,503	1,943
Cash and cash equivalents	25	889,940	265,265	377,898
		2,388,036	1,893,635	1,885,849
CURRENT LIABILITIES				
Trade and other payables and accruals	26	368,690	260,901	295,209
Tax payable		41,290	16,777	6,720
Interest-bearing bank borrowings	27	609,687	500,280	495,178
Current portion of finance lease and hire purchase contract payables	28	15,102	14,461	17,462
Provision		—	—	6,810
Convertible notes	30	—	15,600	—
Dividend payable		629	22,569	—
		1,035,398	830,588	821,379
NET CURRENT ASSETS		1,352,638	1,063,047	1,064,470
TOTAL ASSETS LESS CURRENT LIABILITIES		2,680,810	2,157,669	2,180,841
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	27	550,554	650,331	604,303
Long term portion of finance lease and hire purchase contract payables	28	10,748	13,933	16,904
Provisions	29	53,435	19,073	17,520
Convertible notes		—	—	117,000
Deferred tax liabilities	31	22,519	13,533	4,500
		637,256	696,870	760,227
MINORITY INTERESTS		32,186	12,716	(2,403)
		2,011,368	1,448,083	1,423,017
CAPITAL AND RESERVES				
Issued capital	32	249,600	200,884	200,665
Reserves	34	1,737,806	1,229,526	1,192,252
Proposed final dividend	12	23,962	17,673	30,100
		2,011,368	1,448,083	1,423,017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Property revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 April 2001:								
As previously reported		205,127	184,246	33,566	(6,019)	908,350	—	1,325,270
Prior year adjustments#:								
SSAP 30 — Restatement to non-current assets section of balance sheet of goodwill on acquisition of associates		—	—	—	—	3,622	—	3,622
Amortisation of goodwill		—	—	—	—	(181)	—	(181)
SSAP 9 — Dividend		—	—	—	—	—	20,513	20,513
As restated		205,127	184,246	33,566	(6,019)	911,791	20,513	1,349,224
Exchange realignment and net gains and losses not recognised in the profit and loss account		—	—	—	4,218	—	—	4,218
Final dividend approved for the year ended 31 March 2001		—	—	—	—	—	(20,513)	(20,513)
Repurchase and cancellation of own shares		(4,462)	(20,468)	—	—	—	—	(24,930)
Net profit for the year		—	—	—	—	143,356	—	143,356
Interim dividend for the year ended 31 March 2002		—	—	—	—	(28,338)	—	(28,338)
Proposed final dividend for the year ended 31 March 2002		—	—	—	—	(30,100)	30,100	—
At 31 March 2002		200,665	163,778	33,566	(1,801)	996,709	30,100	1,423,017
At 1 April 2002:								
As previously reported		200,665	163,778	33,566	(1,801)	996,709	30,100	1,423,017
Prior year adjustment:								
SSAP 12 — restatement of deferred tax	2	—	—	(5,370)	—	7,343	—	1,973
As restated		200,665	163,778	28,196	(1,801)	1,004,052	30,100	1,424,990
Exchange realignment and net losses not recognised in the profit and loss account		—	—	—	(24,924)	—	—	(24,924)
Exchange fluctuation reserve released on disposal of subsidiaries	35(c)	—	—	—	(2,357)	—	—	(2,357)
Final dividend approved for the year ended 31 March 2002		—	—	—	—	—	(30,100)	(30,100)
Repurchase and cancellation of own shares	32	(1,090)	(4,840)	—	—	—	—	(5,930)
Share options exercised	32	1,309	6,809	—	—	—	—	8,118
Net profit for the period		—	—	—	—	101,003	—	101,003
Additional final dividend for year ended 31 March 2002	12	—	—	—	—	(148)	—	(148)
Interim dividend for the period ended 31 December 2002	12	—	—	—	—	(22,569)	—	(22,569)
Proposed final dividend for the period ended 31 December 2002	12	—	—	—	—	(17,673)	17,673	—
At 31 December 2002		200,884	165,747*	28,196*	(29,082)*	1,064,665*	17,673	1,448,083
At 1 January 2003:								
As previously reported		200,884	165,747	33,566	(29,082)	1,057,596	17,673	1,446,384
Prior year adjustment:								
SSAP 12 — restatement of deferred tax	2	—	—	(5,370)	—	7,069	—	1,699
As restated		200,884	165,747	28,196	(29,082)	1,064,665	17,673	1,448,083
Deferred tax charge to revaluation reserve due to the impact on increase in tax rates		—	—	(405)	—	—	—	(405)
Exchange realignment		—	—	—	(8,930)	—	—	(8,930)
Net gains and losses not recognised in the profit and loss account		—	—	(405)	(8,930)	—	—	(9,335)
Final dividend approved for the year ended 31 December 2002		—	—	—	—	—	(17,673)	(17,673)
Issue of shares	32	47,000	395,400	—	—	—	—	442,400
Share issue expenses	32	—	(11,498)	—	—	—	—	(11,498)
Share options exercised	32	1,774	9,228	—	—	—	—	11,002
Repurchase and cancellation of own shares	32	(58)	(240)					(298)
Net profit for the year		—	—	—	—	181,610	—	181,610
Additional final dividend for year ended 31 December 2002	12	—	—	—	—	(1,759)	—	(1,759)
Interim dividend for the year ended 31 December 2003	12	—	—	—	—	(31,164)	—	(31,164)
Proposed final dividend for the year ended 31 December 2003	12	—	—	—	—	(23,962)	23,962	—
At 31 December 2003		249,600	558,637*	27,791*	(38,012)*	1,189,390*	23,962	2,011,368
Reserves retained by:								
Company and subsidiaries at 31 December 2003		249,600	558,637	27,791	(38,012)	1,189,390	23,962	2,011,368
Company and subsidiaries at 31 December 2002		200,884	165,747	28,196	(29,082)	1,064,665	17,673	1,448,083
Company and subsidiaries at 31 March 2002		200,665	163,778	33,566	(1,801)	996,709	30,100	1,424,990

* *These reserve accounts comprise the consolidated reserves of HK$1,737,806,000 (2002: HK$1,229,526,000 (restated)) in the consolidated balance sheet.*

\# *The prior year adjustments represented changes in accounting policies with respect to goodwill and dividends which were disclosed in the Group's annual report for the year ended 31 March 2002.*

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Year ended 31 December 2003 HK$'000	Period from 1 April 2002 to 31 December 2002 HK$'000	Year ended 31 March 2002 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		202,133	118,735	140,487
Adjustments for:				
Finance costs	7	35,813	43,968	44,105
Interest income	5	(43,866)	(32,704)	(39,482)
Dividend income from investments	5	(243)	(245)	(96)
Waiver of trade payable	5	(2,252)	(1,304)	—
Early redemption premium		4,228	15,600	—
Loss on disposal of fixed assets	6	67	1,404	(701)
Loss on disposal of intangible assets	6	—	926	2,773
Gain on disposal of subsidiaries	35(c)	—	(12,897)	—
Depreciation	6	74,851	61,544	69,765
Amortisation of goodwill	6	10,808	8,728	6,441
Amortisation of intangible assets	6	5,549	7,313	1,750
Unrealised loss on revaluation of long term listed investments	6	43	—	—
Unrealised gain on revaluation of short term unlisted investments	6	(629)	—	20
Gain on disposal of a short term listed investment	5	—	(2)	—
Impairment of fixed assets	6	4,905	—	—
Impairment of goodwill	6	12,897	—	—

	Notes	Year ended 31 December 2003 HK$'000	Period from 1 April 2002 to 31 December 2002 HK$'000	Year ended 31 March 2002 HK$'000
Operating profit before working capital changes		304,304	211,066	225,062
Decrease/(increase) in inventories		48,803	(54,308)	9,465
Increase in amount due from the ultimate holding company		(85)	(14,085)	(12,750)
Decrease/(increase) in prepayments for frame board space		(15,471)	10,143	(63,578)
Increase in an amount due from a PRC subcontractor		(24,553)	(75,579)	(66,782)
Decrease/(increase) in a non-bank financial institution		24,915	(84,541)	—
Decrease in promissory notes		6,296	35,657	(13,715)
Decrease in staff loans		—	—	1,430
Increase in other debtors and prepayments		(16,440)	(54,132)	(11,619)
Decrease/(increase) in trade debtors and bills receivable		(12,355)	15,364	86,624
Decrease in short term loans		—	—	67,860
Increase/(decrease) in trade creditors and bills payable		(7,400)	8,145	(36,377)
Increase in other creditors and accruals		11,317	11,213	(44,108)
Decrease in amounts due to related companies		(7,545)	(1,294)	3,275
Increase/(decrease) in provision for post-employment benefits		3,923	(2,395)	821
Decrease in provision for restructuring		—	(8,343)	6,810
Cash generated from/(used in) operations		315,709	(3,089)	152,418
Interest paid		(35,122)	(40,380)	(36,600)
Interest element on finance lease and hire purchase rental payments		(434)	(1,848)	(1,288)
Interest on convertible notes		(257)	(1,740)	(6,217)
Hong Kong profits tax paid		(3,575)	(3,751)	(34,252)
Overseas tax refunded/(paid)		7,345	(1,958)	(6,842)
Net cash inflow/(outflow) from operating activities		283,666	(52,766)	67,219

	Notes	Year ended 31 December 2003 *HK$'000*	Period from 1 April 2002 to 31 December 2002 *HK$'000*	Year ended 31 March 2002 *HK$'000*
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		43,866	32,704	39,482
Dividend received from investments	5	243	245	96
Purchases of fixed assets		(63,400)	(96,904)	(32,346)
Proceeds from disposal of fixed assets		4,815	13,489	2,838
Purchases of intangible assets		—	(11,136)	(5,881)
Acquisition of subsidiaries	35(b)	(4,904)	—	(83,896)
Acquisition of minority interests		—	(8,913)	—
Disposal of subsidiaries	35(c)	28,000	17,623	—
Purchases of unlisted investments		—	(3,708)	—
Proceeds from disposal of listed investments		—	359	84
Proceeds from disposal of short term unlisted investments		35,933	—	—
Net cash inflow/(outflow) from investing activities		44,553	(56,241)	(79,623)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repurchase and cancellation of own shares	32	(298)	(5,930)	(24,930)
Issue of shares, net of share issue expenses	32	430,902	—	—
Share options exercised	32	11,002	8,118	—
Capital injection from minority shareholders of a subsidiary		870	14,618	—
Net increase/(decrease) in bank loans		(44,891)	140,641	102,575
Increase in an amount due to minority shareholder of a subsidiary		—	4,086	—
Sale and lease back arrangement		—	8,828	—
Capital element of finance lease and hire purchase rental payments		(15,082)	(19,201)	(7,182)
Redemption of convertible notes	30	(19,828)	(117,000)	—
Dividends paid	12	(72,536)	(30,248)	(48,851)
Net cash inflow from financing activities		290,139	3,912	21,612
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		618,358	(105,095)	9,208
Cash and cash equivalents at beginning of year/period		156,592	278,483	269,064
Effect of foreign exchange rate changes, net		(18,353)	(16,796)	211
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		756,597	156,592	278,483
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	25	423,445	122,637	66,410
Non-pledged time deposits with original maturity of less than three months when acquired	25	466,495	142,628	311,488
Bank overdrafts	27	(133,343)	(108,673)	(99,415)
		756,597	156,592	278,483

BALANCE SHEET

	Notes	Year ended 31 December 2003 *HK$'000*	Year ended 31 December 2002 *HK$'000*	Year ended 31 March 2002 *HK$'000*
NON-CURRENT ASSET				
Interest in a subsidiary	17	92,714	92,714	92,714
CURRENT ASSETS				
Due from subsidiaries	17	860,681	507,693	639,607
Other receivables	23	20,379	26,691	18,179
Tax recoverable		594	—	425
Cash and cash equivalents	25	649	30	53
		882,303	534,414	658,264
CURRENT LIABILITIES				
Due to subsidiaries	17	23,117	22,532	15,883
Other payables and accruals	26	696	658	3,324
Convertible notes	30	—	15,600	—
Dividend payable		629	22,569	—
Tax payable		—	261	—
		24,442	61,620	19,207
NET CURRENT ASSETS		857,861	472,794	639,057
TOTAL ASSETS LESS CURRENT LIABILITIES		950,575	565,508	731,771
NON-CURRENT LIABILITIES				
Convertible notes		—	—	117,000
		950,575	565,508	614,771
CAPITAL AND RESERVES				
Issued capital	32	249,600	200,884	200,665
Reserves	34	677,013	346,951	384,006
Proposed final dividend	12	23,962	17,673	30,100
		950,575	565,508	614,771

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

During the year, the Group was involved in the design, manufacture, distribution and retail of optical products.

In the opinion of the directors, the ultimate holding company is KFL Holdings Limited, which is incorporated in the British Virgin Islands.

2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised SSAP 12 ''Income tax'' is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax). The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future.
- a deferred tax liability has been recognised on the revaluation of the Company's/Group's land and buildings.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis.
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 31 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 31 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the shorter of the remaining lease terms or 2%
Leasehold improvements	5% to 20%
Plant and machinery	15% to 25%
Tools and moulds	15% to 25%
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Intangible assets

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Web platform

A web platform for product development, workflow automation and inventory management, which supports the enterprise resources planning system, is stated at cost, including associated consultancy charges, and amortised on the straight-line basis over its estimated useful life of five years, commencing from the date when the web platform is put into use.

Trademarks

Trademarks for intellectual property rights, are stated at cost, including registration fees and associated legal costs, and amortised on the straight-line basis over their estimated useful lives up to 10 years.

Long term investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Other long term investments in listed equity securities, intended to be held on a long term basis, are stated at their fair values at the balance sheet date, on an individual investment basis.

The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Short term investments

Short term investments in listed and unlisted equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. Listed securities are stated at their fair values based on their quoted market prices at the balance sheet date. Unlisted securities are stated at their fair values based on the directors' valuation, or where appropriate, the proceeds on disposal after the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(c) from the rendering of subcontracting services, on completion of the transactions;

(d) management fee income, when services are rendered; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension scheme and other post-employment benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

The employees of the Group's subsidiaries which operate outside Hong Kong and the PRC are covered by their respective local arrangements. In particular, certain of the Group's employees in Italy are entitled to post-employment benefits immediately upon their departure under any circumstances. The provision for such post-employment benefits is based on the remuneration earned by the employees for their lengths of service to the Group up to the balance sheet date.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

4. SEGMENT INFORMATION

Segment information is presented by way of geographical segments. No further business segment analysis of the Group's revenues and results is presented as all the Group's revenue and results are generated from vertically integrated activities which include the design, manufacture, distribution and retailing of optical products.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

In prior years, certain sales to North America were classified as sales to Europe based on information regarding the location of the ultimate customers provided by certain distributors in North America. The directors consider that it is more appropriate to classify such sales as sales to the North America region based on invoices rendered to the distributors in North America in the current year. Accordingly, certain comparative amounts have been restated to conform with current year's presentation.

Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments.

Group

	North America		PRC		Asia Pacific (including Hong Kong)		Europe		Corporate		Others		Consolidated	
	Year ended 31 December 2003	Period ended 31 December 2002	Year ended 31 December 2003	Period ended 31 December 2002	Year ended 31 December 2003	Period ended 31 December 2002	Year ended 31 December 2003	Period ended 31 December 2002	Year ended 31 December 2003	Period ended 31 December 2002	Year ended 31 December 2003	Period ended 31 December 2002	Year ended 31 December 2003	Period ended 31 December 2002
	HK$'000	*HK$'000 (restated)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (restated)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (restated)*
Segment revenue:														
Sales to external customers	482,871	320,216	291,797	185,701	122,534	83,933	337,622	295,786	1,056	—	1,852	3,117	1,237,732	888,753
Other revenue	3,695	1,812	2,947	950	1,590	1,763	6,500	25,648	775	418	2	47	15,509	30,638
Total	486,566	322,028	294,744	186,651	124,124	85,696	344,122	321,434	1,831	418	1,854	3,164	1,253,241	919,391
Segment results	143,467	72,516	68,878	46,396	(1,161)	17,977	(16,278)	(11,092)	1,415	5,278	792	1,252	197,113	132,327
Interest and dividend income													44,109	32,949
Profit from operating activities													241,222	165,276
Finance costs													(39,089)	(46,541)
Profit before tax													202,133	118,735
Tax													(21,017)	(17,275)
Profit before minority interests													181,116	101,460
Minority interests													494	(457)
Net profit from ordinary activities attributable to shareholders													181,610	101,003

	North America		PRC		Asia Pacific (including Hong Kong)		Europe		Consolidated	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (Restated)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000 (Restated)*
Segment assets	134,398	133,015	1,054,604	1,067,418	1,875,081	1,329,628	650,881	453,693	3,714,964	2,983,754
Unallocated assets									1,244	4,503
Total assets									3,716,208	2,988,257
Segment liabilities	12,453	18,344	57,958	47,303	94,223	78,361	257,491	142,117	422,125	286,125
Unallocated liabilities									1,250,529	1,241,333
Total liabilities									1,672,654	1,527,458
Other segment information:										
Depreciation	396	1,133	45,186	29,194	18,112	13,563	11,157	17,654	74,851	61,544
Amortisation of intangible assets	—	—	—	—	2,873	969	2,676	6,344	5,549	7,313
Amortisation of goodwill	3,137	2,352	—	—	—	—	7,671	6,376	10,808	8,728
Provision for doubtful debts	—	938	571	27	11,446	5,885	—	5,293	12,017	12,143
Provision for slow moving and obsolete inventories	—	1,594	—	—	14,753	406	—	—	14,753	2,000
Write back of provision for slow moving and obsolete inventories	(4,230)	—	—	(7,626)	—	—	—	(4,776)	(4,230)	(12,402)
Capital expenditure	140	3,077	103,711	110,263	18,814	21,002	42,357	19,126	165,022	153,468

5. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover, other revenue and gains is as follows:

	Note	Year ended 31 December 2003 *HK$'000*	Period from 1 April 2002 to 31 December 2002 *HK$'000*
Turnover			
Sale of goods		1,237,732	888,753
Other revenue			
Interest income		43,866	32,704
Dividend income from investments		243	245
Subcontracting income		3,270	1,617
Management fee income		825	250
Others		9,162	14,568
		57,366	49,384
Gains			
Gain on disposal of subsidiaries	35(c)	—	12,897
Gain on disposal of a short term listed investment		—	2
Waiver of trade payables		2,252	1,304
		2,252	14,203
Other revenue and gains		59,618	63,587

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	Year ended 31 December 2003	Period from 1 April 2002 to 31 December 2002
		HK$'000	*HK$'000*
Cost of inventories sold	(i)	532,884	354,185
Auditors' remuneration		4,747	6,040
Depreciation	14	74,851	61,544
Minimum lease payments under operating leases on land and buildings	(i)	23,067	27,045
Amortisation of intangible assets	(ii), 15	5,549	7,313
Goodwill:			
Amortisation of goodwill	(ii), 16	10,808	8,728
Impairment arising during the year	(ii), 16	12,897	—
Staff costs (excluding directors' remuneration — note 8):			
Wages and salaries	(i)	184,118	193,275
Pension scheme contributions (defined contribution scheme)		3,263	3,245
Less: Forfeited contributions	(iii)	(158)	(272)
Net pension scheme contributions		3,105	2,973
Restructuring costs	(iv)	—	10,706
Impairment of fixed assets	(ii), 14	4,905	—
Provision for doubtful debts		12,017	12,143
Provision for slow moving and obsolete inventories		14,753	2,000
Write back of provision for slow moving and obsolete inventories		(4,230)	(12,402)
Exchange losses, net		10,548	1,156
Loss on disposal of intangible assets		—	926
Loss on disposal of fixed assets		67	1,404
Unrealised gain on revaluation of short term listed investment		(629)	—
Unrealised loss on revaluation of long term listed investment		43	—

Notes:

(i) Cost of sales includes HK$93,164,000 (period from 1 April 2002 to 31 December 2002: HK$94,864,000) relating to staff costs, depreciation and operating lease rentals, which is also included in the respective total amounts disclosed separately above for each of these expenses.

(ii) Amortisation of intangible assets and goodwill, impairment of fixed assets and goodwill for the year are included in "Other operating expenses, net" on the face of the profit and loss account.

(iii) At 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (period from 1 April 2002 to 31 December 2002: HK$26,000).

(iv) Restructuring costs, comprising compensation for dismissal of workers and staff, removal costs and restructuring advisory fee, were incurred for the restructuring of the Group's distribution business in Europe and North America during the prior year.

7. FINANCE COSTS

	Group	
	Year ended 31 December 2003	**Period from 1 April 2002 to 31 December 2002**
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable:		
within five years	34,006	39,460
beyond five years	1,116	920
Interest on finance leases and hire purchase contracts	434	1,848
Interest on convertible notes	257	1,740
Total interest	35,813	43,968
Bank charges	3,276	2,573
	39,089	46,541

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year/period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	Year ended 31 December 2003	**Period from 1 April 2002 to 31 December 2002**
	HK$'000	*HK$'000*
Executive directors:		
Fees	60	45
Other emoluments:		
Salaries, allowances and benefits in kind	12,594	8,928
Pension scheme contributions	72	54
	12,666	8,982
	12,726	9,027
Non-executive directors:		
Fees	188	—

The remuneration of all of the executive directors, amounting to HK$12,726,000 for the current year (period from 1 April 2002 to 31 December 2002: HK$9,027,000), was borne by the ultimate holding company, KFL Holdings Limited. The remuneration was not charged to the Group's results for the year.

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	Year ended 31 December 2003	Period from 1 April 2002 to 31 December 2002
Nil to HK$1,000,000	5	7
HK$1,000,001 to HK$1,500,000	2	4
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	1	1
HK$2,500,001 to HK$3,000,000	1	—
HK$3,000,001 to HK$3,500,000	1	—
	11	13

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (period from 1 April 2002 to 31 December 2002: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the two (period from 1 April 2002 to 31 December 2002: two) non-director, highest paid employees for the year are as follows:

	Group	
	Year ended 31 December 2003	Period from 1 April 2002 to 31 December 2002
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	3,818	2,981

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	Year ended 31 December 2003	Period from 1 April 2002 to 31 December 2002
	HK$'000	*HK$'000*
HK$1,000,001 to HK$1,500,000	—	1
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	1	—
	2	2

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profit tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	Year ended 31 December 2003	**Period from 1 April 2002 to 31 December 2002**
	HK$'000	*HK$'000* *(Restated)*
Group:		
Current — Hong Kong		
Charge for the year	22,761	12,989
Underprovision in prior years	200	106
Current — Elsewhere		
Charge for the year	999	881
Underprovision in prior years	62	143
Deferred tax (note 31)	(3,005)	3,156
Total tax charge for the year	21,017	17,275

In relation to the Group's distribution operations in the PRC, the Group has made arrangements with the PRC subcontractor (note 36(b)) under which all taxes incurred in connection with these sales in the PRC are to be borne by the PRC subcontractor. The Group has also received indemnities from the PRC subcontractor for any taxes in the PRC that may be levied on the Group in connection with the activities covered by these arrangements. Accordingly, the directors consider that there is no tax payable in the PRC in respect of these distribution operations.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2003

	Hong Kong		USA		Others		Consolidated	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	233,017		(2,357)		(28,527)		202,133	
Tax at the statutory tax rate	40,778	17.5	(825)	35.0	(8,062)	28.3	31,891	15.8
Adjustments in respect of current tax of previous periods	200	0.1	19	(0.8)	43	(0.1)	262	0.1
Income not subject to tax	(82,936)	(35.6)	—	—	(1,607)	5.6	(84,543)	(41.8)
Expenses not deductible for tax	57,973	24.9	215	(9.1)	4,783	(16.8)	62,971	31.2
Tax losses not recognised	4,204	1.8	610	(25.9)	5,391	(18.9)	10,205	5.0
Tax losses utilised from previous periods	(1,564)	(0.7)	—	—	—	—	(1,564)	(0.8)
Others	1,301	0.5	—	—	494	(1.8)	1,795	0.9
Tax charge at the Group's effective rate	19,956	8.5	19	(0.8)	1,042	(3.7)	21,017	10.4

Group — 2002

	Hong Kong		USA		Others		Consolidated	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	192,275		(67,809)		(5,731)		118,735	
Tax at the statutory tax rate	30,764	16.0	(23,733)	35.0	1,766	(30.8)	8,797	7.4
Adjustments in respect of current tax of previous periods	106	—	—	—	143	(2.5)	249	0.2
Income not subject to tax	(79,067)	(41.1)	—	—	(1,240)	21.6	(80,307)	(67.6)
Expenses not deductible for tax	58,525	30.4	—	—	4,291	(74.9)	62,816	52.9
Tax losses not recognised	6,996	3.6	23,733	(35.0)	10,558	(184.2)	41,287	34.8
Tax losses utilised from previous periods	(360)	(0.2)	—	—	(14,494)	252.9	(14,854)	(12.5)
Others	(713)	(0.4)	—	—	—	—	(713)	(0.6)
Tax charge at the Group's effective rate	16,251	8.4	—	—	1,024	(17.9)	17,275	14.6

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK$5,943,000 (period from 1 April 2002 to 31 December 2002: Net profit of HK$1,366,000).

12. DIVIDENDS

	Year ended 31 December 2003	Period from 1 April 2002 to 31 December 2002
	HK$'000	*HK$'000*
Additional final dividend in respect of prior year	1,759	148
Interim — HK7.0 cents (2002: HK5.6 cents) per ordinary share	31,164	22,569
Proposed final — HK4.8 cents (2002: HK4.4 cents) per ordinary share	23,962	17,673
	56,885	40,390

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The additional final dividend represents the additional payment of the prior year's final dividend of HK$4.4 cents (period from 1 April 2002 to 31 December 2002: HK$1.5 cents) per ordinary share to the new shareholders of 40,000,000 shares (period from 1 April 2002 to 31 December 2002: 9,903,500 shares) registered as members between 1 January 2003 and 26 May 2003, the date upon which members were entitled to the dividend.

13. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December 2003 *HK$'000*	Period from 1 April 2002 to 31 December 2002 *HK$'000* *(Restated)*
Earnings		
Net profit attributable to shareholders used in the basic earnings per share calculation	181,610	101,003
Increase in earnings arising from a saving in interest cost, net of tax (assuming the convertible notes had been converted into shares in the Company at their date of issue)	264	655
Adjusted profit attributable to shareholders used in the diluted earnings per share calculation	181,874	101,658

	Number of shares 2003	2002
Shares		
Weighted average number of ordinary shares in issue during the year/period used in basic earnings per share calculation	429,236,296	402,535,166
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all convertible notes outstanding during the year/period	1,435,050	3,563,218
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	1,115,449	—
Weighted average number of ordinary shares used in diluted earnings per share calculation	431,786,795	406,098,384

In the calculations of the diluted earnings per share in 2002, the effect of the share options outstanding during the period was not taken into account as the average market price of the Company's ordinary shares was lower than the exercise price of the share options and, accordingly, the share option has an anti-dilutive effect on the basic earnings per share for the period from 1 April 2002 to 31 December 2002.

14. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Tools and moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:							
At beginning of year	597,221	137,579	251,252	34,384	102,717	16,821	1,139,974
Additions	39,076	41,546	28,935	4,161	12,437	2,918	129,073
Acquisition of subsidiaries (note 35(b))	—	2,513	936	7,787	18,496	83	29,815
Disposals	—	(6)	(16,099)	(3,103)	(3,751)	(699)	(23,658)
Exchange realignment	5,554	(2)	4,156	2,813	2,772	89	15,382
At 31 December 2003	641,851	181,630	269,180	46,042	132,671	19,212	1,290,586
Analysis of cost or valuation:							
At cost	572,551	181,630	269,180	46,042	132,671	19,212	1,221,286
At 31 March 1993 valuation	69,300	—	—	—	—	—	69,300
	641,851	181,630	269,180	46,042	132,671	19,212	1,290,586
Accumulated depreciation and impairment:							
At beginning of year	52,557	44,867	147,405	26,113	72,049	14,572	357,563
Provided during the year	10,745	20,763	23,813	4,088	13,703	1,739	74,851
Acquisition of subsidiaries (note 35(b))	—	756	781	6,805	16,279	62	24,683
Disposals	—	—	(12,309)	(2,200)	(3,642)	(625)	(18,776)
Impairment during the year	—	—	—	—	4,905	—	4,905
Exchange realignment	134	(2)	1,926	2,037	1,722	44	5,861
At 31 December 2003	63,436	66,384	161,616	36,843	105,016	15,792	449,087
Net book value:							
At 31 December 2003	578,415	115,246	107,564	9,199	27,655	3,420	841,499
At 31 December 2002	544,664	92,712	103,847	8,271	30,668	2,249	782,411
Net book value of the Group's fixed assets held under finance leases or hire purchase contracts:							
At 31 December 2003	—	—	26,553	—	6,680	606	33,839
At 31 December 2002	—	—	21,669	—	10,413	634	32,716

Certain of the Group's leasehold land and buildings were revalued at 31 March 1993 by C.Y. Leung & Company Limited, independent professionally qualified surveyors. The land and buildings were revalued at open market value, based on their existing use. Since then, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions of SSAP 17, "Property, plant and equipment" in 1995, from the requirement to carry out future revaluations of its fixed assets which were stated at valuation at that time.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$29,069,000 (31 December 2002: HK$29,809,000).

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong	Elsewhere	Total
	HK$'000	*HK$'000*	*HK$'000*
At cost:			
Long term leases	—	174,646	174,646
Medium term leases	82,704	115,973	198,677
Short term leases	—	24,205	24,205
No specified terms of leases	—	175,023	175,023
	82,704	489,847	572,551
At valuation:			
Medium term leases	69,300	—	69,300
	152,004	489,847	641,851

Certain of the Group's leasehold land and buildings situated in Hong Kong were pledged to secure general banking facilities granted to the Group, as detailed in note 27 to the financial statements.

At the balance sheet date, the legal title of certain fixed assets in the PRC with a net book value of approximately HK$303 million (31 December 2002: HK$277 million) is held in trust of the Group by a PRC factory collective in which the PRC subcontractor is the legal representative, further details of which are included in note 36(b)(iii).

15. INTANGIBLE ASSETS

Group

	Development costs *HK$'000*	**Web platform** *HK$'000*	**Trademarks** *HK$'000*	**Total** *HK$'000*
Cost:				
At beginning of year	19,837	7,929	7,608	35,374
Additions	—	5,533	30,416	35,949
Acquisition of subsidiary (note 35(b))	9,288	—	—	9,288
Exchange realignment	2,113	—	1,104	3,217
At 31 December 2003	31,238	13,462	39,128	83,828
Accumulated amortisation:				
At beginning of year	14,411	847	4,785	20,043
Provided during the year	2,120	2,339	1,090	5,549
Acquisition of subsidiary (note 35(b))	1,927	—	9	1,936
Exchange realignment	1,954	—	573	2,527
At 31 December 2003	20,412	3,186	6,457	30,055
Net book value:				
At 31 December 2003	10,826	10,276	32,671	53,773
At 31 December 2002	5,426	7,082	2,823	15,331

16. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

Group

	HK$'000
Cost:	
At beginning of year	197,446
Acquisition of subsidiaries (note 35(b))	41,318
Acquisition of additional interest in an existing subsidiary	25,787
Exchange realignment	6,969
At 31 December 2003	271,520
Accumulated amortisation and impairment:	
At beginning of year	33,634
Amortisation provided during the year	10,808
Impairment during the year (note 6)	12,897
Exchange realignment	839
At 31 December 2003	58,178
Net book value:	
At 31 December 2003	213,342
At 31 December 2002	163,812

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	**2002**
	HK$'000	*HK$'000*
Unlisted shares, at cost	92,714	92,714
Current accounts:		
Due from subsidiaries	860,681	507,693
Due to subsidiaries	(23,117)	(22,532)
	837,564	485,161
	930,278	577,875

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Active Sino Group Limited	British Virgin Islands	The People's Republic of China	US$1,000	—	82.5	Investment holding
Allied Industrial Limited	Hong Kong	The People's Republic of China	HK$10,000	—	100	Distribution of optical products
B.M. Optical Parts Company Limited	Hong Kong	Hong Kong	HK$500,000	—	80	Trading of optical products
Bold Ware Optical (Metal) Manufactory Limited	Hong Kong	The People's Republic of China	HK$100	—	80	Manufacture and trading of spectacles accessories
Chaoyang City Taixingshen Optical Company Limited (notes (d) and (e))	The People's Republic of China	The People's Republic of China	HK$3,000,000	—	80	Investment holding
Creative Eyewear Limited	British Virgin Islands	The People's Republic of China	US$2,000,000	—	75	Manufacture and trading of optical products
Fore-Z Limited	British Virgin Islands	Hong Kong	US$10,000	—	100	Design and trading of optical products
Metzler International (Italia) S.p.A.	Italy	Italy	EUR1,246,916	—	97.45	Distribution of optical products
Infinite Eyewear Limited	Hong Kong	Hong Kong	HK$3	—	100	Distribution of optical frames
Leadkeen Industrial Limited	Hong Kong	The People's Republic of China	HK$100,000	—	100	Manufacture and trading of optical products
M.D. Creation Limited	Hong Kong	Hong Kong	HK$10,000	—	100	Provision of design and marketing services for optical products
Metzler International (Netherlands) B.V. (note (e))	Netherlands	Netherlands	EUR113,400	—	100	Distribution of optical products
Metzler International (Philippines) Inc. (note (e))	Philippines	Philippines	Peso5,000,000	—	49.70 (note (a))	Distribution of optical products
Metzler International (Japan) Ltd. (note (e))	Japan	Japan	JPY95,000,000	—	57.30	Distribution of optical products
Metzler International (Switzerland) AG (note (e))	Switzerland	Switzerland	SFR140,000	—	55	Distribution of optical products
Metzler International (U.K.) Ltd. (note (e))	United Kingdom	United Kingdom	GBP10,000	—	65	Distribution of optical products
Metzler International (Czech Republic) s.r.o. (note (e))	Czech Republic	Czech Republic	CZK1,000,000	—	75	Distribution of optical products
Metzler International (Slovakia) s.r.o. (note (e))	Slovakia	Slovakia	SKK400,000	—	75	Distribution of optical products

Particulars of the principal subsidiaries are as follows — (continued):

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Metzler International (Asia) Limited	Hong Kong	Hong Kong	HK$4,000,000	—	97.45	Distribution of optical products
Metzler International (M) SDN. BHD.	Malaysia	Malaysia	RM100	—	97.45	Trading of optical products
Metzler International (S'pore) Pte. Limited	Singapore	Singapore	S$100	—	97.45	Trading of optical products
Metzler International (USA) Inc. (note (e))	United States of America	United States of America	US$10,000	—	97.45	Distribution of optical frames
Moulin (HK) Logistics Company Limited	Hong Kong	Hong Kong	HK$10,000	—	100	Provision of logistic services
Moulin Holdings (H.K.) Company Limited	Hong Kong	Hong Kong	HK$2	—	100	Investment holding
Metzler International AG (note (e))	Germany	Germany	EUR794,941	—	97.45	Investing holding
Moulin Business Solutions Limited	Hong Kong	Hong Kong	HK$10,000	—	100	Provision of business solutions services
Moulin Optical Manufactory Limited	Hong Kong	Hong Kong	HK$1,000,000	—	100	Manufacture and trading of optical products
Mounthill Group Limited	British Virgin Islands	Hong Kong	US$1,000	—	100	Licences holding
N.G.A. Optical Manufactory Limited	Hong Kong	The People's Republic of China	HK$6,500,000	—	50 (note (a))	Manufacture and trading of optical products
NiGuRa Optik GmbH (note (e))	Germany	Germany	EUR1,432,200	—	100	Distribution of optical frames
Oaktree Investments Limited	Hong Kong	Hong Kong	HK$1,000,000	—	100	Money lending and investment holding
Peace City Investment Limited	Hong Kong	Hong Kong	HK$3	—	100	Property investment
Profit Partner Holdings Limited	British Virgin Islands	Hong Kong	US$10,000	—	100	Investment holding
Shanghai Hillman's Spectacles Limited (note (b))	The People's Republic of China	The People's Republic of China	US$700,000	—	82.5	Retail trading of optical products
Shanghai Hillman Trading Limited (note (b))	The People's Republic of China	The People's Republic of China	RMB300,000	—	69.12	Retail trading of optical products
Shanghai Moulin International Holdings Limited (note (c))	The People's Republic of China	The People's Republic of China	RMB60,000,000	—	76.8	Manufacture and trading of optical products
Sino Concept Industrial Limited	Hong Kong	The People's Republic of China	HK$10,000	—	100	Provision of electroplating services
Sintesi S.r.l.	Italy	Italy	EUR3,000,000	—	97.45	Manufacturing of optical products
United Optical S.p.A.	Italy	Italy	EUR2,452,621	—	97.45	Distribution of optical products

Particulars of the principal subsidiaries are as follows — (continued):

(a) These entities are accounted for as subsidiaries of the Group because the Group has control of more than half of the voting power of these companies.

(b) Shanghai Hillman's Spectacles Limited (''SH Spectacles'') and Shanghai Hillman Trading Limited (''SH Trading'') are co-operative joint venture companies established in the People's Republic of China (the ''PRC''). SH Spectacles and SH Trading obtained business registration certificates on 9 December 1994 and 24 April 1997, respectively, and are licensed to conduct business for 15 years and 10 years, respectively, from the date of their business registration.

(c) Shanghai Moulin International Holdings Limited is a Sino-foreign joint stock company established in the PRC which obtained its business registration certificate on 28 October 2002.

(d) Chaoyang City Taixingshen Optical Company is a Sino-foreign investment enterprise established in the PRC which obtained its business registration certificate on 16 September 1999 and are licensed to conduct business for 12 years.

(e) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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 net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

During the year, the Group acquired NiGuRa Optik GmbH and certain overseas companies from independent third parties. Further details of these acquisitions are included in note 35(b) to the financial statements.

18. LONG TERM INVESTMENTS

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at market value	4	47
Unlisted equity investments outside Hong Kong, at cost	3,275	3,708
	3,279	3,755

19. PROMISSORY NOTES

	Group 2003 HK$'000	2002 HK$'000
Settlement of trade debts (note a)	38,491	44,961
Advances to a PRC subcontractor (note b)	9,259	18,519
	47,750	63,480
Portion classified as current assets (note 23):		
Settlement of trade debts	(15,091)	(33,559)
Advances to a PRC subcontractor	(9,259)	(9,259)
	(24,350)	(42,818)
Long term portion	23,400	20,662

Notes:

(a) Included in the promissory notes for the settlement of trade debts were:

(i) an outstanding amount of HK$23,400,000 arising during the year. The original notes of HK$23,400,000 were unsecured and bear interest at 6% per annum and were repayable in 2008;

(ii) an outstanding amount of HK$11,076,000 remained as at 31 December 2003 arose during the year ended 31 March 2001. The original notes of HK$22,076,000 are unsecured, bear interest at 9% per annum and are repayable by four equal semi-annual instalments commencing from April 2003; and

(iii) a remaining amount of HK$4,015,000 for a subsidiary acquired in the year ended 31 March 2002. The original notes were secured by a licensing agreement, bore interest at the US prime rate and are repayable by equal monthly instalments commencing from February 2004.

(b) The promissory notes were received for advances to a PRC subcontractor (note 36). The notes are unsecured, interest-free and are repayable by half yearly instalments commencing from 30 April 2003.

20. STAFF LOANS

	Group 2003 HK$'000	2002 HK$'000
Staff loans	8,224	8,224
Portion classified as current assets (note 23)	(4,610)	(1,410)
Long term portion	3,614	6,814

Included in staff loans were:

(i) balances totalling HK$810,000 (2002: HK$810,000) which are unsecured, interest-free and have no fixed terms of repayment; and

(ii) a balance of HK$7,414,000 (2002: HK$7,414,000) which is partially secured, interest-free and repayable within three years.

21. PREPAYMENTS FOR FRAME BOARD SPACE

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Prepayments for frame board space	68,982	53,511
Portion classified as current assets (note 23)	(18,978)	(13,524)
Long term portion	50,004	39,987

Prepayments for frame board space were made to optical retail chains to secure continuous purchases from these retail chains and to reserve a certain minimum percentage of frame board space for display in each retail outlet in accordance with contractual agreements.

22. INVENTORIES

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Raw materials	123,547	157,813
Work in progress	34,123	44,097
Finished goods	295,605	223,286
	453,275	425,196
Provision for slow moving and obsolete inventories	(40,784)	(31,444)
	412,491	393,752

The inventories were carried at cost as at the balance sheet date.
(31 December 2002: HK$25,433,000 was carried at net realisable value).

23. TRADE AND OTHER RECEIVABLES

	Notes	Group 2003	Group 2002	Company 2003	Company 2002
		HK$'000	*HK$'000 (restated)*	*HK$'000*	*HK$'000*
Trade debtors and bills receivable	(a)	506,877	488,180	—	—
Other debtors and prepayments		376,897	373,540	3,452	—
Promissory notes	19	24,350	42,818	—	—
Staff loans	20	4,610	1,410	—	—
Due from a PRC subcontractor	36(b)(iv), (b)	85,504	213,797	—	—
Prepayments for frame board space	21	18,978	13,524	—	—
Deposits with a non-bank financial institution	36(b)(v)	35,626	30,541	—	—
Due from the ultimate holding company	(c)	29,233	29,148	16,927	26,691
		1,082,075	1,192,958	20,379	26,691

In the prior year, the deposits with a non-bank financial institution were included in the cash and bank balances. The directors consider that it is more appropriate to reclassify these deposits to other receivables under current assets, and the non-current portion under non-current assets.

Notes:

(a) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period from 60 to 90 days, but 120 days for certain major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of the trade debtors and bills receivable as at the balance sheet date, based on invoice date, is as follows:

	Group 2003	Group 2002
	HK$'000	*HK$'000*
Current	241,726	164,367
1 to 3 months	138,394	121,864
4 to 6 months	90,010	141,757
7 to 12 months	20,442	70,189
Over 12 months	68,512	43,434
	559,084	541,611
Provision for doubtful debts	(52,207)	(53,431)
	506,877	488,180

(b) The amount due from a PRC subcontractor is unsecured (31 December 2002: unsecured), bears interest at 8% per annum (period ended 31 December 2002: 11.825% per annum) and is repayable within three years (31 December 2002: no fixed terms of repayment). Amount considered by the directors as not repayable within one year of HK$97,000,000 is classified under non-current assets. Details of the transactions with the PRC subcontractor are set out in note 36(b).

(c) The amounts due from the ultimate holding company are unsecured, interest-free and have no fixed terms of repayment. The Company's balance as at 31 December 2003 comprised the outstanding amount of the executive directors' remuneration during the current and prior years borne by the ultimate holding company as set out in note 8.

24. SHORT TERM INVESTMENTS

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Listed equity investments outside Hong Kong, at market value	2,286	1,657
Unlisted equity investments, at fair value	—	40,000
Provision for impairment	—	(4,500)
	—	35,500
	2,286	37,157

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000* *(restated)*	*HK$'000*	*HK$'000*
Cash and bank balances	423,445	122,637	649	30
Time deposits	466,495	142,628	—	—
	889,940	265,265	649	30

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$110,041,000 (31 December 2002: HK$157,585,000). The RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Certain deposit amounts at 31 December 2002 have been reclassified to other receivables in the current year's financial statements, as explained in note 23.

26. TRADE AND OTHER PAYABLES AND ACCRUALS

		Group		Company	
	Notes	**2003**	**2002**	**2003**	**2002**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade creditors and bills payable	(a)	222,610	177,272	—	—
Other creditors and accruals		144,906	77,012	696	658
Due to a minority shareholder	(b)	867	4,086	—	—
Due to a related company	(c)	307	2,531	—	—
		368,690	260,901	696	658

Notes:

(a) An aged analysis of the trade creditors and bills payable as at the balance sheet date, based on payment due date, is as follows:

	Group 2003	2002
	HK$'000	*HK$'000*
Current	101,794	74,050
1 to 3 months	41,890	48,247
Over 3 months	78,926	54,975
	222,610	177,272

(b) The amount due to a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

(c) The amount due to a related company is unsecured, interest-free and has no fixed terms of repayment.

27. INTEREST-BEARING BANK BORROWINGS

	Group 2003	2002
	HK$'000	*HK$'000*
Bank overdrafts:		
Secured	31,075	—
Unsecured	102,268	108,673
	133,343	108,673
Bank loans:		
Secured	183,638	10,668
Unsecured	843,260	1,031,270
	1,026,898	1,041,938
	1,160,241	1,150,611
Bank overdrafts repayable within one year or on demand	133,343	108,673
Bank loans repayable:		
Within one year or on demand	397,144	371,807
In the second year	60,353	68,298
In the third to fifth years, inclusive	143,403	132,970
Beyond five years	5,798	28,863
	606,698	601,938
Syndicated loan repayable:		
Within one year or on demand	79,200	19,800
In the second year	79,200	79,200
In the third to fifth years, inclusive	261,800	341,000
	420,200	440,000
	1,160,241	1,150,611
Portion classified as current liabilities	(609,687)	(500,280)
Long term portion	550,554	650,331

Certain of the Group's bank loans are secured by mortgages over certain of the Group's leasehold land and buildings, which had an aggregate net book value at the balance sheet date of approximately HK$35,500,000 (31 December 2002: HK$36,274,000).

28. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery, furniture, fixtures and equipment and motor vehicles for its business. These leases are classified as finance leases or hire purchase contracts and have remaining lease terms up to three years.

At 31 December 2003, the total future minimum lease payments under finance leases and hire purchase contract payables and their present values, were as follows:

Group	Minimum lease payments 2003 *HK$'000*	Minimum lease payments 2002 *HK$'000*	Present value of minimum lease payments 2003 *HK$'000*	Present value of minimum lease payments 2002 *HK$'000*
Amounts payable:				
Within one year	15,479	15,200	15,102	14,461
In the second year	8,303	9,391	8,218	9,046
In the third to fifth years, inclusive	2,532	5,227	2,530	4,887
Total minimum finance lease payments	26,314	29,818	25,850	28,394
Future finance charges	(464)	(1,424)		
Total net finance lease and hire purchase contract payables	25,850	28,394		
Portion classified as current liabilities	(15,102)	(14,461)		
Long term portion	10,748	13,933		

29. PROVISIONS

Group	Post-employment benefits *HK$'000*	Others *HK$'000*	Total *HK$'000*
At beginning of year	19,073	—	19,073
Acquisition of subsidiaries (note 35(b))	26,853	—	26,853
Charge for the year	2,869	13,000	15,869
Amounts utilised during the year	(9,041)	(2,905)	(11,946)
Exchange realignment	3,586	—	3,586
At 31 December 2003	43,340	10,095	53,435

Certain subsidiaries of the Group in Italy provide for employee benefits for services performed to date which are payable immediately upon the employees' departure under Italian civil and labour laws. The provision is based on the remuneration earned by the employees according to the length of their service to the Group up to the balance sheet date, and is recognised as a long term liability as there is no indication of a material outflow of resources from the Group in the near future.

Certain overseas subsidiaries of the Group provide compensation for cancellation of contracts with certain agents in Europe. The provisions are calculated with reference to the contracted amount and its related legal and professional fees. The provisions are recognised as a long term liabilities as the negotiations with the agents are not anticipated to be completed within one year.

30. CONVERTIBLE NOTES

Pursuant to a Subscription Agreement dated 13 August 1999 and a Supplemental Agreement dated 5 February 2001, the Company issued unsecured convertible notes with a principal amount of US$15,000,000 on 2 September 1999. The notes bore interest at the rate of 5% per annum, which was payable semi-annually in arrears on 30 April and 31 October in each year, together with additional interest, representing the dividend yield (equivalent to the dividends declared by the Company, divided by the weighted average closing price of the Company's shares calculated according to the Subscription Agreement) of the Company's shares less 5%, which was payable in arrears on 31 October each year. The notes were convertible into ordinary shares in the Company, at the option of the holders at any time during the 54 months after the issue of the notes, at the conversion price of HK$0.87 per share (subject to adjustment). The shares to be issued on any exercise of the conversion rights attaching to the notes would rank pari passu in all respects with the Company's shares already in issue.

Prior to the Company entering into the Supplemental Agreement, all outstanding notes were to be mandatorily converted on maturity. Under the terms of the Supplemental Agreement, unless previously converted or redeemed, the Company was required to redeem the notes on 2 March 2004. In addition, the Company had the right to voluntarily redeem the notes at any time under certain conditions.

Upon such redemption, in addition to the principal amount outstanding and any accrued but unpaid interest under the notes, the Company was required to pay an additional amount calculated as provided in the conditions of the notes which would give the holders of the notes a total internal rate of return of 6% and 10%, for redemption at maturity and voluntary redemption, respectively, with reference to the market rate.

On 13 September 2002, the Company entered into a deed of early redemption with a note holder, Vintage Year Limited ("VYL") for the purpose of enabling the Company to redeem the convertible notes held by VYL in an aggregate amount of US$13,000,000 (the "VYL Notes"). The VYL Notes were redeemed by the Company on 29 November 2002.

On 28 May 2003, the remaining notes of US$2,000,000 or HK$15,600,000 equivalent were redeemed by the Company.

31 DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group:

	Accelerated tax depreciation *HK$'000*	**2003 Revaluation of properties** *HK$'000*	**Total** *HK$'000*
At 1 January 2003			
As previously reported	9,210	—	9,210
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	(1,047)	5,370	4,323
As restated	8,163	5,370	13,533
Acquisition of subsidiaries (note 35(b))	3,889	—	3,889
Deferred tax charged to the profit and loss account during the year (note 10)	4,692	—	4,692
Deferred tax charged to revaluation reserve due to the effect of a change in tax rates	—	405	405
Gross deferred tax liabilities at 31 December 2003	16,744	5,775	22,519

Deferred tax assets

Group

	2003 Losses available for offset against future taxable profit *HK$'000*
At 1 January 2003	
As previously reported	1,828
Prior year adjustment: SSAP 12 — restatement of deferred tax	6,022
As restated	7,850
Acquisition of subsidiaries (note 35(b))	2,714
Deferred tax credited to the profit and loss account during the year (note 10)	7,697
Gross deferred tax assets at 31 December 2003	18,261
Net deferred tax liabilities at 31 December 2003	4,258

Deferred tax liabilities

Group:

	Accelerated tax depreciation *HK$'000*	2002 Revaluation of properties *HK$'000*	Total *HK$'000*
At 1 April 2002			
As previously reported	6,308	—	6,308
Prior year adjustment:			
SSAP 12 — restatement of deferred tax	(1,857)	5,370	3,513
As restated	4,451	5,370	9,821
Deferred tax charged to the profit and loss account during the year (as restated) (note 10)	3,712	—	3,712
Gross deferred tax liabilities at 31 December 2002	8,163	5,370	13,533

Deferred tax assets

Group

	2002 Losses available for offset against future taxable profit *HK$'000*
At 1 April 2002	
As previously reported	1,808
Prior year adjustment: SSAP 12 — restatement of deferred tax	5,486
As restated	7,294
Deferred tax credited to the profit and loss account during the year	556
Gross deferred tax assets at 31 December 2002	7,850
Net deferred tax liabilities at 31 December 2002	5,683

The Group has tax losses of HK$22,361,000 (31 December 2002: HK$27,832,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (31 December 2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 31 December 2002 and 31 March 2002 by HK$4,323,000 and HK$3,513,000, respectively and an increase in the Group's deferred tax assets as at 31 December 2002 and 31 March 2002 by HK$6,022,000 and HK$5,486,000, respectively. As a consequence, the Group's property revaluation reserve as at 31 December 2002 and 31 March 2002 has been reduced by HK$5,370,000 and HK$5,370,000, respectively, the consolidated net profits attributable to shareholders for the year ended 31 December 2002 has been decreased by HK$274,000, and the consolidated retained profits at 31 December 2002 and 31 March 2002 have been increased by HK$7,069,000 and HK$7,343,000, respectively, as detailed in the consolidated statement of changes in equity.

32. SHARE CAPITAL

Shares

	2003	**2002**
	HK$'000	*HK$'000*
Authorised:		
1,200,000,000 ordinary shares of HK$0.50 each	600,000	600,000
Issued and fully paid:		
499,200,562 (31 December 2002: 401,767,562) ordinary shares of HK$0.50 each	249,600	200,884

During the year, the movements in share capital were as follows:

(a) The subscription rights attaching to 17,745,000 shares options, of which every five share options represent one consolidated share*, were exercised at an adjusted subscription price of HK$3.10 per consolidated share (note 33), resulting in the issue of 3,549,000 shares of HK$0.50 each for a total cash consideration, before expenses, of HK$11,002,000.

(b) On 14 May 2003 and 3 December 2003, 40,000,000 and 54,000,000 shares were placed to independent investors at prices of HK$3.50 and HK$5.60 per subscription share, resulting in gross proceeds of approximately HK$140,000,000 and HK$302,400,000, respectively, before share issue expenses. The market prices of the Company's shares at their placement dates were HK$3.70 and HK$5.80, respectively. The proceeds were used to expand the Group's distribution business in Europe and will be used to expand the business of the Group in the United States through possible mergers, acquisitions and/or business combinations.

(c) The Company repurchased 116,000 shares of HK$0.50 each through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 31 December 2002 at a price of HK$2.575 per share for a total consideration of HK$298,000. Such shares were cancelled in January 2003 and the premium payable on repurchase was charged against the share premium account.

* Pursuant to a special resolution passed on 6 September 2002, every five issued and unissued ordinary shares of HK$0.10 each of the Company were consolidated into one ordinary share of HK$0.50 each (a "Consolidated Share").

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Notes	Number of shares in issue	Issued share capital	Share premium account	Total
			HK$'000	*HK$'000*	*HK$'000*
At 1 April 2002		2,006,648,314	200,665	163,778	364,443
Share options exercised		13,093,500	1,309	6,809	8,118
Repurchase and cancellation of own shares		(3,414,000)	(341)	(1,669)	(2,010)
Consolidation of shares		(1,613,062,252)	—	—	—
Repurchase and cancellation of own shares		(1,498,000)	(749)	(3,171)	(3,920)
At 31 December 2002 and beginning of year		401,767,562	200,884	165,747	366,631
Share options exercised	(a)	3,549,000	1,774	9,228	11,002
Issue of shares	(b)	94,000,000	47,000	395,400	442,400
Repurchase and cancellation of own shares	(c)	(116,000)	(58)	(240)	(298)
		499,200,562	249,600	570,135	819,735
Share issue expenses		—	—	(11,498)	(11,498)
At 31 December 2003		499,200,562	249,600	558,637	808,237

Share options

Details of the Company's share option scheme are included in note 33 to the financial statements.

33. SHARE OPTION SCHEME

The Company operated a share option scheme (the ''Old Scheme'') for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the Old Scheme included the Company's directors and employees of the Group. The Old Scheme became effective on 6 September 1993 and, unless otherwise cancelled or amended, was to remain in force for 10 years from that date.

The maximum number of unexercised share options permitted to be granted under the Old Scheme was an amount equivalent, upon their exercise, to 5% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Old Scheme within any 12-month period, was limited to 25% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit was subject to shareholders' approval in a general meeting.

The offer of a grant of share options was able to be accepted within 21 days from the date of the offer, with no consideration being payable by the grantee. The exercise period of the share options granted was determinable by the directors, and commenced after a certain vesting period and ended on a date which was not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options was determinable by the directors, but was not able to be less than the higher of (i) the nominal value of the Company's shares; and (ii) an amount not less than 80% of the average closing price of the Company's shares on the Stock Exchange for the five business days immediately preceding the date of the offer to grant an option.

On 23 August 2001, the Stock Exchange announced 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 schemes. The amendments took effect on 1 September 2001 and set out the revised requirements for share option schemes operated by listed companies. With a view to bringing the Company's share option scheme in line with the new requirements of Chapter 17 of the Listing Rules, the operation of the Old Scheme was terminated upon the adoption of a new share option scheme (the "New Scheme" detailed below). No further options will be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised will continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On 6 September 2002, at the annual general meeting, the Company adopted the New Scheme. The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive directors and non-executive directors, and other directors and employees of the Group. The Scheme became effective on 6 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Other details of the New Scheme were disclosed in a circular dated 12 August 2002.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Number of share options							
Name or category of participant	At 1 January 2003[(1)]	Exercised during the year	Cancelled during the year	At 31 December 2003	Date of grant of share options[(2)]	Exercise period of share options[(4)]	Exercise price of share options, as adjusted[(3)] *HK$*	Price of Company's shares at exercise date of options[(4)]
Directors								
Ma Bo Kee	3,750,000	(1,250,000)	(2,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
Ma Bo Fung	3,750,000	(1,250,000)	(2,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
Ma Bo Lung	3,750,000	(1,250,000)	(2,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
Ma Lit Kin, Cary	3,750,000	(1,250,000)	(2,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
Ma Hon Kin, Dennis	2,250,000	(750,000)	(1,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
Tong Ka Wai, Dicky	2,250,000	(750,000)	(1,500,000)	—	27 December 2000	6 September 2002 to 5 September 2003	3.1	4.525
	19,500,000	(6,500,000)	(13,000,000)	—				
Other employees								
Managerial level in aggregate	18,225,000	(5,255,000)	(12,970,000)	—	27 December 2000/ 30 May 2001	1 January 2002 to 5 September 2003	3.1	4.525
Others in aggregate	9,301,000	(5,990,000)	(3,311,000)	—	27 December 2000/ 30 May 2001	1 January 2002 to 5 September 2003	3.1	4.502
	27,526,000	(11,245,000)	(16,281,000)	—				
	47,026,000	(17,745,000)	(29,281,000)	—				

Notes:

(1) With effect from 9 September 2002, every five issued shares and unissued shares of HK$0.10 each in the capital of the Company were consolidated into one ordinary share of HK$0.50 each in the Company. Accordingly, upon the exercise of the share options granted under the previous stock option scheme, every five share options should be utilised to subscribe for one Consolidated Share.

(2) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(3) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The share consolidation as detailed in note 32 has resulted in an adjustment to the exercise price of the outstanding share options. The adjusted exercise price for one Consolidated Share is HK$3.10, which took effect from 9 September 2002.

(4) The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing price over all of the exercises of options within the disclosure category.

The 17,745,000 share options of the Company's previous share option scheme exercised during the year resulted in the issue of 3,549,000 ordinary shares of the Company and new share capital of HK$1,774,000 and share premium of HK$9,228,000 (before issue expenses), as detailed in note 32 to the financial statements.

At the balance sheet date, the Company had no outstanding share options under the previous share option scheme.

No share options have been granted to any eligible participants, including directors or the Group's employees under the New Scheme since its adoption on 6 September 2002.

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current period and prior year are presented in the consolidated statement of changes in equity on page 43 of the financial statements (page 25 of this circular).

(b) Company

	Notes	Share premium account *HK$'000*	Contributed surplus *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 April 2002		163,778	92,613	127,615	384,006
Repurchase and cancellation of own shares		(4,840)	—	—	(4,840)
Share options exercised		6,809	—	—	6,809
Net profit for the year		—	—	1,366	1,366
Additional final dividend for year ended 31 March 2002	12	—	—	(148)	(148)
Interim dividend for the year ended 31 December 2002	12	—	—	(22,569)	(22,569)
Proposed final dividend for the year ended 31 December 2002	12	—	—	(17,673)	(17,673)
At 31 December 2002		165,747	92,613	88,591	346,951
Issue of shares		395,400	—	—	395,400
Share issue expenses	32	(11,498)	—	—	(11,498)
Repurchase and cancellation of own shares	32	(240)	—	—	(240)
Share options exercised	32	9,228	—	—	9,228
Net loss for the year		—	—	(5,943)	(5,943)
Additional final dividend for the year ended 31 December 2002	12	—	—	(1,759)	(1,759)
Interim dividend for the year ended 31 December 2003	12	—	—	(31,164)	(31,164)
Proposed final dividend for the year ended 31 December 2003	12	—	—	(23,962)	(23,962)
31 December 2003		558,637	92,613	25,763	677,013

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation at the time of the Company's listing in 1993, over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

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

(b) the realisable value of the Company's assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Under the bye-laws of the Company, the share premium account is not distributable.

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transactions

(i) During the year, the Group entered into finance lease and hire purchase arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK$393,000 (2002: HK$2,095,000).

(ii) During the year, a promissory note of HK$9,434,000 due from the PRC subcontractor (notes 19 and 36(b)(iv)) was transferred to advance to the PRC subcontractor.

(iii) During the year, the Group has entered into a sale and purchase agreement with a former subsidiary of the Group which was disposed of in the prior year, for the acquisition of intangible assets for a consideration of HK$35,949,000. The consideration was satisfied by the set off of accounts receivable from the former subsidiary.

(iv) During the year, the Group entered into finance lease and hire purchase arrangements in respect of settlement of a payable to an independent third party amounted to HK$10,798,000.

(v) During the year, the PRC subcontractor has paid HK$65,280,000 (31 December 2002: HK$43,333,000) for and on behalf of the Group in respect of additions to fixed assets (note 36(b)(i)).

(vi) During the year, the Group entered into a share purchase agreement with an independent third party of the Group in respect of further acquisition of additional interest in a subsidiary of the Group amounted to HK$25,787,000. The consideration was satisfied by the set off of an amount receivable from the minority shareholders amounted to HK$17,460,000 and HK$8,327,000 was included in other payables.

(b) Acquisition of subsidiaries

		2003	2002
		HK$'000	*HK$'000*
Net assets acquired:			
Fixed assets	14	5,132	—
Intangible assets	15	7,352	—
Deferred tax assets	31	2,714	—
Inventories		53,132	—
Trade debtors and bills receivables		31,397	—
Other debtors and prepayments		5,544	—
Cash and bank balances		6,361	—
Trade creditors and bills payable		(38,475)	—
Other creditors and accruals		(46,197)	—
Bank overdrafts		(2,159)	—
Provision for employee termination indemnities	29	(26,853)	—
Deferred tax liabilities	31	(3,889)	—
Minority interests		(284)	—
		(6,225)	—
Goodwill on acquisition	16	41,318	—
		35,093	—
Satisfied by:			
Cash		9,106	—
Decrease in accounts receivable		18,712	—
Increase in other payable		7,275	—
		35,093	—

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003	2002
	HK$'000	*HK$'000*
Cash consideration	9,106	—
Cash and bank balances acquired	(6,361)	—
Bank overdrafts and bank loans assumed	2,159	—
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	4,904	—

On 1 May 2003, the Group acquired a group of overseas subsidiaries from a former subsidiary of the Group. These subsidiaries are engaged in the distribution of optical products. The purchase consideration for the acquisition was satisfied by set off of accounts receivable from the former subsidiary.

On 30 September 2003, the Group acquired a 100% interest in NiGuRa Optik GmbH from an independent third party. NiGuRa Optik GmbH is engaged in the distribution of optical products. The purchase consideration for the acquisition was in the form of cash, with HK$9,106,000 being paid at the acquisition date and the remaining HK$7,275,000 being paid subsequent to the balance sheet date.

The subsidiaries acquired in the current year contributed HK$80,255,000 to the Group's turnover and a loss of HK$9,947,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

(c) Disposal of subsidiaries

	Year ended December 31 2003 *HK$'000*	**Period from 1 April 2002 to 31 December 2002** *HK$'000*
Net assets disposed of:		
Fixed assets	—	72,959
Goodwill	—	4,618
Intangible assets	—	1,379
Inventories	—	124,728
Trade debtors and bills receivables	—	54,271
Other debtors and prepayments	—	23,154
Cash and bank balances	—	3,333
Trade creditors and bills payable	—	(38,813)
Other creditors and accruals	—	(54,075)
Tax payable	—	(1,353)
Due to the Group	—	(58,626)
Bank loans	—	(133,805)
Bank overdrafts	—	(20,885)
Minority interests	—	43
	—	(23,072)
Goodwill written off	—	40,603
Exchange fluctuation reserve released	—	(2,357)
Gain on disposal of subsidiaries (note 5)	—	12,897
	—	28,071

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

	2003 *HK$'000*	**2002** *HK$'000*
Cash consideration	—	71
Other debtors and prepayments	—	28,000
Cash and bank balances disposed of	—	(3,333)
Bank overdrafts disposed of	—	20,885
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	45,623

The components of the purchase consideration for the disposal were in the form of cash, with HK$71,000 being paid at the disposal date and HK$28,000,000 being paid in January 2003. Therefore, there was a net inflow of cash and cash equivalents of HK$17,623,000 during the period from 1 April 2002 to 31 December 2002 and HK$28,000,000 during the year ended 31 December 2003.

The results of the subsidiaries disposed of during the period ended 31 December 2002 had no significant impact on the Group's consolidated turnover or profit after tax for the period from 1 April 2002 to 31 December 2002.

36. TRANSACTIONS WITH A PRC SUBCONTRACTOR

During the year, the Group had certain business transactions with a PRC subcontractor of the Group. The PRC subcontractor who deals with certain subcontracting business and distribution business for the Group in the PRC, is also a nephew of Mr Ma Bo Kee, the Chairman of the Company.

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with the PRC subcontractor during the year.

(a) Interest income receivable

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Interest income due from the PRC subcontractor	11,381	17,169

The interest income from the PRC subcontractor was calculated according to the terms set out in note 23(b).

(b) (i) During the year, the PRC subcontractor had the following cash transactions with the Group:

	2003	**2002**
	HK$'000	*HK$'000*
Cash paid on behalf of the Group for		
purchases of raw material	51,766	36,529
additions of fixed assets	65,280	43,333
payment of manufactory overheads	27,430	16,667
Cash received on behalf of the Group from sales	151,493	105,992

(ii) As disclosed in note 10, the Group has made arrangements with the PRC subcontractor under which all taxes incurred in connection with sales related to the distribution operations in the PRC are to be borne by the PRC subcontractor. The Group has also received indemnities from the PRC subcontractor for any taxes in the PRC that may be levied on the Group in connection with the activities covered by these arrangements. Accordingly, the directors consider that there is no tax payable in the PRC in respect of these distribution operations.

(iii) At the balance sheet date, the legal title of certain fixed assets in the PRC with a net book value of approximately HK$303 million (31 December 2002:

HK$277 million) is held in trust of the Group by a PRC factory collective in which the PRC subcontractor is the legal representative. In the opinion of the directors, the Group is the beneficial owner of these assets and has proper ownership of these assets in accordance with undertaking agreements signed between the Group and the PRC factory collective.

(iv) As disclosed in the consolidated balance sheet and in note 23 to the financial statements, the Group had outstanding receivables and promissory notes due from the PRC subcontractor of HK$183 million and HK$9 million (31 December 2002: HK$214 million and HK$18 million), respectively, as at the balance sheet date. The receivable balance is mainly accumulated from the transactions noted in note (i) above. The receivable balance is unsecured, interest bearing at 8% per annum (2002: 11.825% per annum) and, in the opinion of the directors, HK$97 million is not repayable within one year according to the repayment plan (31 December 2002: no fixed terms of repayment). As detailed in note 40, the receivable balance was assigned to five individual third parties subsequent to the year end.

(v) At the balance sheet date, HK$59,626,000 (31 December 2002: HK$84,541,000) had been deposited into a fixed term deposit account with a non-bank financial institution in the PRC. The deposit was held in trust for the Group by a company controlled by the PRC subcontractor at the balance sheet date. However, the legal owner of the deposit was subsequently changed back to a subsidiary of the Group. Therefore, the deposit is now held by the Group. In the opinion of directors, an amount of HK$24,000,000 (31 December 2002: HK$54,000,000) will be drawn after one year (included in non-current assets in the balance sheet) and the balance of HK$35,626,000 (31 December 2002: HK$30,541,000) (note 23) could be drawn on demand.

(vi) Chaoyang Shi Martin Optical Co. Ltd. (''Chaoyang Martin'') is a PRC domestic enterprise owned legally by a PRC citizen and another PRC factory collective which in the PRC subcontractor is the legal representative. The Group's 100% beneficial ownership of Chaoyang Martin has been supported by way of a declaration of trust executed by those two legal owners and therefore it has been included as a subsidiary for consolidation purposes. The legal ownership of Chaoyang Martin was subsequently transferred to one of the Group's wholly owned subsidiary on 27 March, 2004.

37. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2003	**2002**	**2003**	**2002**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank guarantees given in lieu of deposits for licensing agreement	15,853	13,283	—	—
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	831,003	860,595
Guarantees given to a finance company for finance leases granted to subsidiaries	—	—	4,505	9,886
	15,853	13,283	835,508	870,481

As at 31 December 2003, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$831,003,000 (31 December 2002: HK$860,595,000).

(b) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$2,434,000 (31 December 2002: Nil) as at 31 December 2003, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance, if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

38. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and office equipment and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to nine years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Within one year	14,687	20,495
In the second to fifth years, inclusive	39,701	31,006
After five years	17,800	14,415
	72,188	65,916

At the balance sheet date, the Company did not have any future minimum lease payments under non-cancellable operating leases.

39. CAPITAL COMMITMENTS

	Group	
	2003	**2002**
	HK$'000	*HK$'000*
Authorised, but not contracted for, in respect of the purchase of land use rights in the PRC (RMB15,000,000)	13,889	13,889
Authorised, but not contracted for, in respect of the purchase of machinery	5,746	528
Capital contribution to a subsidiary in the form of a joint stock company in the PRC (RMB21,000,000)	—	19,444
	19,635	33,861

40. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, on 29 March 2004, the Group entered into a debt assignment agreement with the PRC subcontractor and five independent individual third parties who are the distributors of the Group's PRC distribution business relating to the assignment of the Group's remaining receivable from the PRC subcontractor as at 29 March 2004 resulting in approximately HK$160 million receivables due from those five independent third parties.

On 29 March 2004, the PRC subcontractor entered into an agreement with a subsidiary of the Company to indemnify that subsidiary from any losses arising from the receivables assigned to the five independent third parties amounting to approximately HK$160 million together with interest thereon whenever applicable.

In connection with the aforesaid indemnity, the PRC subcontractor has pledged certain of his equity interests in certain unlisted companies to the Group. According to the management accounts of these companies as at 31 December 2003, the net asset value of the pledged equity interests in these companies amounted to approximately HK$144 million.

(b) Subsequent to the balance sheet date, on 20 April 2004, the directors publicly announced that the Group submitted an unsolicited non-binding offer to acquire Cole National

Corporation (“CNC”), a New York Stock Exchange-listed company, at a price of US$25 per share in cash. In the opinion of the directors, the deal is at a preliminary stage and the acquisition may or may not proceed.

(c) On 28 April 2004, Mr. Ma Bo Kee, a director of the Company, entered into an agreement with certain subsidiaries of the Company to indemnify it from any losses arising from certain other receivables arising from short term advances to independent third parties undertaken by those subsidiaries amounting to HK$86,000,000 as at 28 April 2004, together with interest thereon whenever applicable. The directors do not foresee the continuation of such transactions in the future.

41. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year’s presentation.

Other reclassifications of comparative amounts are set forth in note 4 and note 40.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 April 2004.

B. UNAUDITED INTERIM RESULTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2004

The following is a summary of the unaudited interim results of the Group for the six months ended 30 June 2004, as extracted from the interim report of the Company for the six months ended 30 June 2004.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	2004	2003
		HK$'000	*HK$'000*
		(Unaudited)	*(Unaudited)*
Turnover	2	685,652	603,048
Cost of sales		(308,034)	(264,194)
Gross profit		377,618	338,854
Other revenue	3	20,588	21,450
Selling and distribution costs		(101,858)	(89,610)
Administrative expenses		(136,366)	(117,101)
Other operating expenses, net		(78,305)	(34,190)
Profit from operating activities	4	81,677	119,403
Finance costs	5	(11,845)	(25,018)
Profit before tax		69,832	94,385
Tax	6	(9,414)	(12,913)
Profit before minority interests		60,418	81,472
Minority interests		(225)	1,651
Net profit from ordinary activities attributable to shareholders		60,193	83,123
Interim Dividend	7	17,971	31,164
Earnings per share	8		
Basic		12.06 cents	20.17 cents
Diluted		N/A	20.15 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2004 HK$'000 (Unaudited)	31 December 2003 HK$'000 (Audited)
NON-CURRENT ASSETS			
Fixed assets		810,098	841,499
Intangible assets		50,204	53,773
Goodwill		218,405	213,342
Long term investments		2,663	3,279
Promissory notes		23,400	23,400
Staff loans		3,614	3,614
Deferred tax assets		19,589	18,261
Due from PRC subcontractors		120,492	97,000
Deposits with a non-bank financial institution		24,000	24,000
Prepayments for frame board space		40,514	50,004
		1,312,979	1,328,172
CURRENT ASSETS			
Inventories		425,370	412,491
Trade and other receivables	9	1,061,885	1,082,075
Tax recoverable		1,258	1,244
Short term investments		—	2,286
Cash and cash equivalents	10	824,941	889,940
		2,313,454	2,388,036
CURRENT LIABILITIES			
Trade and other payables and accruals	11	283,437	368,690
Tax payable		41,246	41,290
Interest-bearing bank borrowings		546,065	609,687
Current portion of finance lease and hire purchase contract payables		12,332	15,102
Dividend payable		24,552	629
		907,632	1,035,398
NET CURRENT ASSETS		1,405,822	1,352,638
TOTAL ASSETS LESS CURRENT LIABILITIES		2,718,801	2,680,810
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		575,776	550,554
Long term portion of finance lease and hire purchase contract payables		5,038	10,748
Provisions		37,835	53,435
Deferred tax liabilities		22,010	22,519
		640,659	637,256
MINORITY INTERESTS		30,334	32,186
		2,047,808	2,011,368
CAPITAL AND RESERVES			
Issued capital	12	249,600	249,600
Reserves		1,780,237	1,737,806
Proposed dividend		17,971	23,962
		2,047,808	2,011,368

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Note	Issued share capital *HK$'000* *(Unaudited)*	Share premium account *HK$'000* *(Unaudited)*	Property revaluation reserve *HK$'000* *(Unaudited)*	Exchange fluctuation reserve *HK$'000* *(Unaudited)*	Retained profits *HK$'000* *(Unaudited)*	Proposed dividend *HK$'000* *(Unaudited)*	Total *HK$'000* *(Unaudited)*
At 1 January 2003:								
As previously reported		200,884	165,747	33,566	(29,082)	1,057,596	17,673	1,446,384
Prior year adjustment: SSAP 12 — restatement of deferred tax		—	—	(5,370)	—	7,069	—	1,699
As restated		200,884	165,747	28,196	(29,082)	1,064,665	17,673	1,448,083
Exchange realignment and net gains and losses not recognised in the profit and loss account		—	—	—	(13,296)	—	—	(13,296)
Repurchase and cancellation of own shares		(58)	(240)	—	—	—	—	(298)
Issue of shares		20,000	120,000	—	—	—	—	140,000
Share issue expenses		—	(3,795)	—	—	—	—	(3,795)
Share options exercised		71	369	—	—	—	—	440
Net profit for the period		—	—	—	—	83,123	—	83,123
Final dividend approved for the period ended 31 December 2002		—	—	—	—	—	(17,673)	(17,673)
Proposed interim dividend for the six months ended 30 June 2003	7	—	—	—	—	(31,164)	31,164	—
At 30 June 2003		220,897	282,081	28,196	(42,378)	1,116,624	31,164	1,636,584
At 1 January 2004:		249,600	558,637	27,791	(38,012)	1,189,390	23,962	2,011,368
Exchange realignment and net gains and losses not recognised in the profit and loss account		—	—	—	209	—	—	209
Net profit for the period		—	—	—	—	60,193	—	60,193
Final dividend approved for the period ended 31 December 2003		—	—	—	—	—	(23,962)	(23,962)
Proposed interim dividend for the six months ended 30 June 2004	7	—	—	—	—	(17,971)	17,971	—
At 30 June 2004		249,600	558,637	27,791	(37,803)	1,231,612	17,971	2,047,808
Reserves retained by:								
Company and subsidiaries at 30 June 2004		249,600	558,637*	27,791*	(37,803)*	1,231,612*	17,971	2,047,808
Company and subsidiaries at 30 June 2003		220,897	282,081	28,196	(42,378)	1,116,624	31,164	1,636,584

* These reserve accounts comprise the consolidated reserves of HK$1,780,237,000 in the condensed consolidated balance sheet as at 30 June 2004.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2004

	Six months ended 30 June 2004 *HK$'000 (Unaudited)*	2003 *HK$'000 (Unaudited and restated)*
Net cash inflow/(outflow) from operating activities	(24,258)	121,336
Net cash inflow/(outflow) from investing activities	6,925	(29,915)
Net cash outflow from financing activities	(4,849)	(88,777)
Increase/(decrease) in cash and cash equivalents	(22,182)	2,644
Cash and cash equivalents at beginning of period	756,597	156,592
Effect of foreign exchange rate changes, net	(747)	(8,761)
Cash and cash equivalents at the end of period	733,668	150,475
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	402,257	61,091
Non-pledged time deposits with original maturity of less than three months when acquired	422,684	194,934
	824,941	256,025
Bank overdrafts	(91,273)	(105,550)
	733,668	150,475

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2004

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim accounts (the ''Interim Accounts'') are prepared in accordance with SSAP No. 25 ''Interim Financial Reporting'' issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA'') and should be read in conjunction with the 2003 annual financial statements. The accounting policies and basis of preparation used in the preparation of the Interim Accounts are the same as those used in the annual financial statements for the year ended 31 December 2003.

2. TURNOVER AND SEGMENT INFORMATION

Segment information is presented by way of geographical segment. No business segment analysis of the Group's revenue and results is presented as all the Group's revenue and results are generated from vertically integrated activities which include the design, manufacture, distribution and retailing of optical products.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers.

Geographical segments

The following table presents revenue and results for the Group's geographical segments.

Group

	North America Six months ended 30 June		PRC Six months ended 30 June		Asia Pacific (including Hong Kong) Six months ended 30 June		Europe Six months ended 30 June		Corporate Six months ended 30 June		Others Six months ended 30 June		Total Six months ended 30 June	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Unaudited and restated)*	*(Unaudited)*	*(Unaudited and restated)*	*(Unaudited)*	*(Unaudited and restated)*	*(Unaudited)*	*(Unaudited and restated)*	*(Unaudited)*	*(Unaudited and restated)*	*(Unaudited)*	*(Unaudited and restated)*	*(Unaudited)*	*(Unaudited)*
Segment revenue:														
Sales to external customers	231,020	252,648	131,958	139,150	95,344	57,101	226,330	153,195	873	—	127	954	685,652	603,048
Other revenue	614	719	608	1,019	2,669	972	1,361	—	36	853	—	—	5,288	3,563
Total	231,634	253,367	132,566	140,169	98,013	58,073	227,691	153,195	909	853	127	954	690,940	606,611
Segment results	78,238	69,863	18,961	29,321	14,664	9,273	(17,942)	(8,318)	(27,584)	476	40	901	66,377	101,516
Interest income													15,300	17,887
Profit from operating activities													81,677	119,403
Finance costs													(11,845)	(25,018)
Profit before tax													69,832	94,385
Tax													(9,414)	(12,913)
Profit before minority interests													60,418	81,472
Minority interests													(225)	1,651
Net profit from ordinary activities attributable to shareholders													60,193	83,123

3. OTHER REVENUE

An analysis of other revenue is as follows:

	Six months ended 30 June 2004	2003
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Interest income	15,300	17,887
Rental income	86	—
Subcontracting income	1,337	401
Management fee income	—	310
Others	3,865	2,852
	20,588	21,450

4. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June 2004	2003
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Cost of inventories sold	308,034	264,194
Amortisation of intangible assets	4,455	2,049
Amortisation of goodwill	5,328	5,032
Depreciation	38,608	36,337
(Gain)/loss on disposal of fixed assets	(3,740)	10

5. FINANCE COSTS

	Six months ended 30 June 2004	2003
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Interest on bank loans and overdrafts	10,841	21,663
Interest on finance leases and hire purchase contracts	230	498
Interest on convertible notes	—	257
Total interest	11,071	22,418
Bank charges	774	2,600
	11,845	25,018

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China and elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2004	**2003**
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Current tax:		
Hong Kong	7,100	11,640
Elsewhere	4,151	308
Deferred tax	(1,837)	965
Tax charge for the period	9,414	12,913

7. INTERIM DIVIDEND

	Six months ended 30 June	
	2004	**2003**
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Interim — HK$3.6 cents per ordinary share (2003: HK$7.0 cents)	17,971	31,164

The current interim dividend declared after the interim period is calculated on the number of shares issued at the date of this report and has not been recognised as a liability at the interim period end date.

8. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

Earnings

	Six months ended 30 June	
	2004	**2003**
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculation	60,193	83,123

Shares

	Six months ended 30 June 2004	2003
	HK$'000	*HK$'000*
	(Unaudited)	*(Unaudited)*
Weighted average number of ordinary shares in issued during the period used in basic earnings per share calculation	499,200,562	412,049,926
Weighted average number of ordinary shares in issued at no consideration on deemed exercise of all share option during the period	—	438,681
Weighted average number of ordinary shares used in diluted earnings per share calculation	499,200,562	412,488,607

9. TRADE AND OTHER RECEIVABLES

	Note	30 June 2004	31 December 2003
		HK$'000	*HK$'000*
		(Unaudited)	*(Audited)*
Trade debtors and bills receivable	(a)	524,513	506,877
Other debtors and prepayments		364,262	376,897
Promissory notes		6,910	24,350
Staff loans		4,610	4,610
Due from PRC subcontractors		70,816	85,504
Prepayments for frame board space		18,978	18,978
Deposits with a non-bank financial institution		35,626	35,626
Due from the ultimate holding company		36,170	29,233
		1,061,885	1,082,075

Note:

(a) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period from 60 to 90 days, but is 120 days for major customers, and each customer has a maximum credit limit. An aged analysis of the trade debtors and bills receivable as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2004 *HK$'000* *(Unaudited)*	**31 December 2003** *HK$'000* *(Audited)*
Current	197,641	241,726
1 to 3 months	175,920	138,394
4 to 6 months	117,416	90,010
7 to 12 months	20,642	20,442
Over 12 months	64,999	68,512
	576,618	559,084
Provision for doubtful debts	(52,105)	(52,207)
	524,513	506,877

10. CASH AND CASH EQUIVALENTS

	30 June 2004 *HK$'000* *(Unaudited)*	**31 December 2003** *HK$'000* *(Audited)*
Cash and bank balances	402,257	423,445
Time deposits	422,684	466,495
	824,941	889,940

11. TRADE AND OTHER PAYABLES AND ACCRUALS

Included in trade and other payables and accruals are trade creditors and bills payable of HK$180,800,000 (31 December 2003: HK$222,610,000). An aged analysis of the trade creditors and bills payable as at the balance sheet date, based on the payment due date, is as follows:

	30 June 2004 *HK$'000* *(Unaudited)*	**31 December 2003** *HK$'000* *(Audited)*
Current	91,152	101,794
1 to 3 months overdue	60,408	41,890
Over 3 months	29,240	78,926
	180,800	222,610

12. SHARE CAPITAL

	30 June 2004 HK$'000 (Unaudited)	31 December 2003 HK$'000 (Audited)
Authorised:		
1,200,000,000 ordinary shares of HK$0.50 each	600,000	600,000
Issued and fully paid:		
499,200,562 (31 December 2003: 499,200,562) ordinary shares of HK$0.50 each	249,600	249,600

13. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2004 HK$'000 (Unaudited)	31 December 2003 HK$'000 (Audited)
Bank guarantees given in lieu of deposits for licensing arrangement	15,396	15,853

14. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties, office equipment and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to nine years:

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2004 HK$'000 (Unaudited)	31 December 2003 HK$'000 (Audited)
Within one year	14,675	14,687
In the second to fifth years, inclusive	39,701	39,701
After five years	8,091	17,800
	62,467	72,188

At the balance sheet date, the Company did not have any future minimum lease payments under non-cancellable operating leases.

15. CAPITAL COMMITMENTS

	30 June 2004 *HK$'000* *(Unaudited)*	**31 December 2003** *HK$'000* *(Audited)*
Authorised, but not contracted for, in respect of the purchase of land use rights in the PRC (RMB15,000,000)	14,139	13,889
Authorised, but not contracted for, in respect of the purchase of machinery	4,655	5,746
	18,794	19,635

16. COMPARATIVE AMOUNTS

As further explained in note 1 to the financial statements, certain comparative amounts in the condensed cash flow statement and segment information have been reclassified to conform with the current period's presentation.

17. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 24 September 2004.

C. INDEBTEDNESS

At the close of business on 31 December 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$1,727,000,000, comprising secured bank loans and overdrafts of approximately HK$54,000,000, unsecured bank loans and overdrafts of approximately HK$1,200,000,000, trust receipt loans of approximately HK$459,000,000, and finance lease and hire purchase contract payables of approximately HK$14,000,000.

The Group's bank loans and overdrafts are secured by time deposits aggregating HK$6,000,000 and the Group's leasehold land and buildings of HK$55,000,000.

At the close of business on 31 December 2004, the Group had aggregate contingent liabilities of approximately HK$21,000,000, all of which is related to the issue of a bank guarantee given in lieu of deposits for licensing agreement.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 December 2004, the Group did not have any outstanding indebtedness, any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 December 2004.

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rate of exchange ruling at the close of business on 31 December 2004.

D. WORKING CAPITAL

The Directors are of the opinion that in the absence of unforeseen circumstances and after taking into account the Group's internal financial resources and the banking facilities currently available to the Group, the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular.

The Directors are not aware of any matter or fact which will render the Group not having sufficient working capital for its requirements after the completion of the Merger.

E. MANAGEMENT DISCUSSION AND ANALYSIS

1. The year ended 31 March 2002

Results of Operations

The Group's turnover and gross profit for the year under review amounted to HK$1,115 million and HK$603 million respectively, representing an increase of 26% and 36% compared with the previous financial year. Gross profit margin increased by 4%, from 50% to 54% of the turnover. The significant increase was the result of the consolidation of distribution companies acquired during the year. The distribution, selling and administrative expenses (''S, G&A expenses'') was HK$402 million, which represented 36% of the turnover. The S, G&A expenses was much higher than that of the previous year, mainly because of the transformation of the Group's primary business from ODM/OEM to manufacturing-distribution integrated business. The direct sales and marketing, distribution expenses mainly consist of sales commission, marketing costs including royalties and trade promotion, and logistic costs.

The profit attributable to shareholders was HK$143 million, representing a decrease of 28% compared with the previous financial year. The decline of earnings was partly affected by amortisation of goodwill arising from the newly acquired distribution companies, and restructuring costs of one-off provisions for trade receivables and inventories of these companies. The management believes that such restructuring costs have been mostly reflected in the year under review and will not recur in the future. Even with the net margin at the 13% range, it is still comparable to most of the international eyewear companies bearing a similar business nature.

Based on the profit attributable to shareholders of HK$143 million and on the weighted average number of 2,029 million shares in issue during the year, the basic earnings per share was HK7.07 cents (2001: HK9.95 cents). The dividend payout ratio was 41%.

Segmental Information

The Group's business has been customarily divided into three segments, namely, ODM/OEM, manufacturing-distribution and retailing.

During the past few years, the Group has transformed itself into a manufacturing-distribution company and as a result, the turnover of the manufacturing-distribution business has grown significantly.

For the year under review, the turnover of the ODM/OEM segment was HK$335 million and decreased by 30% compared with previous year, which was mainly due to the Group's plan to scale down its reliance on such business. The ODM/OEM business depends heavily on the stability of order inflow from the importer and wholesaler customers, thus providing the Group less control on the future growth of both turnover and margin aspects. Turnover of the ODM/OEM business now only represented 30% of the Group's turnover, down from 54% in the previous financial year.

The turnover of the manufacturing-distribution segment was HK$706 million and increased by 111% compared with the previous financial year. This segment has experienced a significant growth for the current financial year, in accordance with the Group's expansion plan. Turnover of this business represented 63% of the Group's turnover, an increase from 38% in the previous financial year. Following the acquisitions of Metzler Optik Partner AG (''Metzler'') and Filos S.p.A. (''Filos''), Europe became the biggest market of the manufacturing-distribution segment with turnover of HK$535 million for the year under review. As the acquisition of Filos took place during the second half of the financial year 2002, the Group believes that the turnover of such business sector will further increase when including the twelve full months effect in the subsequent year. With its well established global distribution network, enriched brand portfolio and experienced management team, as well as the back up of the production plants in the PRC, Italy and Czech Republic, the management is confident that this segment will continue to be the most significant part of the Group's business.

Retailing business remained steady for the year and the turnover was HK$74 million, representing a 2% increase compared to the previous year. During the year under review, the

Group carried out a restructuring plan on such business, including changing a part of its top management team and replacing 3 unprofitable stores with new stores. As at 30 July 2002, the Group was operating a total of 22 stores. The management is satisfied with the result of the restructuring exercise: a 35% jump in sales turnover has been recorded in the first quarter of the financial year of 2003. The Group will continue to capitalize on the goodwill built with its ''America's Eyes'' retail chain in Shanghai and open new stores at a steady pace.

An analysis of the turnover by product range indicated that 92% of the turnover was derived from the selling of optical frames, and the rest was from trading of optical frame parts and components, lenses and contact lens. The metal-based optical frames accounted for HK$722 million, which represented 65% of the total turnover. On the geographical basis, Europe became the dominant market which accounted for 48% of the turnover, the PRC accounted for 24%, North America accounted for 18% and the Asia Pacific accounted for the remaining 10%.

Liquidity and Capital Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by banks in Hong Kong.

During the year ended 31 March 2002, the Group recorded a net cash inflow from operating activities of HK$152 million (2001: HK$174 million). As at 31 March 2002, the current ratio of the Group was 2.2.

Taking into consideration the anticipated internally generated funds and the available unutilized banking facilities, the Group believed that it had sufficient resources to meet its foreseeable capital expenditures and working capital requirements.

Acquisition

The acquisition of Filos was effective in October 2001. Afterwards, Metzler International AG was incorporated to serve as the holding company of all of the Group's distribution subsidiaries including Filos, Metzler and other companies. This strategic investment enables the Group to establish a secured and long term beneficial position in the optical industry.

Capital Expenditures

Capital Expenditures for the year amounted to HK$303 million, and principally comprised of production facility, plant and machinery, computer equipment and licenses for the Enterprises Resources Planning System. The Group will further enhance its production capability, through know-how transferred from both Metzler and Filos, to produce higher added value products with its own brands and licensed brands. By means of controlling the production process and increased coverage of the distribution network, the Group will maximize the profitability and the shareholders' return.

2. The period from 1 April 2002 to 31 December 2002

Results of Operations

The Group's consolidated turnover for the nine months under review amounted to HK$888 million (year ended 31 March 2002: HK$1,114 million). Distribution business attributed to 61% of the Group's consolidated turnover. Europe continued to be the dominant market for the distribution business, which accounted for 55% of the Group's distribution turnover.

The gross profit for the nine months under review amounted to HK$534 million (year ended 31 March 2002: HK$603 million), representing 60% gross profit margin (year ended 31 March 2002: 54%). The Group's earnings before interest (excluding bank charges), tax, depreciation and amortisation (excluding interest income) amounted to HK$207 million (year ended 31 March 2002: HK$220 million) — reflecting strong operations and ample cash flow.

The profit after tax before minority interests for the nine months under review amounted to HK$101 million (year ended 31 March 2002: HK$120 million). Project to 12 months period would be HK$135 million. The management believes that the majority of restructuring costs have been reflected in the period under review and are unlikely to recur in the future. This is evidenced from the fact that restructuring costs have only increased from HK$10.2 million to HK$10.7 million since 30 September 2002 to 31 December 2002, and among the increase, part of the reasons is the exchange rate used for December was higher than that for September. The integration of its manufacturing and distribution arms has created substantial synergies resulting in increased European market share and tighter control of its distribution network. After the restructuring period, the business will continue to be supported by the strong fundamentals of the Group.

Based on the profit attributable to shareholders of HK$101 million and the weighted average number of 402,535,166 ordinary shares issued during the period, basic earnings per share were HK25.16 cents (year ended 31 Mar 2002 (restated); HK35.33 cents). The Board recommended the payment of a final dividend of HK4.4 cents. Together with the interim dividend of HK5.6 cents, total dividend for the nine months ended 31 December 2002 was HK10.0 cents. The dividend payout ratio was 39.7%.

Segmental Information

The Group's business has customarily been divided into three segments, namely, integrated manufacturing-distribution, OEM/ODM and the PRC integrated operations.

The integrated manufacturing-distribution segment continued to experience stable growth of 19% from the corresponding nine months period last year, with turnover reaching HK$543 million. Revenue from this segment accounted for 61% of the Group's consolidated turnover which is in line with the Group's long-term development strategy.

Turnover in the OEM/ODM segment increased 21% from the corresponding nine months period last year to HK$293 million, representing 33% of the Group's consolidated turnover. The Group intends to make the contribution from this segment below 30%, with over 70% coming from the integrated manufacturing-distribution segment and the PRC operations.

With the PRC economy still booming, turnover of the Group's PRC business grew 16% from the corresponding nine months period last year to HK$185 million. All OEM/ODM, distribution and retailing businesses in the PRC contributed to this growth. During the period, the Group retailing business achieved geographical breakthrough with the opening of four retail stores outside Shanghai. The Group currently has 29 retail stores in the PRC. With the expansion of owned stores and the launch of franchising programmes, management expects this segment will increase its contribution to the Group's bottom line in the coming years.

An analysis of turnover by product category indicates that 94% of turnover came from the sales of optical frames, and the rest from the trading of optical frame parts and components, lenses and contact lenses. Production of metal-based optical frame is the Group's strong area and this segment accounted for HK$675 million of sales, which represented 76% of the Group's consolidated turnover.

Liquidity and Capital Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by banks in Hong Kong.

During the period ended 31 December 2002, the Group recorded operating cash before working capital changes of HK$199 million (year ended 31 March 2002: HK$225 million) and cash generated from operations of HK$68 million (year ended 31 March 2002: HK$152 million). As at 31 December 2002, the current ratio of the Group was 2.3 (31 March 2002: 2.3).

Taking into consideration the anticipated internally generated funds and the available unutilised banking facilities, the Group believed that it had sufficient resources to meet its foreseeable capital expenditures and working capital requirements.

Capital Expenditures

Capital expenditures for the period amounted to HK$163 million, and principally comprised of production facility, plant and machinery, computer equipment and licenses for the Enterprises Resources Planning System. The Group will further enhance its production capability, through know-how transferred from European subsidiaries, to produce higher added value products with its own brands and licensed brands. By means of controlling the production process and increased coverage of the distribution network, the Group will maximise the profitability and the shareholders' return.

3. The year ended 31 December 2003

Results of Operations

The Group's consolidated turnover for the financial year ended 31 December 2003 amounted to HK$1,238 million, representing an increase of 4.5% over the HK$1,185 million annualised consolidated turnover recorded in the previous year. Although the Group's interim results reported a 2.1% drop in turnover, sales momentum was quickly restored in the second half of the year with 11.6% growth, resulting in a net increment for the full year consolidated turnover.

Gross profit for the year was HK$705 million (2002 annualised: HK$713 million), representing a gross profit margin of 57.0% (2002: 60.2%). In the interim report, the gross profit margin was only 56.2%. For the second half of the year, the gross profit margin increased 1.6% and went up to 57.8% and the resultant gross profit margin for the full-year was 57.0%.

As a result of maintaining a stable gross profit level while reducing in selling, distribution and administrative expenses by 13.7%, the Group's operating profit for the year increased 9.5% to HK$241 million from 2002's annualised figure of HK$220 million. Together with a reduction of 37.0% in its finance costs due to the low interest rate environment in 2003 and a lower effective tax rate this year, profit attributable to shareholders for the year reached

HK$182 million against an annualised figure of HK$135 million for 2002, a significant increase of 34.8%.

The Group's earnings before interest, tax, depreciation and amortization (excluding interest income) for the year amounted to HK$301 million, a rise of 7.5% over the annualised 2002 figure of HK$280 million, showing a very strong operation capability and cash-generating power of the Group.

Returns on average equity increased from 9.4% in 2002 to 10.5% in 2003. Based on the profit attributable to shareholders of HK$182 million and the weighted average number of 429,236,296 ordinary shares issued during the year, basic earnings per share were HK42.31 cents (2002 annualised: HK33.45 cents), an increase of 26.5%. The Board recommended payment of a final dividend of HK4.8 cents. Together with the interim dividend of HK7.0 cents, total dividend for the year was HK11.8 cents. This dividend payout ratio was 27.9%.

Segmental Information

The Group's business has customarily been divided into three segments, namely, integrated manufacturing-distribution, OEM/ODM and the PRC integrated operations.

The integrated manufacturing-distribution segment continued to experience stable growth of 2.8%, with turnover reaching HK$983 million for the year ended 31 December 2003 (2002 annualised: HK$956 million). Revenue from this segment accounted for 79.4% of the Group's consolidated turnover, which is in line with the Group's long-term development strategy.

Turnover in the OEM/ODM segment increased 5.6% from 2002 annualised HK$161 million to HK$170 million for the year ended 31 December 2003, representing 13.7% of the Group's consolidated turnover. The Group intends to keep the contribution from this segment at the current level as it is a cash-cow business.

With the PRC economy still booming, turnover of the Group's PRC integrated operations grew 23.2% from 2002 annualised HK$69 million to HK$85 million for the year ended 31 December 2003. All OEM/ODM, distribution and retailing businesses in the PRC contributed to this growth. During the year, the Group increased the retail stores in the PRC from 29 to 34. It was the Group's target to open a further 16 self-operated stores by the end of 2004.

Liquidity and Capital Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by banks in Hong Kong.

During the year ended 31 December 2003, the Group recorded net cash inflow from operating activities of HK$284 million (year ended 31 December 2002: net cash outflow of HK$53 million). Together with net cash inflow from financing activities of HK$290 million (year ended 31 December 2002: HK$4 million) and net cash inflow from investing activities of HK$44 million (year ended 31 December 2002: net cash outflow of HK$56 million), the cash and cash equivalent significantly increased by HK$618 million for the year. The Group's strong cash-generating ability and excellent liquidity position make the management feels comfortable to prepare for the next downstream investment phase.

The current ratio of the Group also improved from 2.28 at 31 December 2002 to 2.31 at 31 December 2003, showing a strong yet improving liquidity position of the Group.

Taking into consideration the anticipated internally generated funds and the available unutilized banking facilities, the Group believed that it had sufficient resources to meet its foreseeable capital expenditures and working capital requirement.

Acquisition

The Company acquired 100% of NiGuRa Optik GmbH from Optische Werke G. Rodenstock, Munich, Germany, a company internationally renowned for its expertise in optical and ophthalmic products and services. The acquisition positioned the Group as one of the largest suppliers of optical frames and sunglasses in the German market, and added four reputed brands, namely Reebok, Feraud, NiGuRa and Enjoy, to further enrich its portfolio.

Capital Expenditures

Capital expenditures for the year ended amounted to HK$165 million, and principally comprised of production facility, plant and machinery, computer equipment and licenses for brands and the Enterprises Resources Planning System. The Group will further enhance its production capability, through know-how transferred from European subsidiaries, to produce higher added value products with its own brands and licensed brands. By means of controlling the production process and increased coverage of the distribution network, the Group will maximize the profitability and the shareholders' return.

4. The six months ended 30 June 2004

Results of Operations

For the six months ended 30 June 2004, the Group's consolidated turnover was HK$686 million, a 14% increase over the corresponding period last year. The increase was attributed to the Group's consolidation of NiGuRa Optik GmbH ("NiGuRa"), acquired from the German eyewear company Rodenstock in the last quarter of 2003, as well as organic growth of various business segments.

Gross profit for the period increased 12% from HK$339 million in the same period of 2003 to the current HK$378 million. The gross profit margin was recorded at 55% (2003: 56%). The slight decrease in gross profit margin was mainly due to the pressure coming from the inflation of raw materials cost. The Group's profit attributable to shareholders dropped from HK$83 million to HK$60 million mainly due to one-off expenses which were incurred in the proceedings to acquire Cole National. Nonetheless, the Group had managed to maintain a strong cash position with an amount of HK$825 million as at 30 June 2004.

Despite the fact that the proposed bid to acquire Cole National did not end in an acquisition, the bid generated increased international exposure substantially valuable to the Group. The costs incurred pursuing the Cole National acquisition can be viewed as an investment that had established the Group as a major player in the global eyewear market and was an impressive demonstration of its ability to develop the financial, legal, and in-house organizational systems required to mount a major acquisition.

Segmental Information

The distribution sector remained as the largest revenue contributor for the Group, accounting for 78% of total turnover. The Group continued to pursue an aggressive path of expanding its global reach into new markets during the review period. As an integrated eyewear manufacturer and distributor, the Group was uniquely positioned to follow a global model of growth.

The sector was continually fine tuned through enhanced operating systems, refined logistics, and personnel management. The Group has emphasized its extensive history in manufacturing quality eyewear in China and the group continued to leverage this aspect of its core business to draw licensors and enrich its brand portfolio. With high operating efficiencies as well as industry-leading manufacturing know-how in sync with its distribution channels, the Group has positioned itself to not only take advantage of opportunities but also to create them.

Europe

The Group has maintained a prominent position in the German market, the Group's largest market in Europe. NiGuRa was fully assimilated into the Group's distribution structure, adding the strengths of a competent and experienced management team. Operations were further streamlined by combining the warehouse operations in both Stuttgart and the Czech Republic, with management operations consolidated in Dusseldorf. In the period under review, the combined distribution forces of NiGuRa and the existing Metzler group contributed a significant growth of distribution revenue for the Group.

The German government has recently implemented social reforms to curb subsidies for eyewear. This policy change affected the German eyewear industry as a whole. As the largest distributor by volume in the German market, the Group was also affected. However, with its dominant 10% market share, the Group has positioned itself impressively to experience growth once market sentiment starts to turn around. The Group took advantage of this lull period by consolidating and increasing efficiency. This restructuring has enhanced overall synergy of the Group's European operations.

The Group is the only non-Italian company amongst the top five sellers in the Italian market, the Group's second largest market in Europe. Italian sales were able to maintain at last period's level despite the consolidation of branch portfolio in the past year. The Group was optimistic to see a promising sales growth in the second half year.

The Group performed satisfactorily in other markets in Europe during the period under review. Austrian sales were up approximately 20% in the first six months and sales in Czech Republic and Slovakia were up a remarkable 40% and 26% respectively. This coveted position was achieved with the great success of brands like United Colors of Benetton, Sisley and Revlon.

North America

Recent personnel restructuring in the Group's US sales department was aimed at cutting costs and focusing sales to mass merchant chain retailers. This has proven a correct strategy, successfully attracting new chain retailers to the Group in the period under review. Current profile margins remained healthy and rising as the gains accrued through increased sales to chain retailers.

The Group had recognized substantial benefits from its experience and recognition garnered in the bid for Cole National, proving the Group's ability to orchestrate financing and legal resources to meet the needs of a major acquisition. Beyond a doubt the Group has now established itself as a major force in the North American eyewear landscape.

Asia Pacific

Overall performance in the Asia Pacific was up 9%. The increase was credited to gains in various Asian countries, particularly the Japanese market. During the period under review, the Group also saw the launching of the Longines brand in Hong Kong.

The turnover from the PRC fell slightly during the period under review. The fall was the result of the Group's strategic shift in focus from non-branded products that formerly made substantial contributions to turnover, to internationally branded eyewear. Various new brands' eyewear collection, Reebok, United Colors of Benetton and Longines, were launched during the period under review and were well-received in the market. Distribution revenue generated from international brands thus increased by 25%. The Group regards the fall in turnover as transitional and expects the sales from international brands to rapidly pick up in the coming quarters.

The Group continued the progressive expansion of the Group's Shanghai ''America's Eyes'' chain to 50 fully owned stores, up from 34 at the end of 2003, 16 of which were opened since December 2003. In addition, there were 7 franchised outlets operating in and around greater Shanghai. Retail operations in the PRC proceeded smoothly with high profitability. The original stores recorded 25% growth compared with the same period in the prior year. Contributions from several stores opened in May and June of 2004 have yet to be reflected in the results.

Liquidity and Capital Resources

During the period under review, the Group's net cash outflow from operating activities was HK$24 million (2003: net cash inflow HK$121 million). The resultant net cash outflow from operating activities was mainly due to the one-off expenses which were incurred in the proceedings to acquire Cole National, the increase in trade debtors and inventories and the decrease in trade and other payables. Total bank borrowings were HK$1,122 million at 30 June 2004 (31 December 2003: HK$1,160 million) while bank and cash balances were HK$825 million at 30 June 2004 (31 December 2003: HK$890 million). The net bank borrowings of the Group increased from HK$270 million at 31 December 2003 to HK$297 million at 30 June 2004.

The current ratio of the Group at 30 June 2004 was 2.5 (31 December 2003: 2.3) with HK$2,313 million of current assets (31 December 2003: HK$2,388 million) and HK$908 million of current liabilities (31 December 2003: HK$1,035 million). The inventory turnover period (ratio of inventory balance to sales) decreased from 125 days to 113 days due to more efficient use of our global distribution network. Debtor turnover period (ratio of trade debtors and bills receivable to sales) also decreased from 153 days to 140 days due to tighter control of trade credit terms. Certain debtors were secured for bank financing and if this portion was carved-out, the debtor turnover period was 101 days.

The Group had 499,200,562 shares in issue at both 30 June 2004 and 31 December 2003 with total shareholders' equity amounting to HK$2,048 million and HK$2,011 million respectively.

Net asset value per share as at 30 June 2004 was HK$4.1 (31 December 2003: HK$4.0). Net Bank borrowings to equity ratio was 14.5% at 30 June 2004 compared with 13.4% at 31 December 2003.

The Group managed its interest rate exposure in relation to the interest rate level and outlook. As the Group conducted most of its businesses in US dollars, Euro and Renminbi, and borrowings and payments to vendors were mainly in Renminbi, Euro and HK dollar, the currency risk exposure was relatively low in view of the natural hedging mechanism in place and the existence of a peg between US dollar and HK dollar.

A. AUDITED CONSOLIDATED FINANCIAL STATEMENTS PREPARED BY ECCA AND AUDITED BY ERNST & YOUNG LLP

In accordance with Rule 4.03 of the Listing Rules, an accountants' report is required to be prepared by professional accountants who are qualified under the Professional Accountants Ordinance of Hong Kong for appointment as auditors of a company. Rule 4.03 of the Listing Rules provides that, in the case of a circular issued by a listed issuer in connection with the acquisition of an overseas company, the Stock Exchange may be prepared to permit the accountants' report to be prepared by a firm of accountants who is not so qualified but which is acceptable to the Stock Exchange. Such a firm must normally have an international name and reputation and be a member of a recognised body of accountants.

The audited consolidated financial statements as set out in section C of this Appendix have been prepared in accordance with IFRS and are audited under International Standards on Auditing by Independent Auditors, Ernst & Young LLP as referred to on page 100 of this circular, who is registered with the Public Company Accounting Oversight Board (United States).

Ernst & Young LLP are affiliated with E&Y, and Ernst & Young LLP and E&Y are both member firms of Ernst & Young Global Limited. Ernst & Young LLP audited the financial statements of the ECCA Group for the three financial years that are required to be reported in this circular. As such, they are most familiar with the business and the management of ECCA and it would be more efficient for them to conduct the audit rather than another firm which has not had dealings with ECCA before.

The Company has discussed with E&Y whether they could conduct the audit on ECCA. E&Y would need to have a whole team of staff travel to the USA to conduct the audit. Due to time and cost constraints, and Ernst & Young LLP's expertise in auditing companies in the US optical retail market, the Company considered that it would be more efficient for Ernst & Young LLP to conduct the audit with a team from Texas, where ECCA is headquartered. In addition, while the ECCA Group's report in this circular is prepared using IFRS in accordance with Rule 4.11(b) of the Listing Rules, as ECCA is a US incorporated company, the historical financial statements of the ECCA Group are audited in accordance with US auditing standards with which most local Hong Kong accounting firms are probably less familiar. The Company believes that engaging a firm which is qualified under the Professional Accountants Ordinance to conduct the audit is not practical for the Company in terms of time and costs. Furthermore, given that the Company is faced with extreme time pressure in this transaction as ECCA has the right to terminate the Agreement if the Merger has not been consummated on or before February 28, 2005, and that in the Company's view no firm qualified under the Professional Accountants Ordinance can be as familiar as Ernst & Young LLP with US auditing standards and the operations, systems and structure of ECCA as a whole, the Company believes that it would be impossible for a firm qualified under the Professional Accountants Ordinance to complete the audit within the required time frame. Ernst & Young LLP is therefore the most appropriate firm to report on the consolidated financial statements of the ECCA Group. As Ernst & Young LLP is not registered under the Professional Accountants Ordinance, the Company has applied for a waiver from strict compliance with Rule 4.03 of the Listing Rules.

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS AUDITED UNDER INTERNATIONAL STANDARDS ON AUDITING

Rule 4.08(3) of the Listing Rules provides that the accountants' report on the ECCA Group must state that it has been prepared in accordance with the Auditing Guideline — Prospectuses and the reporting accountant (Statement 3.340) issued by the Hong Kong Institute of Certified Public Accountants. The audit on the financial statements of ECCA set out in the Accountants' Report in this Appendix is conducted in accordance with International Standards on Auditing. Based on discussions with E&Y and Ernst & Young LLP, the Directors are of the opinion that, as applied to the Company, International Standards on Auditing and Hong Kong Statements of Auditing Standards are substantially consistent with each other. In addition, Ernst & Young LLP has reviewed Auditing Guideline 3.340 and informed the Company that Auditing Guideline 3.340 has been materially complied with except in relation to certain specific wording that is required to be included in the reporting accountants' opinion. The Accountants' Report set out in this Appendix is prepared in accordance with International Standards on Auditing and is presented using wording prescribed by International Standards on Auditing, and therefore does not use certain specific wording prescribed by Auditing Guideline 3.340. The Directors are of the opinion that such different wording is the result of the use of International Standards on Auditing instead of Hong Kong Auditing Guidelines and do not consider such differences to be material. Ernst & Young LLP have reviewed Auditing Guideline 3.340 in detail and have consulted with E&Y from time to time on aspects of Auditing Guideline 3.340 to the extent any issue needs further clarification. The audited financial statements of ECCA are prepared in accordance with IFRS. An explanation of the differences and a line-by-line reconciliation statement (the "Reconciliation") between the accounting policies of ECCA and those of the Company which follow Hong Kong GAAP is set out in section D of this Appendix. E&Y have reviewed the adjustments made in the Reconciliation and carried out additional procedures as required under Auditing Guideline 3.340 in connection with the adjustments in arriving at the Hong Kong GAAP financial information. The Reconciliation and the high level assurance report issued by E&Y are set out in section D of this Appendix. Accordingly, the Company has applied to the Stock Exchange for a waiver from strict compliance with Rule 4.08(3) of the Listing Rules.

C. ACCOUNTANTS' REPORT

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, Ernst & Young LLP, Independent Auditors.

ERNST & YOUNG

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Board of Directors
Moulin International Holdings Limited
and
Board of Directors and Shareholders
Eye Care Centers of America, Inc.
San Antonio, Texas

We have audited the accompanying consolidated balance sheets of the Eye Care Centers of America, Inc. and subsidiaries (the "Company") as of December 29, 2001, December 28, 2002, December 27, 2003, and September 25, 2004, and the related consolidated statements of operations, shareholders' deficit and cash flows of the Company for the fiscal years ended December 29, 2001, December 28, 2002 and December 27, 2003 and for the thirty-nine week period ended September 25, 2004. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the consolidated financial position of the Company at December 29, 2001, December 28, 2002, December 27, 2003 and September 25, 2004, and the consolidated results of its operations and cash flows for the fiscal years ended December 29, 2001, December 28, 2002 and December 27, 2003 and for the thirty-nine week period ended September 25, 2004 in accordance with International Financial Reporting Standards.

We have reviewed the accompanying balance sheet of the Company at September 27, 2003, and the related statements of operations, shareholders' deficit and cash flows for the thirty-nine week period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review. We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the accompanying September 27, 2003 financial statements do not give a true and fair view in accordance with International Financial Reporting Standards.

Ernst & Young LLP

San Antonio, Texas
February 12, 2005

CONSOLIDATED BALANCE SHEETS

	Note	December 29, 2001	December 28, 2002	December 27, 2003	September 27, 2003	September 25, 2004
		(Amounts in thousands of US dollars)				
					(unaudited)	
Assets						
Current assets:						
Cash and cash equivalents	2	$ 3,372	$ 3,450	$ 3,809	$ 7,512	$ 3,485
Accounts receivable, net	2	10,275	12,084	11,117	12,463	10,916
Inventory, net	2	24,665	24,060	25,120	25,312	25,990
Prepaid expenses and other	2, 5	3,389	3,573	3,696	2,783	2,493
Total current assets		41,701	43,167	43,742	48,070	42,884
Non-current assets:						
Property and equipment, net	2, 6	64,518	57,439	51,715	52,597	48,465
Intangibles, net	2, 7	114,772	112,907	112,742	112,742	112,742
Other assets	2	530	549	2,216	2,345	1,254
Deferred income taxes, net	2, 13	—	—	12,787	1,234	12,463
Total assets		$221,521	$214,062	$223,202	$216,988	$217,808

CONSOLIDATED BALANCE SHEETS — (Continued)

	Note	December 29, 2001	December 28, 2002	December 27, 2003	September 27, 2003	September 25, 2004
			(Amounts in thousands of US dollars)		*(unaudited)*	
Liabilities and Shareholders' Deficit						
Current liabilities:						
Accounts payable	2	$ 21,749	$ 20,256	$ 21,360	$ 20,126	$ 18,783
Current portion of long-term debt	9	13,786	15,524	18,980	17,781	19,604
Deferred revenue	2	6,557	6,334	5,743	6,217	5,510
Accrued payroll expense		5,733	7,776	5,429	5,840	5,378
Accrued interest		3,284	2,318	3,213	6,162	4,905
Other accrued expenses	8	8,500	8,523	8,334	9,000	8,510
Total current liabilities		59,609	60,731	63,059	65,126	62,690
Non-current liabilities:						
Long-term debt, less current maturities	9	253,305	230,798	213,430	217,020	195,431
Deferred rent	15	3,790	4,571	4,719	4,671	4,615
Deferred gain		165	110	54	67	11
Total liabilities		316,869	296,210	281,262	286,884	262,747
Commitments and contingencies		—	—	—	—	—
Shareholders' deficit:						
Common stock, par value $.01 per share; 20,000,000 shares authorized, 7,407,289 shares issued and outstanding in December 29, 2001, 7,397,689 shares issued and outstanding in December 28, 2002, December 27, 2003, at September 27, 2003 and at September 25, 2004		74	74	74	74	74
Preferred stock, par value $.01 per share, 300,000 shares authorized, issued and outstanding	2, 10	30,000	30,000	30,000	30,000	30,000
Additional paid-in capital		61,608	60,743	60,473	60,710	59,732
Accumulated deficit		(187,030)	(172,965)	(148,607)	(160,680)	(134,745)
Total shareholders' deficit		(95,348)	(82,148)	(58,060)	(69,896)	(44,939)
Total liabilities and shareholders' deficit		$ 221,521	$ 214,062	$ 223,202	$ 216,988	$ 217,808

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Note	Fiscal Year Ended December 29, 2001	Fiscal Year Ended December 28, 2002	Fiscal Year Ended December 27, 2003	Thirty-Nine Weeks Ended September 27, 2003	Thirty-Nine Weeks Ended September 25, 2004
		(Amounts in thousands of US dollars)			*(Unaudited)*	
Revenues:						
Optical sales	2	$332,550	$360,266	$366,531	$285,682	$302,416
Management fees	2	3,484	3,401	3,321	2,616	2,452
Net revenues		336,034	363,667	369,852	288,298	304,868
Operating costs and expenses:						
Cost of goods sold	2	104,446	112,471	114,578	88,199	94,876
Selling, general and administrative expenses	2	203,365	212,958	218,925	166,874	175,007
Amortization of intangibles:						
Noncompete and other intangibles	2, 7	3,378	1,865	165	165	—
Total operating costs and expenses		311,189	327,294	333,668	255,238	269,883
Income from operations		24,845	36,373	36,184	33,060	34,985
Interest expense, net	2	27,537	21,051	20,200	15,501	14,423
Income (loss) before income taxes		(2,692)	15,322	15,984	17,559	20,562
Income tax expense (benefit)	2, 13	1,239	1,257	(8,374)	5,274	6,700
Net income (loss)		$ (3,931)	$ 14,065	$ 24,358	$ 12,285	$ 13,862

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Preferred Stock	Accumulated Deficit	Total Shareholders' Deficit
		(Amounts in thousands of US dollars)				
Balance at December 30, 2000	7,410,133	$74	$62,317	$30,000	$(183,099)	$(90,708)
Interest receivable on loan to shareholder	—	—	(90)	—	—	(90)
Distribution to affiliated OD	—	—	(603)	—	—	(603)
Stock buyback	(2,844)	—	(16)	—	—	(16)
Net loss	—	—	—	—	(3,931)	(3,931)
Balance at December 29, 2001	7,407,289	74	61,608	30,000	(187,030)	(95,348)
Interest receivable on loan to shareholder	—	—	(90)	—	—	(90)
Distribution to affiliated OD	—	—	(675)	—	—	(675)
Stock buyback	(9,600)	—	(100)	—	—	(100)
Net income	—	—	—	—	14,065	14,065
Balance at December 28, 2002	7,397,689	74	60,743	30,000	(172,965)	(82,148)
Stock options	—	—	34	—	—	34
Interest receivable on loan to shareholder	—	—	(67)	—	—	(67)
Net income	—	—	—	—	12,285	12,285
Balance at September 27, 2003 (unaudited)	7,397,689	74	60,710	30,000	(160,680)	(69,896)
Stock options	—	—	11	—	—	11
Interest receivable on loan to shareholder	—	—	(23)	—	—	(23)
Distribution to affiliated OD	—	—	(225)	—	—	(225)
Net income	—	—	—	—	12,073	12,073
Balance at December 27, 2003	7,397,689	74	60,473	30,000	(148,607)	(58,060)
Stock options	—	—	126	—	—	126
Interest receivable on loan to shareholder	—	—	(67)	—	—	(67)
Distribution to affiliated OD	—	—	(800)	—	—	(800)
Net income	—	—	—	—	13,862	13,862
Balance at September 25, 2004	7,397,689	$74	$59,732	$30,000	$(134,745)	$(44,939)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended			Thirty-Nine Weeks Ended	
	December 29 2001	December 28 2002	December 27 2003	September 27 2003	September 25 2004
	(Amounts in thousands of US dollars unless indicated otherwise)			*(Unaudited)*	
Operating Activities					
Net income (loss) before interest and income taxes	$ 24,845	$ 36,373	$ 36,184	$ 33,060	$ 34,985
Cash paid for Interest	(26,871)	(20,373)	(17,517)	(9,587)	(11,484)
Cash paid for Taxes	(358)	(687)	(4,294)	(3,549)	(6,107)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation	20,350	18,761	16,653	12,813	12,046
Amortization of intangibles	3,378	1,865	165	165	—
Deferrals and other	130	564	(412)	(33)	(265)
Gain on extinguishment of debt	—	(904)	—	—	—
Changes in operating assets and liabilities:					
Accounts and notes receivable	3,070	(1,899)	877	(1,376)	(231)
Inventory	1,025	605	(1,060)	(1,253)	(870)
Prepaid expenses and other	1,013	(203)	(1,082)	(31)	2,697
Deposits and other	3	—	(646)	—	(14)
Accounts payable and accrued liabilities	788	261	(1,456)	(5,150)	(2,100)
Net cash provided by operating activities	27,373	34,363	27,412	25,059	28,657
Investing Activities					
Acquisition of property and equipment, (net of proceeds)	(10,491)	(10,668)	(10,971)	(8,032)	(8,783)
Net cash used in investing activities	(10,491)	(10,668)	(10,971)	(8,032)	(8,783)
Financing Activities					
Payments on debt related to refinancing	—	(118,346)	—	—	—
Proceeds from issuance of long-term debt	66	124,000	—	—	—
Payments on debt and capital leases	(16,928)	(23,708)	(15,857)	(12,965)	(18,880)
Payments for financing fees	—	(4,788)	—	—	—
Payments to affect IPO	—	—	—	—	(518)
Distribution to affiliated OD and other	(619)	(775)	(225)	—	(800)
Net cash used in financing activities	(17,481)	(23,617)	(16,082)	(12,965)	(20,198)
Net (decrease) increase in cash and cash equivalents	(599)	78	359	4,062	(324)
Cash and cash equivalents at beginning of period	3,971	3,372	3,450	3,450	3,809
Cash and cash equivalents at end of period	$ 3,372	$ 3,450	$ 3,809	$ 7,512	$ 3,485
Supplemental cash flow disclosures:					
Noncash investing and financing activities:					
Additions of property and equipment	$ —	$ 1,076	$ —	$ —	$ —

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND ORGANIZATION

Eye Care Centers of America, Inc. (the ''Company'') operates optical retail stores that sell prescription eyewear, contact lenses, sunglasses and ancillary optical products, and feature on-site laboratories. The Company is headquartered in San Antonio, Texas and has operations located in 33 states, primarily in the Pacific Northwest, Southwest, Midwest and Southeast, along the Gulf Coast and Atlantic Coast and in the Pacific Northwest regions of the United States. The Company employs approximately 4,400 people. The financial statements were authorized for issuance by the Company's Board of Directors on January 20, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with international financial reporting standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB). No adjustments were considered necessary. Unconsolidated parent company only financial statements have not been presented because the Company is incorporated and domiciled in the United States (US) and US statutes do not require the issuance of parent company only financial statements.

The Company is a US registrant and files financial statements with the US Securities and Exchange Commission that are prepared using generally accepted accounting principles established in the United States (US GAAP). These are the Company's first consolidated financial statements prepared under IFRS. For the purpose of the transition from US GAAP to IFRS, the guidance in IFRS 1, First Time Adoption of International Financial Reporting Standards, has been applied to these financial statements.

An explanation of how the transition from US GAAP to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 18.

Basis of Preparation

The consolidated financial statements of the Company include the accounts of the Company's wholly owned subsidiaries and the practices of certain private optometrists that are managed by subsidiaries of the Company (the ''ODs''). The consolidated financial statements are presented in US dollars.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The unaudited results and cashflows for the thirty-nine weeks ended September 27, 2003 and the financial position at September 27, 2003 are presented for comparative purpose. In our opinion, all adjustments considered necessary for a fair presentation of the unaudited financial statements have been included and are of a normal, recurring nature. Operating results for the thirty-nine week periods ended September 27, 2003 and September 25, 2004 are not necessarily indicative of the results that may be expected for the full fiscal years.

The accounting policies described below have been applied consistently to all periods presented and no significant adjustments were considered necessary.

Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are considered.

(ii) OD's

In order to comply with regulations in certain states regarding the practice of optometry, the Company subleases 64 stores to professional corporations or other entities owned by OD's. The Company manages and controls these stores pursuant to long-term agreements. Although the Company does not own any of the OD's, the Company has established a controlling financial interest and therefore consolidates the assets, liabilities, results of operations and cash flows of 52 of the 64 stores owned by OD's.

(iii) Transactions Eliminated on Consolidation

All significant intercompany accounts and any unrealized gains and losses or income and expenses arising from intra-group transactions have been eliminated in preparing the consolidated financial statements.

Reporting Periods

The Company uses a 52/53-week reporting format. The nine-month periods ended September 25, 2004 and September 27, 2003 consisted of 39 weeks. Fiscal year 2001 ended December 29, 2001 (Fiscal 2001), Fiscal year 2002 ended December 28, 2002 (Fiscal 2002), and Fiscal year 2003 ended December 27, 2003 (Fiscal 2003), all of which consisted of 52 weeks.

Cash and Cash Equivalents

All short-term investments that mature in less than 90 days when purchased are considered cash equivalents for purposes of disclosure in the consolidated balance sheets and consolidated statements of cash flows. Cash equivalents are stated at cost, which approximates market value and consist of only cash on hand at financial institutions.

Accounts Receivable

Accounts receivable are generated from the sale of eyewear and include receivables from insurance payors, OD management fees, credit card companies, merchandise, rent and license fee receivables. The Company's allowance for doubtful accounts requires significant estimation and primarily consists of amounts owed to the Company by third-party insurance payors. This estimate is based on the historical ratio of collections. The Company's allowance for doubtful accounts was $4,856 at December 29, 2001, $4,291 at December 28, 2002, $4,690 (unaudited) at September 27, 2003, $4,076 at December 27, 2003, and $3,585 at September 25, 2004.

The Company's gross accounts receivables are aged as follows (unaudited):

	Current 0 to 30 Days	31 to 60 Days	61 to 90 Days	91+ Days	Total
2001	3,791	2,363	1,791	7,186	15,131
2002	3,980	2,367	1,590	8,438	16,375
2003	4,805	2,167	1,221	7,000	15,193
9/03	5,024	2,344	1,813	7,972	17,153
9/04	4,850	2,162	774	6,715	14,501

Inventory

Inventory consists principally of eyeglass frames, ophthalmic lenses and contact lenses and is stated at the lower of cost or net realizable value. Cost is determined using the weighted-average method, which approximates the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost necessary to make the sale. Determining the inventory's net realizable value requires significant estimation based on product with low turnover or deemed by management to be unsaleable as well as an estimate of shrinkage. Certain inventory has a realizable value below cost by $1,099 at December 29, 2001, $677 at December 28, 2002, $1,002 (unaudited) at September 27, 2003, $596 at December 27, 2003 and $849 at September 25, 2004.

Property and Equipment

(i) Owned Assets

Property and equipment is recorded at cost. Maintenance and repair costs that do not increase the economic lives or utility of property and equipment are charged to expense as incurred. Expenditures for significant betterments are capitalized. Property and equipment consist primarily of store furnishings and lab equipment. Property and equipment to be held and used and property and equipment to be disposed of by sale are reviewed periodically for indicators of impairment. The Company believes no impairment of property and equipment exists.

(ii) Leased Assets

The Company is obligated as lessee under operating leases for substantially all of the Company's retail facilities as well as certain warehouse space. In addition to rental payments, the leases generally provide for payment by the Company of property taxes, insurance, maintenance and its pro rata share of common area maintenance. These leases range in terms of up to 14 years. Certain leases also provide for additional rent in excess of the base rentals calculated as a percentage of sales.

The Company subleases a portion of substantially all of the stores to independent optometrists or corporations controlled by independent optometrists. The terms of these leases or subleases are principally one to seven years with rentals consisting of a percentage of gross receipts, base rentals, or a combination of both. Certain of these leases contain renewal options.

Certain of the Company's lease agreements contain provisions for scheduled rent increases or provide for occupancy periods during which no rent payment is required. Rent expense is recorded based on the total rentals due over the entire lease term and charged to rent expense on a straight-line basis. The difference between the actual cash rentals paid and rent expenses recorded for financial statement purposes is recorded as a deferred rent obligation. Deferred rent liability was $3,790 at December 29, 2001, $4,571 at December 28, 2002, $4,671 (unaudited) at September 27, 2003, $4,719 at December 27, 2003, and $4,615 at September 25, 2004.

(iii) Depreciation

For financial statement purposes, depreciation of building, furniture and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line method over the shorter of the life of the lease or the estimated useful lives of the assets. Depreciation of finance leased assets is included in depreciation expense and is calculated using the straight-line method over the term of the lease.

Estimated useful lives are as follows:

Building	20 years
Furniture and equipment	3 to 10 years
Leasehold improvements	5 to 10 years

Intangible Assets

(i) Goodwill Acquired in Business Combinations

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the aggregate fair value of the net identifiable tangible and intangible assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized to income but is tested annually for impairment. The Company performed its initial assessment as of December 30, 2000 and annually thereafter, and based on its analysis, the Company believes no impairment of goodwill exists. In its analysis, the Company uses the fair value methodology to determine the estimated goodwill recoverability amount. The Company's valuation methodology involved a multiple of historic EBITDA consistent with industry and market transactions. The Company last annual analysis utilized a 9 multiple that was based upon an observable, comparable market transaction.

(ii) Other Intangible Assets

Intangible assets that have been acquired in business combinations are subject to an annual assessment for impairment applying a recoverability test. Additionally, acquired intangible assets are separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of the Company's intent to do so.

(iii) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets other than goodwill are amortized from the date they are available for use. The estimated useful lives are as follows:

Non-compete agreements	3-5 years
Strategic alliances	3 years

Calculation of Recoverable Amounts

Accounts receivable with short durations are presented in the balance sheets at the amounts that are expected to be received.

The recoverable amount of other assets is the greater of their net selling price or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Other Assets

Other assets consist primarily of a note receivable of $1.0 million made during Fiscal 2003 to an optometrist owning the optometric practice Hour Eyes and refundable deposits. Previously, the Company guaranteed a bank loan in connection with the Company's acquisition of certain assets used at the Hour Eyes locations in Virginia and the related long-term business management agreement. On April 24, 2003, the bank loan was paid off with proceeds from the loan directly from the Company to the optometrist owning the optometric practice.

Refundable deposits were $520, $549, and $1,380 at the end of Fiscals 2001, 2002, and 2003, respectively, and $1,374 (unaudited) and $504 at September 27, 2003 and September 25, 2004, respectively.

Deferred Revenue — Replacement Certificates and Warranty Contracts

At the time of a frame sale, some customers purchase a warranty contract covering eyewear defects or damage during the 12-month period subsequent to the date of the sale. Revenue relating to these contracts is deferred and classified as deferred revenue on the accompanying balance sheet. Such revenue is recognized ratably over the protection period (one year) based on the Company's experience of the cost to fulfill the warranty obligation. Costs incurred to fulfill the warranty are expensed when incurred.

Prior to July 2003, certain frames purchased included a one-year warranty period without requiring the separate purchase of a warranty contract. Reserves were established for the expected cost of repair related to these frame sales. At the end of Fiscals 2001, 2002 and 2003 and at September 27, 2003 the Company had established a reserve based on historical experience of approximately $841, $861, $386, and $583 (unaudited) respectively, related to these warranties, which is included in other accrued expenses on the accompanying balance sheet. As of September 25, 2004, all of these warranties had expired and the reserves have been eliminated.

Income Taxes

Income tax expense or benefit on the profit or loss for the year comprises current and deferred tax. Income tax consequences are recognized in the income statement except when the tax relates to items recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable for previous years.

Deferred tax is measured using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using the enacted tax rates at the balance sheet date. A deferred tax asset is recognized when it is probable that future taxable income will be available to utilize the benefits. Deferred tax assets are reduced when realization is no longer probable.

Deferred income taxes are presented in the balance sheets as non-current assets.

Share Capital

(i) Preference Share Capital

Preference share capital is classified as equity in the balance sheets if investors lack the right to force the Company to redeem the shares and any dividends on the preferred shares are discretionary, or if only the Company has a unilateral right to redemption.

(ii) Dividends

Dividends are recognized only when the Company is obligated to pay them to investors. Generally, this will occur in the periods in which dividends are declared and approved for payment by the Board of Directors.

Interest-Bearing Borrowings

Interest-bearing borrowings are recognized initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized as interest expense in the accompanying statements of operations over the period of the borrowings.

Share-based Payments

The Company grants stock options for a fixed number of shares to employees with an exercise price that is equal to the fair value of the shares at the date of grant. The fair value method of accounting is used to recognize the costs attributable to these share-based compensation plans. The fair value of the option grants is recognized as compensation expense in the statements of operation based on the vesting percentages specified in the option awards. The Company has elected to apply the standard to its options granted subsequent to November 7, 2002. Previously, the Company accounted for its options using the intrinsic value method and accordingly recognized no compensation expense for the stock option grants.

Provisions and Allowances

A liability is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Accounts and Other Payables

Accounts and other payables are stated at cost.

The Company's accounts payable are aged as follows (unaudited):

	Current 0 to 30 Days	31 to 60 Days	61 to 90 Days	91 to 120 Days	121+ Days	Total
2001	13,077	4,583	2,903	162	1,024	21,749
2002	10,297	4,722	2,453	778	2,006	20,256
2003	10,673	5,819	3,313	298	1,257	21,360
9/03	5,784	7,665	3,530	1,837	1,310	20,126
9/04	5,787	6,959	3,654	642	1,741	18,783

Revenue Recognition

Revenue and related costs are recognized by the Company upon the sale of products at company-owned retail locations. Licensing fees collected from independent optometrists for using the Company's trade name "Master Eye Associates," are based on a percentage of the independent optometrist's revenues and are recognized as the service is provided. Historically, the Company's highest sales occur in the first and third quarters.

Cost of Goods Sold

The cost of goods sold includes the cost of the product, buying, warehousing, distribution, shipping, handling, all laboratory and delivery costs.

Selling, General and Administrative Costs

Selling, general and administrative expenses consist of all retail and doctor payroll related expenses, advertising, occupancy, depreciation and miscellaneous store expenses not related to costs of goods sold.

Advertising Costs

Advertising costs of the Company include costs related to broadcast and print media advertising expenses. The Company expenses production costs and media advertising costs when incurred. For the Fiscals 2001, 2002, and 2003, and for the thirty-nine week periods ended September 27, 2003 and September 25, 2004, advertising costs amounted to approximately $28,988, $30,629, $31,587, $25,717 (unaudited) and $26,881, respectively.

Interest Expense

Interest consists of the following:

	Fiscal Year Ended			Thirty-Nine Weeks Ended	
	December 29, 2001	December 28, 2002	December 27, 2003	September 27, 2003 *(unaudited)*	September 25, 2004
Interest expense	$28,125	$21,481	$20,518	$15,737	$14,696
Interest income	(268)	(178)	(164)	(121)	(212)
Interest capitalized	(320)	(252)	(154)	(115)	(61)
Interest expense, net	$27,537	$21,051	$20,200	$15,501	$14,423

Market Risk

The Company's principal financial instruments comprise notes, bank loans and cash. The main purpose of these financial instruments is to finance their operations. The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Company's financial instruments is interest rate risk with specific vulnerability to changes in LIBOR. As of September 25, 2004, $118.0 million of the Company's long-term debt bore interest at variable rates. Accordingly, the Company's net income is affected by changes in interest rates. Assuming a one hundred basis point change in the average interest rate under the $118.0 million in borrowings, the Company's interest expense for the thirty-nine weeks ended September 25, 2004 would have changed approximately $0.9 million.

The Company's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Company's policy is to keep between 40% and 50% of its borrowings at fixed rates of interest. At September 25, 2004, approximately 45% of the Company's borrowings were at a fixed rate of interest.

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Company.

Fair Value of Financial Instruments

The Company considers the carrying value of its financial instruments, cash, accounts receivable and payables to approximate their fair values. See Note 9 for the estimated fair value of the Company's long-term debt and financing leases.

3. SELF-INSURANCE

The Company began maintaining its own self-insurance group health plan in June 2003. The plan provides medical benefits for participating employees. The Company has an employers' stop loss insurance policy to cover individual claims in excess of $200 per employee. The amount charged to health insurance expense is based on estimates obtained from an actuarial firm. Management believes the accrued liability of approximately $1,100, which is included in other accrued expenses as of December 27, 2003 and September 25, 2004 is adequate to cover future benefit payments for claims that occurred prior to the period end.

4. RELATED PARTY TRANSACTIONS

The Company and Thomas H. Lee Company (THL Co.), the primary shareholder, entered into a management agreement as of April 24, 1998 (as amended, the Management Agreement), pursuant to which (i) THL Co. received a financial advisory fee of $6,000 in connection with structuring, negotiating and arranging the recapitalization and structuring, negotiating and arranging the debt financing and (ii) THL Co. would receive $500 per year plus expenses for management and other consulting services provided to the Company, including one percent (1%) of the gross purchase price for acquisitions for its participation in the negotiation and consummation of any such acquisition. As of December 31, 2000, the Management Agreement was amended to reduce the fees payable thereunder to $250 per year plus expenses for management and other consulting services provided to the Company. However, the fees payable under the Management Agreement may be increased by an additional $250 annually depending upon the Company attaining certain leverage ratios. The Management Agreement continues unless and until terminated by mutual consent of the parties in writing, for so long as THL Co. provides management and other consulting services to the Company. For Fiscal 2001, 2002, 2003, and for the thirty-nine weeks ended September 27, 2003 and September 25, 2004 the Company incurred $250, $500, $500, $375 (unaudited) and $370, respectively, related to the Management Agreement. No outstanding balances existed at the end of each period.

During Fiscal 1998, Bernard Andrews, CEO at the time of the transaction, purchased $1,000 of the Company's Common Stock. Mr. Andrews paid for these shares by delivering a promissory note with an original purchase amount of $1,000, which is accruing interest at a fixed rate equal to the Company's initial borrowing rate. The repayment of such note is secured by Mr. Andrews' shares of Common Stock.

The $1,000 note receivable and related accrued interest receivable of $344, $434, $501 (unaudited), $524 and $591 at December 29, 2001, December 28, 2002, September 27, 2003, December 27, 2003 and September 25, 2004, respectively, is netted against additional paid-in capital on the accompanying balance sheets.

The key management personnel compensation is as follows:

	Fiscal Year Ended			Thirty-Nine Weeks Ended	
	December 29, 2001	December 28, 2002	December 27, 2003	September 27, 2003 *(unaudited)*	September 25, 2004
Salary	$1,248	$1,402	$1,543	$1,185	$1,257
Bonus	256	1,612	304	—	204
Stock based compensation	—	—	24	17	61
Total	$1,504	$3,014	$1,871	$1,202	$1,522

5. PREPAID EXPENSES AND OTHER

Prepaid expenses and other consists of the following:

	December 29, 2001	December 28, 2002	December 27, 2003	September 27, 2003 *(unaudited)*	September 25, 2004
Prepaid insurance	$ 275	$ 568	$ 780	$ 485	$ 322
Prepaid store supplies	797	843	943	820	905
Prepaid advertising	1,892	1,861	1,477	845	775
Other	425	301	496	633	491
Total	$3,389	$3,573	$3,696	$2,783	$2,493

6. PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following:

	Land	Building	Furniture and equipment	Leasehold improvements	Total
Cost					
Balance at December 31, 2000	$ 638	$2,241	$103,564	$55,047	$161,490
Acquisitions	—	—	4,916	5,975	10,891
Disposals	—	(1)	(9)	(976)	(986)
Balance at December 29, 2001	638	2,240	108,471	60,046	171,395
Acquisitions	—	—	7,665	4,078	11,743
Disposals	—	—	(10)	(464)	(474)
Balance at December 28, 2002	638	2,240	116,126	63,660	182,664
Acquisitions (unaudited)	—	—	4,939	3,093	8,032
Disposals (unaudited)	—	—	(90)	(498)	(588)
Balance at September 27, 2003 (unaudited)	638	2,240	120,975	66,255	190,108
Acquisitions (unaudited)	—	—	2,697	899	3,596
Disposals (unaudited)	(638)	—	—	—	(638)
Balance at December 27, 2003	—	2,240	123,672	67,154	193,066
Acquisitions	—	—	5,427	3,369	8,796
Balance at September 25, 2004	$ —	$2,240	$129,099	$70,523	$201,862

Included in the above cost basis are fully depreciated assets of $91.7 million.

	Land	Building	Furniture and equipment	Leasehold improvements	Total
Depreciation and impairment losses					
Balance at December 31, 2000	$ —	$ 324	$ 58,645	$28,534	$ 87,503
Depreciation charge for the year	—	221	13,043	7,086	20,350
Disposals	—	—	—	(976)	(976)
Balance at December 29, 2001	—	545	71,688	34,644	106,877
Depreciation charge for the year	—	221	12,375	6,165	18,761
Disposals	—	—	(9)	(404)	(413)
Balance at December 28, 2002	—	766	84,054	40,405	125,225
Depreciation charge for the period	—	166	8,345	4,302	12,813
Disposals	—		(42)	(485)	(527)
Balance at September 27, 2003 (unaudited)	—	932	92,357	44,222	137,511
Depreciation charge for the year	—	55	2,626	1,159	3,840
Balance at December 27, 2003	—	987	94,983	45,381	141,351
Depreciation charge for the period	—	165	7,806	4,075	12,046
Balance at September 25, 2004	$ —	$1,152	$102,789	$49,456	$153,397
Carrying amounts					
At December 29, 2001	$638	$1,695	$ 36,783	$25,402	$ 64,518
At December 28, 2002	638	1,474	32,072	23,255	57,439
At September 27, 2003 (unaudited)	638	1,308	28,618	22,033	52,597
At December 27, 2003	—	1,253	28,689	21,773	51,715
At September 25, 2004	—	1,088	26,310	21,067	48,465

7. INTANGIBLE ASSETS

The components of intangible assets along with the related accumulated amortization consists of the following:

	Fiscal Year Ended			Thirty-Nine Weeks Ended	
	December 29, 2001	December 28, 2002	December 27, 2003	September 27, 2003 *(unaudited)*	September 25, 2004
Goodwill	$112,742	$112,742	$112,742	$112,742	$112,742
Noncompete & strategic alliance agreement(s):					
Cost:					
Opening Balance	$ 9,940	$ 10,187	$ 10,187	$ 10,187	$ 10,187
Additions	247	—	—	—	—
Closing Balance	10,187	10,187	10,187	10,187	10,187
Accumulated Amortization:					
Opening Balance	4,779	8,157	10,022	10,022	10,187
Amortization	3,378	1,865	165	165	0
Closing Balance	8,157	10,022	10,187	10,187	10,187
Closing Balance (net)	$ 2,030	$ 165	$ —	$ —	$ —
Total Intangible:	$114,772	$112,907	$112,742	$112,742	$112,742

8. OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	December 29, 2001	December 28, 2002	December 27, 2003	September 27, 2003 (unaudited)	September 25, 2004
Payroll and sales/use tax	$ 771	$ 829	$1,211	$1,068	$1,602
Property taxes	546	441	549	1,160	1,424
Insurance	835	1,654	1,312	1,348	1,421
Store expenses	1,240	930	1,194	1,074	1,330
Advertising	634	839	328	335	767
Income tax payable	938	1,175	669	2,256	723
Other	1,022	752	943	697	648
Store closures	129	—	—	—	300
Professional fees	624	746	198	260	174
Third-party liability	414	196	225	219	121
Construction	156	—	1319	—	—
Deferred warranty revenue	841	861	386	583	—
Severance and legal fees	350	100	—	—	—
Total	$8,500	$8,523	$8,334	$9,000	$8,510

9. LONG-TERM DEBT

Credit Facilities

In April 1998, the Company entered into a credit agreement which provided for $55.0 million in term loans, $100.0 million in acquisition facilities, and $35.0 million in revolving credit facilities (Old Credit Facility). On December 23, 2002, the Company entered into a credit agreement which consisted of (i) the $55.0 million term loan facility (the Term Loan A); (ii) the

$62.0 million term loan facility (the Term Loan B); and (iii) the $25.0 million revolving credit facility (the Revolver and together with the Term Loan A and Term Loan B, the New Facilities). The proceeds of the New Facilities were used to (i) pay long-term debt outstanding under the Old Credit Facility, (ii) redeem $20.0 million face value of subordinated debt at a cost of $17.0 million, and (iii) pay fees and expenses incurred in connection with the New Facilities. Thereafter, the New Facilities are available to finance working capital requirements and general corporate purposes.

Borrowings made under the New Facilities accrue interest at the Company's option at the Base Rate or the LIBOR rate, plus the applicable margin. Base Rate shall mean a floating rate equal to the higher of (i) the Fleet prime rate and (ii) the overnight Federal Funds Rate plus 1/2%. Pricing for the Revolver will be at LIBOR plus 4.50% (Base Rate plus 3.50%), Term Loan A will be at LIBOR plus 4.25% (Base Rate plus 3.25%), and Term Loan B will be at LIBOR plus 4.75% (Base Rate plus 3.75%). The amortization on Term Loan A began on March 31, 2003 and amortizes as follows: $15.0 million of the principal amount amortized during Fiscal 2003, $10.0 million of the principal amount amortized during the thirty-nine weeks ended September 25, 2004, $10.0 million of the principal amount will amortize during the fourth quarter of Fiscal 2004, and the remaining $20.0 million of the principal amount will amortize during Fiscal 2005. The Term Loan B shall have no payments until 2006 when quarterly payments will commence in annual principal amounts of $20.0 million and $42.0 million, respectively, for Fiscals 2006 and 2007. The Revolver provides for borrowings up to $25 million less outstanding letters of credit which were $2.4 million as of September 25, 2004.

In connection with the borrowings made under the New Facilities, the Company incurred approximately $4.8 million in debt issuance costs. Transaction costs are included in the calculation of amortized cost of the liability and amortized through profit or loss over the life of the instrument.

The New Facilities are collateralized by all tangible and intangible assets, including the stock of the Company's subsidiaries. In addition, the Company must meet certain financial covenants including minimum earnings before interest, taxes, depreciation and amortization, interest coverage, leverage ratio and capital expenditures. Also, the New Facilities prohibit the payment of dividends to shareholders. Any event of default under the terms of the Exchange Notes (defined herein) is considered an event of default for the New Facilities. As of December 27, 2003 and September 25, 2004, the Company was in compliance with the financial covenants.

On April 24, 1998, the Company completed a debt offering consisting of $100.0 million aggregate principal amount of its 9$^1/_8$% Senior Subordinated Notes due 2008 (the Fixed Rate Notes) and $50.0 million aggregate principal amount of its Floating Interest Rate Subordinated Term Securities due 2008 (the Floating Rate Notes and, together with the Fixed Rate Notes, the Initial Notes). The Floating Rate Notes bear interest at a rate per annum, reset semiannually, and equal to LIBOR plus 3.98%. In connection with the New Facilities, the Company redeemed $20.0 million of the Floating Rate Notes on December 23, 2002. The Company filed a registration statement with the U.S. Securities and Exchange Commission with respect to an offer to exchange the Initial Notes for notes which have terms substantially identical in all material respects to the Initial Notes, except such notes are freely transferable by the holders thereof and are issued without any covenant regarding registration (the Exchange Notes). The registration statement was declared effective on January 28, 1999. The exchange period ended

March 4, 1999. The Exchange Notes are the only subordinated notes of the Company which are currently outstanding.

The Exchange Notes are senior uncollateralized obligations of the Company and rank *pari passu* with all other indebtedness of the Company that by its terms other indebtedness is not subordinate to the Exchange Notes. The Company may redeem the Notes, at its option, in whole at any time or in part from time to time. The redemption prices for the Fixed Rate Notes are set forth below for the 12-month periods beginning May 1 of the year set forth below, plus in each case, accrued interest to the date of redemption:

Year	Redemption Price
2004	103.042%
2005	101.521%
2006 and thereafter	100.000%

In connection with the issuance of the Exchange Notes, the Company incurred approximately $7.7 million in debt issuance costs. Transaction costs are included in the calculation of amortized cost of the liability and amortized through profit or loss over the life of the Exchange Notes.

The Exchange Notes contain various restrictive covenants which apply to both the Company and the Guarantor Subsidiaries (defined herein), including limitations on additional indebtedness, and sale of assets other than in the normal course of business. The failure to pay at final maturity the principal amount of the New Facilities is an event of default under the terms of the Exchange Notes indenture. The Exchange Notes restrict the payment of dividends if an event of default has occurred if the Company is restricted from incurring additional indebtedness or the sum of dividends exceeds a specified amount.

Gain on Extinguishment of Debt

As discussed above, during Fiscal 2002 the Company redeemed $19.5 million face value of its Floating Rate Notes at a cost of $17.0 million resulting in a gain of $2.5 million. In addition, the Company repaid its Old Credit Facility with the payment of the full amount owed. As a result, the Company recognized a net gain of $0.9 million during Fiscal 2002. The repayment of the Old Credit Facility resulted in a loss of $1.6 million.

Finance Leases

The Company has an agreement whereby it leases equipment and buildings at various operating locations. The Company has accounted for the equipment and property leases as capital leases and has recorded the assets and the future obligations on the balance sheet as follows:

	December 29, 2001	**December 28, 2002**	**December 27, 2003**	**September 27, 2003** *(unaudited)*	**September 25, 2004**
Buildings and equipment — assets	$3,591	$ 3,591	$ 3,591	$ 3,591	$ 3,591
Accumulated depreciation —	(681)	(1,099)	(1,524)	(1,418)	(1,826)
Buildings and equipment — assets, net	$2,910	$ 2,492	$ 2,067	$ 2,173	$ 1,765
Buildings and equipment — future obligations	$2,466	$ 2,501	$ 2,287	$ 2,255	$ 2,198

The Company's scheduled future minimum lease payments as of September 25, 2004 for the next five years under the property and equipment capital leases are as follows:

October 2004 to September 2005	$ 826
October 2005 to September 2006	833
October 2006 to September 2007	833
October 2007 to September 2008	833
October 2008 to September 2009	513
Beyond September 2009	93
Total minimum lease payments	$3,931

Long-term debt outstanding, including finance lease obligations, consists of the following:

	December 29, 2001	December 28, 2002	December 27, 2003	September 27, 2003 *(unaudited)*	September 25, 2004
Exchange notes, face amount of $130,000 net of unamortized debt discount of $309, $261, $212, $224, and $175, respectively and net of capitalized debt financing fees of $4,856, $3,540, $2,875, $3,042 and $2,376, respectively	$144,835	$126,199	$126,912	$126,734	$127,449
Term A and B loans net of capitalized debt financing fees of $4,771, $3,539, $3,862 and $2,571, respectively	—	112,229	102,211	105,638	81,388
Old credit facility net of capitalized debt financing fees of $2,661	98,237	—	—	—	—
Finance lease and other obligations	2,519	2,894	2,287	2,429	2,198
Revolver	21,500	5,000	1,000	—	4,000
	267,091	246,322	232,410	234,801	215,035
Less current portion	13,786	15,524	18,980	17,781	19,604
	$253,305	$230,798	$213,430	$217,020	$195,431

Future principal maturities for long-term debt and capital lease obligations are as follows:

	Fixed Rate Debt	Variable Rate Debt
October 2004 to September 2005	$ 303	$ 19,301
October 2005 to September 2006	409	19,301
October 2006 to September 2007	397	35,224
October 2007 to September 2008	558	14,133
October 2008 to September 2009	100,444	29,825
Beyond September 2009	87	—
Total future principal payments on debt	$102,198	$117,784

As of December 28, 2002, December 27, 2003 and September 25, 2004, the fair value of the Company's Exchange Notes was approximately $107.9, $130.0 million and $130.1 million, respectively, and the fair value of the capital lease obligations was approximately $2.0 and $2.1, and $2.2 million, respectively. The estimated fair value of Exchange Notes is based primarily on quoted market prices for the same or similar issues and the estimated fair value of the capital lease obligation is based on the present value of estimated future cash flows. The carrying amount of the variable rate credit facility after adding back the unamortized debt financing fees approximates its fair value.

10. PREFERRED STOCK

During 1998, the Company issued 300,000 shares of Preferred Stock, par value $.01 per share. Dividends on shares of Preferred Stock are cumulative from the date of issue (whether or not declared) and will be payable when and as may be declared from time to time by the Board of Directors of the Company. Such dividends accrue on a daily basis from the original date of issue at an annual rate per share equal to 13% of the original purchase price per share, with such amount to be compounded quarterly. Cumulative preferred dividends in arrears were $18.2 million, $24.7 million, $30.2 million (unaudited), $32.2 million, and $38.4 million as of December 29, 2001, December 28, 2002, September 27, 2003, December 27, 2003, and September 25, 2004, respectively. The Preferred Stock will be redeemable at the option of the Company, in whole or in part, at $100 per share plus (i) the per share dividend rate and (ii) all accumulated and unpaid dividends, if any, to the date of redemption, upon occurrence of an offering of equity securities, a change of control or certain sales of assets. The Preferred Stock has no voting rights.

For financial reporting purposes, cumulative dividends on the preferred shares that are in arrears have not been reported in the financial statements because dividend payments have not been declared by the Board of Directors and such payments are within the unilateral control of the Company and, therefore, they do not represent a legal obligation of the Company.

11. SHARE-BASED PAYMENTS

1998 Executive Stock Option Plan

On April 25, 1998, the Company authorized a nonqualified stock option plan whereby key executives and senior officers may be offered options to purchase the Company's Common Stock. Under the plan, the exercise price set by the Board of Directors of the Company must at least equal the fair market value of the Company's Common Stock at the date of grant. The options began vesting one year after the date of grant in four installments of 10%, 15%, 25% and 50% provided the optionee was an employee of the Company on the anniversary date and would expire 10 years after the date of grant. Under certain specified conditions the vesting schedule might be altered. During Fiscal 2001, the Company entered into Option Cancellation Agreements (the Cancellation Agreements) with certain employees and directors (the Optionees) to cancel all outstanding options which had been granted through the cancellation date under the Company's 1998 Stock Option Plan (the Plan) due to changes in the fair market value of the Company's common stock. The Company provided all of the Optionees with an option cancellation notice detailing the Company's offer for the Optionees to cancel and terminate their respective options in exchange for the commitment of the Company to grant new options under the Plan (the New Options), such new grant to be made no earlier than six months and a day after the effective date of the cancellation of the options and at an exercise price equal to the fair market value of the common stock as of the effective date of the grant of the New Options. The Cancellation Agreements provided that, in January 2002 (the Grant Date), the Company granted to each of the Optionees a New Option to purchase the number of shares of common stock subject to the options being terminated and cancelled and that such New Option will have an exercise price equal to the fair market value of the common stock as of the Grant Date. The vesting period for the New Options granted to employees was 40% on the Grant Date with an additional 20% to vest on each of the first, second and third anniversaries of the Grant Date. The exercise price at the Grant Date was $5.00 per share. Subsequent grants of

131,000 options were made throughout the remainder of Fiscal 2002. Such grants begin vesting one year after the date of the grant in four installments of 10%, 15%, 25% and 50% and have an exercise price of $5.00 to $15.13 per share, based on the fair market value at the Grant Date. In connection with the first time adoption of International Financial Reporting Accounting Standards, the Company has elected to apply IFRS 2 ''Share-Based Payments'' to its options granted subsequent to November 7, 2002. The fair value for these options was estimated using the Black-Scholes model with the following assumptions for the period from adoption to December 28, 2002, Fiscal 2003 and the thirty-nine weeks ended September 25, 2004: risk free interest rate of 3%, no dividend yield, weighted average expected life of four years and a volatility factor of 0.592. Option valuation models require the input of highly subjective assumptions. The Company's employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Volatility was determined based on historical estimated fair values of the Company's stock. The weighted-average fair value per share for the option grants was $2.89 for Fiscal 2002 and $7.25 for Fiscal 2003 and the thirty-nine weeks ended September 25, 2004. The stock option awards resulted in the recognition of compensation expense for Fiscal 2003, and for the thirty-nine weeks ended September 27, 2003 and September 25, 2004 of $45.0, $27.0 (unaudited) and $126.0 respectively, which is included in selling, general and administrative expenses in the accompanying statements of operations. The fair value of the options granted from December 30, 2001 to November 7, 2002 calculated using the same assumptions was estimated to be $2.3 million.

The following table presents information related to options outstanding and options exercisable at September 25, 2004 based on various exercise prices.

	Options Outstanding		
Exercise Price Per Share($)	**Number of Options**	**Weighted Average Remaining Contractual Life in Years**	**Options Exercisable**
$5.00	813,775	7.4	623,245
$15.13	202,500	8.9	8,350
$5.00 to $15.13	1,016,275	8.1	631,595

Following is a summary of activity in the plan for Fiscal 2001, 2002, 2003, and for the thirty-nine weeks ended September 25, 2004:

	Weighted Average Fair Value at Measurement Date Per Share	Weighted Average Option Exercise Price Per Share(s)	Options Outstanding	Weighted Average Option Exercise Price Per Share(s)	Options Exercisable
December 30, 2000		$10.60	483,000	$10.41	94,450
Granted	$6.15	12.85	11,000	—	—
Became exercisable		—	—	10.49	4,650
Canceled or expired		10.63	(494,000)	10.43	(99,100)
December 29, 2001		—	—	—	—
Granted	2.89	5.76	988,775	—	—
Became exercisable		—	—	5.27	352,710
Canceled or expired		5.00	(41,000)	5.00	(27,200)
December 28, 2002		5.54	947,775	5.00	325,510
Granted	7.25	15.13	48,000	—	—
Became exercisable		—	—	5.30	173,155
Canceled or expired		5.29	(70,000)	5.00	(23,000)
December 27, 2003		6.06	925,775	5.10	475,665
Granted	7.25	15.13	124,000	—	—
Became exercisable		—	—	5.21	166,230
Canceled or expired		10.44	(33,500)	5.00	(10,300)
September 25, 2004		7.02	1,016,275	5.13	631,595

The Company grants certain directors options to purchase the Company's Common Stock from time to time. Options granted during Fiscal 2001 begin vesting on the date of grant in three installments of 50%, 25% and 25%, with such options expiring 10 years from the date of grant. All subsequent options granted begin vesting one year after the date of the grant in four installments of 25% each installment, with such options expiring 10 years from the date of grant. The weighted-average fair value per share for option grants was $2.89 for Fiscal 2002 and $7.25 for Fiscal 2003 and the thirty-nine week periods ended September 27, 2003, and September 25, 2004. The following table presents information related to options outstanding and options exercisable at September 25, 2004 based on various exercise prices.

	Options Outstanding		
Exercise Price Per Share($)	Number of Options	Weighted Average Remaining Contractual Life in Years	Options Exercisable
$5.00	126,412	7.3	126,412
$15.13	20,000	9.1	2,500
$5.00 to $15.13	146,412	8.5	128,912

Following is a summary of director option activity for Fiscal 2001, 2002, 2003, and for the thirty-nine weeks ended September 25, 2004:

	Weighted Average Fair Value at Measurement Date Per Share	Weighted Average Option Exercise Price Per Share(s)	Options Outstanding	Weighted Average Option Exercise Price Per Share(s)	Options Exercisable
December 30, 2000		$10.51	126,412	$10.41	59,456
Granted		—	—	—	—
Became exercisable		—	—	11.63	2,500
Canceled or expired		10.51	(126,412)	10.46	(61,956)
December 29, 2001		—	—	—	—
Granted	$2.57	5.39	131,412	—	—
Became exercisable		—	—	5.00	63,206
Canceled or expired		—	—	—	—
December 28, 2002		5.39	131,412	5.00	63,206
Granted	7.25	15.13	5,000	—	—
Became exercisable		—	—	5.39	32,853
Canceled or expired		—	—	—	—
December 27, 2003		5.74	136,412	5.13	96,059
Granted	7.25	15.13	10,000	—	—
Became exercisable		—	—	5.39	32,853
Canceled or expired		—	—	—	—
September 25, 2004		6.38	146,412	5.20	128,912

The Company intends to settle its stock options through the issuance of common shares and has shares reserved for the issuance of common stock in connection with the above stock options. However, in connection with any future changes in control, the shares may be settled on a net cash basis (See Note 19).

12. INCENTIVE PLAN FOR KEY MANAGEMENT

During each fiscal year, the Company establishes an incentive plan for key members of the management team. Participants are eligible to receive a certain percentage of their base compensation upon the achievement of certain financial targets as determined by the Board.

13. INCOME TAXES

The provision (benefit) for income taxes is composed of the following:

	Fiscal Year Ended			Thirty-Nine Weeks Ended
	December 29, 2001	December 28, 2002	December 27, 2003	September 25, 2004
Current	$ 1,239	$ 1,257	$ 4,413	$ 6,376
Deferred	—	—	(12,787)	324
	$ 1,239	$ 1,257	$ (8,374)	$ 6,700

The reconciliation between the federal statutory tax rate and the Company's effective tax rate is as follows:

	Fiscal Year Ended			Thirty-Nine Weeks Ended
	December 29, 2001	**December 28, 2002**	**December 27, 2003**	**September 25, 2004**
Expected tax expense (benefit)	$ (915)	$ 5,209	$ 5,435	$ 7,197
Provision to return adjustment	—	—	2,087	(172)
State taxes	—	—	1,320	1,145
Change in effective tax rate				(1,340)
Other	1,095	2,062	2,351	(130)
Change in unrealized deferred tax assets	1,059	(6,014)	(19,567)	—
	$1,239	$ 1,257	$ (8,374)	$ 6,700

The above reconciliation takes into account certain entities that are consolidated for financial accounting purposes but are not consolidated for tax purposes, therefore, the net operating loss carry forward cannot offset the income from the non-consolidated entities.

No deferred taxes were recognized directly in equity.

The sources of the differences between the financial accounting and tax assets and liabilities which give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 29, 2001	December 28, 2002	December 27, 2003	September 25, 2004
Deferred tax assets:				
Fixed asset depreciation differences	$ 9,275	$ 9,791	$10,976	$11,630
Net operating loss and credit carry forward	12,444	5,769	1,841	—
Gain on debt purchase	—	2,315	1,881	1,716
Allowance for bad debts	1,314	1,121	563	958
Share-base compensation	—	—	15	64
Other	1,244	854	366	180
Gain on asset disposals	—	—	465	365
Inventory basis differences	619	482	438	636
Accrued salaries	928	611	256	662
Deferred rent	873	1,138	187	1,212
Deferred revenue	958	921	81	1,183
Total deferred tax assets	27,655	23,002	17,069	18,606
Unrealized deferred tax assets	(25,578)	(19,565)	—	—
Total deferred tax assets	2,077	3,437	17,069	18,606
Deferred tax liabilities:				
Goodwill	740	1,551	2,937	4,932
Deferred financing costs	164	612	731	(124)
Other	205	300	320	385
Prepaid expense	699	705	273	927
Store pre-opening costs	269	269	21	23
Total deferred tax liability	2,077	3,437	4,282	6,143
Net deferred tax assets	$ —	$ —	$12,787	$12,463

At December 29, 2001, December 28, 2002, December 27, 2003, and September 25, 2004, the Company had net operating loss carryforward for tax purposes of $32,158, $16,967, $5,413 and $0, respectively. Prior to 2003, utilization of the loss carryforwards was not assured due to historical taxable income and the probability of future taxable income. However, management believed it is probable that all of the deferred tax asset would be realized. Accordingly the Company's valuation allowance was fully released in 2003.

Accounting for income taxes in interim periods of a fiscal year is based on an estimate of the effective tax rate. Effective tax rates are determined using a best estimate of the current and deferred tax assets and liabilities that are likely at the end of the year. Using effective tax rates obviates the need to track individual temporary differences, items that do not give rise to current or deferred income taxes and the tax consequences of items charged or credited directly to stockholders' equity. Accordingly, footnote information for current and deferred taxes is not available for the nine months ended September 27, 2003.

14. EMPLOYEE BENEFITS

401(k) Plan

The Company maintains a defined contribution plan whereby substantially all employees who have been employed for at least six consecutive months are eligible to participate. Contributions are made by the Company as a percentage of employee contributions. In addition, discretionary contributions may be made at the direction of the Company's Board of Directors. Total Company contributions, which were expensed, were approximately $220, $214 and $235 for Fiscal 2001, 2002 and 2003, respectively. The Company contribution is determined subsequent to the end of each Fiscal year; therefore, there has been no contribution for the thirty-nine weeks ended September 27, 2003 and September 25, 2004.

15. LEASES

Rent expense for all locations, net of lease and sublease income, is as follows. For the purposes of this table, base rent expense includes common area maintenance costs. Common area maintenance costs were approximately 21%, 21%, 22% and 23% of base rent expense for Fiscals 2001, 2002, 2003 and the thirty-nine weeks ended September 25, 2004 respectively.

	Fiscal Year Ended			Thirty-Nine Weeks Ended	
	December 29, 2001	December 28, 2002	December 27, 2003	September 27, 2003 *unaudited*	September 25, 2004
Base rent expense	$38,666	$40,364	$41,483	$30,918	$31,900
Rent as a percent of sales	266	436	478	437	351
Lease and sublease income	(4,259)	(4,435)	(3,326)	(2,712)	(2,400)
Rent expense, net	$34,673	$36,365	$38,635	$28,643	$29,851

Future minimum lease payments as of September 25, 2004, excluding common area maintenance costs, net of future minimum lease and sublease income under irrevocable operating leases for the next five years and beyond are as follows:

	Operating Rental Payments	Lease and Sublease Income	Operating Lease, Net
October 2004 to September 2005	$ 31,828	$ (2,319)	$ 29,509
October 2005 to September 2006	28,327	(846)	27,481
October 2006 to September 2007	24,508	(590)	23,918
October 2007 to September 2008	21,670	(434)	21,236
October 2008 to September 2009	16,713	(257)	16,456
Beyond September 2009	27,026	(491)	26,535
Total minimum lease payments (receipts)	$150,072	$ (4,937)	$145,135

The Company's operating leases generally have escalating rents and are for a 10 year duration with renewal options. The Company generally renews 40 to 50 operating leases annually with rental payments subject to change. Contingent rentals based on sales are required on some leases and amounts to approximately 1% of total rental expense.

16. COMMITMENTS AND CONTINGENCIES

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or consolidated results of operations.

17. SUMMARY OF EXPENSES BY NATURE

	YTD December 29, 2001	YTD December 28, 2002	YTD December 27, 2003	YTD December 27, 2003	YTD December 25, 2004
Cost of Goods Sold:					
Product Costs	63,980	69,296	71,425	55,437	59,376
Lab Expenses	32,229	34,579	34,850	26,372	29,474
Lab Depreciation	5,345	5,506	4,952	3,914	3,192
Merchandising Expenses	2,892	3,090	3,351	2,476	2,834
Total Costs of Goods Sold	104,446	112,471	114,578	88,199	94,876
Selling General & Administrative:					
Selling Payroll & Benefits	57,222	63,280	64,240	48,726	51,963
Other Selling Expenses	13,885	13,922	12,480	9,497	9,440
Advertising	28,988	30,629	31,587	25,717	26,952
Doctor Payroll & Consulting	20,411	22,504	25,540	19,160	20,528
Occupancy	46,007	47,314	50,366	37,367	39,412
Depreciation (excluding Lab)	9,935	9,090	8,670	6,637	6,514
Overhead	27,066	26,704	25,600	19,430	19,127
Other (Income) Expense	(149)	(485)	442	340	1,071
Total Selling, General & Administrative	203,365	212,958	218,925	166,874	175,007

18. EXPLANATION OF TRANSITION TO IFRS

In preparing its opening balance under IFRS at December 31, 2000 and the balance sheet at December 27, 2003, the Company adjusted amounts that have been previously reported in financial statements prepared and issued in accordance with generally accepted accounting principles established in the United States (Previous GAAP or US GAAP) as shown below.

Reconciliation of Equity

	Note	Previous GAAP	Effect of Transition to IFRS	IFRS	Previous GAAP	Effect of Transition to IFRS	IFRS
		December 30, 2000			December 27, 2003		
Assets							
Cash and cash equivalents		$ 3,971	$ —	$ 3,971	$ 3,809	$ —	$ 3,809
Accounts Receivable, net		14,096	—	14,096	11,117	—	11,117
Inventory, net		25,690	—	25,690	25,120	—	25,120
Deferred income taxes, net		1,297	(1,297)	—	570	(570)	—
Prepaid Expenses and other		3,796	—	3,796	3,696	—	3,696
Total current assets		48,850	(1,297)	47,553	44,312	(570)	43,742
Property, plant and equipment		73,987	—	73,987	51,715	—	51,715
Intangible assets	(a)	118,237	—	118,237	107,423	5,319	112,742
Other assets	(b)	9,846	(8,711)	1,135	8,631	(6,415)	2,216
Deferred tax assets	(f)	—	—	—	13,445	(658)	12,787
Total non-current assets		202,070	(8,711)	193,359	181,214	(1,754)	179,460
Total assets		$ 250,920	$(10,008)	$ 240,912	$ 225,526	$ (2,324)	$ 223,202
Liabilities and shareholders' deficit							
Accounts payable		$ 20,860	$ —	$ 20,860	$ 21,360	$ —	$ 21,360
Current portion of long-term debt		13,070	—	13,070	18,980	—	18,980
Deferred revenue		6,658	—	6,658	5,743	—	5,743
Accrued payroll expense		4,527	—	4,527	5,429	—	5,429
Accrued interest		4,029	—	4,029	3,213	—	3,213
Other accrued expenses		8,887	—	8,887	8,334	—	8,334
Total current liabilities		58,031	—	58,031	63,059	—	63,059
Deferred income taxes		1,297	(1,297)	—	—	—	—
Long-term debt less current maturities		278,306	(8,711)	269,595	219,845	(6,415)	213,430
Deferred rent		3,771	—	3,771	4,719	—	4,719
Deferred gain	(d)	2,233	(2,012)	221	1,532	(1,478)	54
Total non-current liabilities		285,607	(12,020)	273,587	226,096	(7,893)	218,203
Total liabilities		343,638	(12,020)	331,618	289,155	(7,893)	281,262
Issued capital		74	—	74	74	—	74
Preferred stock	(c)	42,354	(12,354)	30,000	62,169	(32,169)	30,000
Additional paid-in capital	(e)	49,963	12,354	62,317	28,259	32,214	60,473
Accumulated deficit	(g)	(185,109)	2,012	(183,097)	(154,131)	5,524	(148,607)
Total deficit		(92,718)	2,012	(90,706)	(63,629)	5,569	(58,060)
Total equity and liabilities		$ 250,920	$(10,008)	$ 240,912	$ 225,526	$ (2,324)	$ 223,202

Notes to the reconciliation of equity

(a) Goodwill amortization

The Company has elected to apply the guidance in IFRS 3, Business Combinations, prospectively from December 31, 2000 to all acquisition transactions that occurred before the date of transition to IFRS. The guidance in IFRS 3 prohibits goodwill amortization but requires annual impairment assessments of acquired goodwill. The Company performs its annual assessment of goodwill on a consolidated basis, which is the same basis that management monitors and analyzes the goodwill. Under US GAAP, amortization of goodwill for these transactions began at the dates of combination but ceased on December 30, 2001 as a result of the adoption of FAS 142 "Goodwill and Other Intangible Assets" that requires annual impairment assessments of acquired goodwill. The impairment assessments during Fiscal 2001, 2002 and 2003 did not result in any impairments.

The application of the guidance in IFRS 3 required the reversal of goodwill amortization reported under the Previous GAAP for Fiscal 2001.

(b) Debt issuance costs

Debt issuance costs under the Previous GAAP are recognized as other assets on the balance sheets and are being amortized over the life of the debt obligations. Under IFRS, these costs are netted against the related debt balances and are being amortized over the life of the debt obligations.

(c) Dividends on preferred stock

Under the Previous GAAP, dividends that are measured based on the legal terms of the cumulative preferred stock are accrued in the financial statements in periods prior to any dividend declaration by the Board of Directors. This is reported under the Previous GAAP as an increase in the carrying amount of preferred stock and a decrease in additional paid-in capital. Under IFRS, dividends are accrued only when they represent an obligation of the issuing company.

Since dividend payments on the securities would only be made upon either a dividend declaration by the Board or upon a change in control as defined by the terms of the securities and redemption is at the option of the Company and not the investors, any dividend payments are discretionary and do not represent an obligation of the Company.

The impact of adopting the guidance under IFRS was to eliminate accrued dividends that were reported under the Previous GAAP.

(d) Gain on sale-leaseback transactions

Under the Previous GAAP, gains from sale-leaseback transactions are deferred and are amortized over the life of the lease regardless of whether the leases are classified as finance or operating. Under IFRS, gains are recognized in earnings during the periods that include the inception of sale leaseback agreements for those contracts that are classified as operating leases.

The effect of applying the sale-leaseback guidance in IFRS is to eliminate deferred gains and the related amortization on sale-leaseback agreements classified as operating leases that have been deferred under the Previous US GAAP because the Company did not relinquish substantially all of the right to use the asset.

(e) Share-based payments

Under the Previous GAAP, the Company elected to account for stock option awards using the intrinsic value method. That method does not result in the recognition of compensation expense if the exercise prices of the option awards are greater than or equal to the fair value of the shares into which they are exercisable on the measurement date which is usually the date of grant. Under Previous GAAP, the Company did not report compensation expense for the option awards based on their strike prices and the estimated fair values of the shares on the grant dates.

The guidance in IFRS 2, Share-Based Payments, requires the use of the fair value method for these awards. In connection with the first time adoption of IFRS, the Company elected to apply the standard to its options granted subsequent to November 7, 2002. This method measures the fair value of the awards at the date of grant and allocates the value to income as compensation cost over the required employee service periods based on vesting requirements. The additional compensation is reported under IFRS as an increase to additional paid-in capital. The Company has elected to apply the standard to its options granted subsequent to November 7, 2002. Previously, the Company accounted for its options using the intrinsic value method and accordingly recognized no compensation expense for the stock option grants.

(f) Deferred tax assets

The deferred tax consequences of the adjustments that were made to initially apply IFRS are included in the table below

	Note	December 30, 2000	December 27, 2003
Goodwill amortization	a	$ —	$ (740)
Gain on sales and leaseback transactions	d	(684)	(503)
Stock options	e	—	15
Deferred tax asset not recognized		684	—
Reclassification from current to non-current		—	570
Decrease in deferred tax assets		$ —	$ (658)

Under the Previous GAAP, deferred tax assets and deferred tax liabilities are classified in the balance sheet as current and long-term based on the classification of the assets and liabilities that give rise to deferred tax consequences. Under IFRS, all deferred taxes are classified in the balance sheet as non-current.

The effect on the income statement for Fiscal 2003 was to decrease the previously reported income tax benefit for the period by $1,266.

(g) The after-tax effect of all adjustments to initially apply IFRS on the Accumulated Deficit is illustrated below.

	Note	December 31, 2000	December 27, 2003
Goodwill amortization	a	$ —	$ 4,579
Deferred tax asset not recognized	f	684	—
Gain on sales and leaseback transactions	d	1,328	975
Stock options	e	—	(30)
Total adjustment to equity		$ 2,012	$ 5,524

Reconciliation of profit for the thirty-nine weeks ended September 25, 2004

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue		$304,868	$ 0	$304,868
Cost of sales		94,876	0	94,876
Gross profit		209,992	0	209,992
Selling, general and administrative expenses		174,747	260	175,007
Amortization of intangibles		—	0	—
Operating profit before financing costs		35,245	(260)	34,985
Interest expenses		14,423	0	14,423
Income before tax		20,822	(260)	20,562
Income tax expense		6,672	28	6,700
Income for the period		$ 14,150	$(288)	$ 13,862

The difference between the Company's equity under Previous GAAP and IFRS at September 25, 2004 is a net increase of $5,408. This net increase consists of a cumulative change of $5,237 in net income over the periods of fiscal 2001 through period ended September 25, 2004. The nature of these net income changes are consistent with the reconciling items discussed above. The remaining difference of $171 is a result of the direct charge of share-based payments to equity.

Reconciliation of profit for fiscal year ending December 27, 2003

	Note	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue		$369,852	$ 0	$369,852
Cost of sales		114,578	0	114,578
Gross profit		255,274	0	255,274
Selling, general and administrative expenses		218,702	223	218,925
Amortization of intangibles		165	0	165
Operating profit before financing costs		36,407	(223)	36,184
Interest expenses		20,200	—	20,200
Income before tax		16,207	(223)	15,984
Income tax benefit		(9,600)	1,226	(8,374)
Income for the period		$ 25,807	$(1,449)	$ 24,358

Explanation of material adjustments to the cash flow statement

Since the adjustments that are required to initially apply IFRS do not impact the cash flows of the Company, the reported amounts of cash flows from operating activities, net cash used in investing activities and net cash used in financing activities under the Previous GAAP are unchanged. The IFRS presentation of the cash flow statement, however, requires the inclusion of separate line items for cash flows from interest and income taxes.

19. SUBSEQUENT EVENT

On December 2, 2004, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") made by and among the Company, ECCA Holdings Corporation, a newly formed Delaware corporation which is owned by Moulin International Holdings Limited and Golden Gate Private Equity, Inc., ("Parent"), and LFS-Merger Sub, Inc., a newly formed Texas corporation and a direct, wholly-owned subsidiary of Parent. Pursuant to the terms and conditions of the Merger Agreement, Merger Sub will be merged with and into the Company, with the Company being the surviving corporation and becoming a wholly-owned subsidiary of Parent.

The aggregate merger consideration to be paid to current shareholders of the Company consists of $450 million in cash, less the aggregate amount of all outstanding indebtedness of the Company, including the Company's Exchange Notes. The merger consideration is subject to adjustment as provided in the Merger Agreement.

The transaction has been approved by both the Company's and Parent's respective boards of directors and is subject to the approval of shareholders of the Company and Moulin International Holdings Limited, regulatory approvals, and other customary closing conditions.

Merger Sub plans to offer $150 million of new senior subordinated notes which will be used to retire the Company's existing Exchange Notes. Additionally, the Company plans to refinance its bank Term Loans A and B and Revolver with a new $165 million bank credit agreement.

Upon culmination of the Merger Agreement, the Management Agreement between the Company and THLee Co. discussed in Note 4 will cease and the promissory note and related interest receivable from Bernard Andrews will be paid in full. Additionally, the Executive Stock Option Plan discussed in Note 11 will be terminated.

No financial statements of the Company or its subsidiaries have been audited with respect to any period subsequent to the thirty-nine week period ended September 25, 2004, being the last period covered by this report.

D. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND IFRS

The information set out in this section does not form part of the Accountants' Report set out in section B of this Appendix, and is included herein for information purposes only.

1. RECONCILIATION FROM IFRS TO HONG KONG GAAP

ECCA has presented its financial statements under IFRS. To present ECCA's financial statements under Hong Kong GAAP would involve a change in the accounting for share-based payments, amortization of goodwill and balance sheet classification of debt issuance costs.

- In connection with its first time adoption of IFRS, ECCA elected to apply the fair value method to its options granted subsequent to November 7, 2002. This method measures the fair value of the awards at the date of grant and allocates the value to income as compensation cost over the required employee service periods based on vesting requirements. The additional compensation is reported under IFRS as an increase to additional paid-in capital. Under HK GAAP, ECCA elects to account for stock option awards using the intrinsic value method. That method does not result in the recognition of compensation expense if the exercise prices of the option awards are greater than or equal to the fair value of the shares into which they are exercisable on the measurement date which is usually the date of grant. ECCA's options were all granted at an exercise price equal to the fair value of the shares into which they are exercisable.

- In connection with its first time adoption of IFRS, ECCA elected to adopt the guidance in IFRS 3, Business Combinations, prospectively from December 31, 2000 to all acquisition transactions that occurred before the date of transition to IFRS. The guidance in IFRS 3 prohibits goodwill amortization but requires annual impairment assessments of acquired goodwill. Under HK GAAP, ECCA's goodwill continues to be amortized and is based upon a useful life of 20 years. Accordingly, accumulated amortization of the goodwill amounted to approximately US$30 million as at September 25, 2004, and amortization charge of US$5 million, and US$5 million respectively for the 39 weeks ended September 25, 2004 and 39 weeks ended September 27, 2003, respectively, US$7 million, US$7 million and US$7 million for fiscal years 2001, 2002 and 2003 will be accounted for under HK GAAP.

- Under IFRS, debt issuance costs are netted against the related debt balances and are amortized over the life of the debt obligations. Under HK GAAP, these costs are recognized as other assets on the balance sheets and are being amortized over the life of the debt obligations. This treatment under HK GAAP does not result in any material differences of the amortization charge of debt issuance costs to the income statements.

The reconciliation of IFRS to Hong Kong GAAP follows:

Balance sheets

	December 29, 2001			December 28, 2002			September 27, 2003			December 27, 2003			September 25, 2004		
$US'000	IFRS	Effect of transition to HKGAAP	HKGAAP	IFRS	Effect of transition to HKGAAP	HKGAAP	IFRS	Effect of transition to HKGAAP	HKGAAP	IFRS	Effect of transition to HKGAAP	HKGAAP	IFRS	Effect of transition to HKGAAP	HKGAAP
Assets															
Current assets:															
Cash and cash equivalents	3,372	—	3,372	3,450	—	3,450	7,512	—	7,512	3,809	—	3,809	3,485	—	3,485
Accounts receivable, net	10,275	—	10,275	12,084	—	12,084	12,463	—	12,463	11,117	—	11,117	10,916	—	10,916
Inventory, net	24,665	—	24,665	24,060	—	24,060	25,312	—	25,312	25,120	—	25,120	25,990	—	25,990
Deferred income taxes, net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Prepaid expenses and other	3,389	—	3,389	3,573	—	3,573	2,783	—	2,783	3,696	—	3,696	2,493	—	2,493
Total current assets	41,701	—	41,701	43,167	—	43,167	48,070	—	48,070	43,742	—	43,742	42,884	—	42,884
Property and equipment, net	64,518	—	64,518	57,439	—	57,439	52,597	—	52,597	51,715	—	51,715	48,465	—	48,465
Intangibles, net	114,772	(11,390)	103,382	112,907	(18,065)	94,842	112,742	(23,073)	89,669	112,742	(24,741)	88,001	112,742	(29,710)	83,032
Other assets	530	7,474	8,004	549	8,312	8,861	2,345	6,904	9,249	2,216	6,415	8,631	1,254	4,947	6,201
Deferred income taxes, net	—	331	331	—	331	331	1,234	329	1,563	12,787	3,071	15,858	12,463	3,696	16,159
Total assets	221,521	(3,585)	217,936	214,062	(9,422)	204,640	216,988	(15,840)	201,148	223,202	(15,255)	207,947	217,808	(21,067)	196,741
Liabilities and shareholders' deficit															
Current liabilities:															
Accounts payable	21,749	—	21,749	20,256	—	20,256	20,126	—	20,126	21,360	—	21,360	18,783	—	18,783
Current portion of long-term debt	13,786	—	13,786	15,524	—	15,524	17,781	—	17,781	18,980	—	18,980	19,604	—	19,604
Deferred revenue	6,557	—	6,557	6,334	—	6,334	6,217	—	6,217	5,743	—	5,743	5,510	—	5,510
Accrued payroll expense	5,733	—	5,733	7,776	—	7,776	5,840	—	5,840	5,429	—	5,429	5,378	—	5,378
Accrued interest	3,284	—	3,284	2,318	—	2,318	6,162	—	6,162	3,213	—	3,213	4,905	—	4,905
Other accrued expenses	8,500	—	8,500	8,523	—	8,523	9,000	—	9,000	8,334	—	8,334	8,510	—	8,510
Total current liabilities	59,609	—	59,609	60,731	—	60,731	65,126	—	65,126	63,059	—	63,059	62,690	—	62,690
Deferred income taxes	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Long-term debt, less current maturities	253,305	7,474	260,779	230,798	8,312	239,110	217,020	6,904	223,924	213,430	6,415	219,845	195,431	4,947	200,378
Deferred rent	3,790	—	3,790	4,571	—	4,571	4,671	—	4,671	4,719	—	4,719	4,615	—	4,615
Deferred gain	165	—	165	110	—	110	67	—	67	54	—	54	11	—	11
Total liabilities	316,869	7,474	324,343	296,210	8,312	304,522	286,884	6,904	293,788	281,262	6,415	287,677	262,747	4,947	267,694
Commitments and contingencies			—			—			—			—			—
Shareholders' deficit:															
Common stock, par value $.01 per share; 20,000,000 shares authorized, 7,397,689 shares issued and outstanding in fiscal 2004	74	—	74	74	—	74	74	—	74	74	—	74	74	—	74
Preferred stock, par value $.01 per share, 300,000 shares authorized, issued and outstanding	30,000	—	30,000	30,000	—	30,000	30,000	—	30,000	30,000	—	30,000	30,000	—	30,000
Additional paid-in capital	61,608	—	61,608	60,743	—	60,743	60,710	(34)	60,676	60,473	(45)	60,428	59,732	(171)	59,561
Accumulated deficit	(187,030)	(11,059)	(198,089)	(172,965)	(17,734)	(190,699)	(160,680)	(22,710)	(183,390)	(148,607)	(21,625)	(170,232)	(134,745)	(25,843)	(160,588)
Total shareholders' deficit	(95,348)	(11,059)	(106,407)	(82,148)	(17,734)	(99,882)	(69,896)	(22,744)	(92,640)	(58,060)	(21,670)	(79,730)	(44,939)	(26,014)	(70,953)
Total liabilities and shareholders' deficit	221,521	(3,585)	217,936	214,062	(9,422)	204,640	216,988	(15,840)	201,148	223,202	(15,255)	207,947	217,808	(21,067)	196,741

Income statements

$US'000	Fiscal year ended December 29, 2001			Fiscal year ended December 28, 2002			Thirty-Nine weeks ended September 27, 2003			Fiscal year ended December 27, 2003			Thirty-Nine weeks ended September 25, 2004		
	IFRS	Effect of transition to HKGAAP	HKGAAP	IFRS	Effect of transition to HKGAAP	HKGAAP	IFRS	Effect of transition to HKGAAP	HKGAAP	IFRS	Effect of transition to HKGAAP	HKGAAP	IFRS	Effect of transition to HKGAAP	HKGAAP
Revenues:															
Optical sales	332,550	—	332,550	360,266	—	360,266	285,682	—	285,682	366,531	—	366,531	302,416	—	302,416
Management fees	3,484	—	3,484	3,401	—	3,401	2,616	—	2,616	3,321	—	3,321	2,452	—	2,452
Net revenues	336,034	—	336,034	363,667	—	363,667	288,298	—	288,298	369,852	—	369,852	304,868	—	304,868
Operating costs and expenses:															
Cost of goods sold	104,446	—	104,446	112,471	—	112,471	88,199	—	88,199	114,578	—	114,578	94,876	—	94,876
Selling, general and administrative expenses	203,365	—	203,365	212,958	—	212,958	166,874	(33)	166,841	218,925	(45)	218,880	175,007	(125)	174,882
Amortization of intangibles:															
Goodwill	—	6,671	6,671	—	6,675	6,675	—	5,008	5,008	—	6,676	6,676	—	4,969	4,969
Noncompete and other intangibles	3,378	—	3,378	1,865	—	1,865	165	—	165	165	—	165	—	—	—
Total operating costs and expenses	311,189	6,671	317,860	327,294	6,675	333,969	255,238	4,975	260,213	333,668	6,631	340,299	269,883	4,844	274,727
Income from operations	24,845	(6,671)	18,174	36,373	(6,675)	29,698	33,060	(4,975)	28,085	36,184	(6,631)	29,553	34,985	(4,844)	30,141
Interest expense, net	27,537	—	27,537	21,051	—	21,051	15,501	—	15,501	20,200	—	20,200	14,423	—	14,423
Net income (loss) before income taxes	(2,692)	(6,671)	(9,363)	15,322	(6,675)	8,647	17,559	(4,975)	12,584	15,984	(6,631)	9,353	20,562	(4,844)	15,718
Income tax expense (benefit)	1,239	—	1,239	1,257	—	1,257	5,274	—	5,274	(8,374)	(2,741)	(11,115)	6,700	(625)	6,075
Net income (loss)	(3,931)	(6,671)	(10,602)	14,065	(6,675)	7,390	12,285	(4,975)	7,310	24,358	(3,890)	20,468	13,862	(4,219)	9,643
Preferred stock dividends	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Net income (loss) available to common shareholders	(3,931)	(6,671)	(10,602)	14,065	(6,675)	7,390	12,285	(4,975)	7,310	24,358	(3,890)	20,468	13,862	(4,219)	9,643

2. REPORT ON HONG KONG GAAP RECONCILIATION

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永 會 計 師 事 務 所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

12 February 2005

The Directors
Moulin International Holdings Limited
4/F Kenning Industrial Building
19 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

Dear Sirs,

We have examined the adjustments made in arriving at and the computation of the Hong Kong GAAP consolidated financial information of ECCA as at 29 December 2001, 28 December 2002, 27 September 2003, 27 December 2003 and 25 September 2004 and for the three financial years ended 29 December 2001, 28 December 2002 and 27 December 2003 and the two nine month periods ended 27 September 2003 and 25 September 2004 (the "ECCA HK GAAP Financial Information") as set out on pages 136 to 138 in section D(1) of Appendix II of the circular of Moulin International Holdings Limited (the "Company") dated 12 February 2005 (the "Circular"), in connection with the proposed acquisition of a majority shareholding interest in ECCA to be effected by way of the merger of a subsidiary of Moulin International Holdings Limited with and into ECCA.

Responsibilities

The ECCA HK GAAP Financial Information is arrived at after making adjustments to the audited consolidated financial information of ECCA under IFRS (the "ECCA IFRS Financial Information") as set out in section D(1) of Appendix II of the Circular. The ECCA IFRS Financial Information and the adjustments made in arriving at and computation of the ECCA HK GAAP Financial Information to show the financial position and the results of ECCA in accordance with the accounting policies of the Company which follow Hong Kong GAAP is the responsibility of ECCA management.

It is our responsibility to form an opinion, based on our examination, on the adjustments made in arriving at and computation of the ECCA HK GAAP Financial Information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA''). Our work consisted primarily of comparing the unadjusted ECCA IFRS Financial Information set out in section D(1) of Appendix II of the Circular with the financial information as set out in section C of Appendix II of the Circular, reviewing the evidence supporting the adjustments which include reviewing the differences between ECCA's accounting policies and the Company's accounting policies and checking the arithmetic accuracy of the computation of the ECCA HK GAAP Financial Information. The engagement did not involve independent examination of any of the underlying financial information.

In connection with the adjustments, we have carried out such additional procedures as are necessary with reference to the Auditing Guideline 3.340 ''Prospectuses and the Reporting Accountant'' issued by the HKICPA. Our work does not constitute an audit in accordance with Statements of Auditing Standards issued by the HKICPA, and accordingly, we do not provide any assurance on the truth and fairness of the ECCA HK GAAP Financial Information.

Opinion

Based on the foregoing, in our opinion:

(a) the unadjusted ECCA IFRS Financial Information as set out in section D(1) of Appendix II of the Circular are properly extracted from the consolidated financial information of ECCA as set out in section C of Appendix II of the Circular;

(b) the adjustments made in arriving at the ECCA HK GAAP Financial Information reflect, in all material respects, differences between ECCA's accounting policies and the Company's accounting policies; and

(c) the computation of the ECCA HK GAAP Financial Information is arithmetically accurate.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Merger on the financial position or results of the Group and is prepared for illustrative purposes only, and because of its nature, the pro forma financial information of the Enlarged Group may not give a true picture of the Group's financial position or results.

On 2 December 2004, the Group entered into the Agreement to acquire 56% of equity interests in ECCA by way of the merger of Merger Sub with and into ECCA. The remaining 44% of equity interests of ECCA will be held by the GGC Entities as the joint venturer and certain members of ECCA management. The consideration for the Merger is estimated to be US$222.1 million (HK$1.73 billion) (subject to adjustment). Consideration attributable to the Group is estimated to be US$124.4 million (HK$970.3 million) (subject to adjustment) which will be funded partly by the US$91.3 million (HK$712 million) cash contribution and partly by the loan borrowings (US$92.6 million (HK$722.3 million) attributable to the Group) and notes issue (US$83.8 million (HK$653.6 million) attributable to the Group). The rest of the proceeds of the notes issue and the bank borrowings will be used for repaying ECCA's existing debts and liabilities and transaction fees and expenses.

Subject to the completion of the Merger in 2005, ECCA will become a jointly controlled entity of the Company. The pro forma financial information has been prepared in accordance with Hong Kong Accounting Standard 31 "Interests in Joint Venture" ("HKAS 31") and also Hong Kong Financial Reporting Standard 3 "Business Combination" ("HKFRS 3") issued by the Hong Kong Institute of Certified Public Accountants which shall be effective for accounting periods beginning on or after 1 January 2005. The impacts of HKAS 31 and HKFRS 3 on the pro forma financial information are the use of proportionate consolidation method when preparing the pro forma financial information and goodwill arising from the Merger to be stated at cost less any impairment loss, respectively.

The following unaudited pro forma financial information of the Enlarged Group is prepared based on the audited financial statements of the Group for the year ended 31 December 2003 extracted from the annual report of the Company for the year ended 31 December 2003 and the financial information of the ECCA Group for the fiscal year ended 27 December 2003 extracted from the Accountants' Report set out in Appendix II to this circular as if the Merger had taken place on 1 January 2003 and making certain pro forma combination adjustments as set out below.

1. UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2003	ECCA Group for the fiscal year ended 27 December 2003	GAAP differences on ECCA Group between IFRS and HK GAAP	Pro forma adjustments	Notes	Pro forma Enlarged Group for the year ended 31 December 2003
	HK$'000	*HK$'000* *(Note 1)*	*HK$'000* *(Note 2)*	*HK$'000*		*HK$'000*
TURNOVER	1,237,732	1,601,007				2,838,739
Cost of sales	(532,884)	(500,477)				(1,033,361)
Gross profit	704,848	1,100,530				1,805,378
Other revenue and gain	59,618	14,506				74,124
Selling and administrative expenses	(391,083)	(956,264)	197			(1,347,150)
Other operating expenses, net	(132,161)	(721)	(29,161)			(162,043)
PROFIT FROM OPERATING ACTIVITIES	241,222	158,051				370,309
Finance costs	(39,089)	(88,234)		(25,771)	(3)	(153,094)
PROFIT BEFORE TAX	202,133	69,817				217,215
Tax	(21,017)	36,578	11,973	10,824	(4)	38,358
PROFIT BEFORE MINORITY INTERESTS	181,116	106,395				255,573
Minority interests	494	—				494
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	181,610	106,395				256,067

Notes:

(1) The pro forma figures represent 56% of the income statement of the ECCA Group for the fiscal year ended 27 December 2003. The figures of the ECCA Group were denominated in US dollars and had been translated into Hong Kong dollars at the conversion exchange rate of US$1 to HK$7.8.

(2) Being adjustment on GAAP differences on ECCA Group between IFRS and HK GAAP. The GAAP differences comprise goodwill amortisation and accounting for share-based payments.

(3) The balance represents interest charges on the net increase in borrowings to finance the acquisition and other finance expenses in connection with the Merger.

(4) The balance represents the tax benefit from additional interest charge.

The unaudited pro forma combined income statement is prepared to provide financial information on the Enlarged Group as a result of completion of the Merger. As it is prepared for illustrative purposes only, it does not purport to represent what the results of the Enlarged Group for the year ended 31 December 2003 or any future period shall be.

2. UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP

	The Group as at 31 December 2003	**ECCA Group as at 27 December 2003**	**GAAP differences on ECCA Group between IFRS and HK GAAP**	**Pro forma adjustments**	**Notes**	**Pro forma Enlarged Group as at 31 December 2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
		(Note 1)	*(Note 2)*			
NON-CURRENT ASSETS						
Fixed assets	841,499	225,891				1,067,390
Intangible assets	53,773	492,457	(108,069)			438,161
Goodwill	213,342	—		1,391,440	3	1,604,782
Long term investments	3,279	—				3,279
Promissory notes	23,400	—				23,400
Staff loans	3,614	—				3,614
Deferred tax assets	18,261	55,854	13,414			87,529
Deferred expenses	—	—		31,450	4	31,450
Other assets	—	9,679	28,021			37,700
Prepayments for frame board space	50,004	—				50,004
Due from PRC subcontractors	97,000	—				97,000
Deposits with a non-bank financial institution	24,000	—				24,000
	1,328,172	783,881				3,468,309
CURRENT ASSETS						
Inventories	412,491	109,724				522,215
Trade and other receivables	1,082,075	64,704		3,931	4	1,150,710
Short term investments	2,286	—				2,286
Tax recoverable	1,244	—		10,824	5	12,068
Cash and cash equivalents	889,940	16,638		(711,984)	6	194,594
	2,388,036	191,066				1,881,873
CURRENT LIABILITIES						
Trade and other payables and accruals	368,690	192,538		15,048	7,9	576,276
Tax payable	41,290	—				41,290
Interest-bearing bank borrowings	609,687	—				609,687
Hire purchase contract payables	15,102	82,905				98,007
Dividend payable	629	—				629
	1,035,398	275,443				1,325,889
NET CURRENT ASSETS/ (LIABILITIES)	1,352,638	(84,377)				555,984
TOTAL ASSETS LESS CURRENT LIABILITIES	2,680,810	699,504				4,024,293
NON-CURRENT LIABILITIES						
Interest-bearing bank borrowings	550,554	—		1,375,920	8	1,926,474
Long term loan	—	932,262	28,021	(960,283)	9	—
Hire purchase contract payables	10,748	—				10,748
Provisions	53,435	—				53,435
Deferred income	—	20,848				20,848
Deferred tax liabilities	22,519	—				22,519
	637,256	953,110				2,034,024
MINORITY INTERESTS	32,186	—				32,186
	2,011,368	(253,606)				1,958,083
CAPITAL AND RESERVES						
Issued capital	249,600	131,363		(131,363)	3	249,600
Reserves	1,737,806	(384,969)	(94,655)	426,339	3,4,5,7	1,684,521
Proposed final dividend	23,962	—				23,962
	2,011,368	(253,606)				1,958,083

Notes:

(1) The pro forma figures represent 56% of the combined balance sheet of the ECCA Group as at 27 December 2003. The audited consolidated figures of the ECCA Group were denominated in US dollars and had been translated into Hong Kong dollars at the conversion exchange rate of US$1 to HK$7.8.

(2) Being adjustment on GAAP differences on ECCA Group between IFRS and HK GAAP. The GAAP differences comprise goodwill amortisation, restatement of debt issuance costs and accounting for share-based payments.

(3) Goodwill is calculated based on ECCA's net asset value in the latest published financial statements as at 25 September 2004 and after taking into account the GAAP adjustments on ECCA Group between IFRS and HK GAAP for better estimation purpose.

Due to the adoption of HKFRS 3, goodwill is subject to impairment review annually and goodwill arising from the Merger shall not be amortised.

Since the fair value of the assets and liabilities of ECCA at the date of completion of the Merger will be different from their adjusted book value used in the preparation of the unaudited pro forma financial information, the actual goodwill of the Enlarged Group arising from the Merger will be different from the estimated goodwill as shown above.

(4) The adjustment represents estimated financial expenses arising from the Merger which are not recognised as goodwill. The amount has been amortised over the loan borrowing period of 10 years under straight line method.

(5) The adjustment represents tax benefit from additional interest charge incurred for the net increase in borrowings to finance the Merger estimated in accordance with tax rate in US.

(6) The adjustment represents cash consideration of US$91.3 million (HK$712 million) attributable to the Company on acquiring 56% equity investment in ECCA.

(7) The amount represents interest charges on the net increase in borrowings to finance the Merger.

(8) Being 56% share of interests on proceeds on US$315 million (HK$2.457 billion) loan borrowing and notes issue.

(9) Being 56% share of interests on the settlement of US$222 million (HK$1.73 billion) on existing loans of ECCA.

The unaudited pro forma combined balance sheet is prepared to provide financial information on the Enlarged Group as a result of the completion of the Merger. As it is prepared for illustrative purposes only, it does not purport to represent what the balance sheet of the Enlarged Group shall be on the actual completion of the Merger.

3. UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2003 (HK$'000)	ECCA Group for the fiscal year ended 27 December 2003 (HK$'000) (Note 1)	GAAP differences on ECCA Group between IFRS and HK GAAP (HK$'000) (Note 2)	Pro forma adjustments (HK$'000)	Notes	Pro forma Enlarged Group for the year ended 31 December 2003 (HK$'000)
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax	202,133	69,817	(28,964)	(25,771)	3,4	217,215
Adjustments for:						
Finance costs	35,813	88,234		25,771	3,4	149,818
Interest income	(43,866)	—				(43,866)
Dividend income from investments	(243)	—				(243)
Waiver of trade payable	(2,252)	—				(2,252)
Early redemption premium	4,228	—				4,228
Loss on disposal of fixed assets	67	—				67
Depreciation	74,851	72,740				147,591
Amortisation of goodwill	10,808	—	29,161			39,969
Amortisation of intangible assets	5,549	721				6,270
Unrealised loss on revaluation of long term listed investments	43	—				43
Unrealised gain on revaluation of short term unlisted investments	(629)	—				(629)
Deferrals and others	—	(1,799)				(1,799)
Compensation on stock option	—	—	(197)			(197)
Impairment of fixed assets	4,905	—				4,905
Impairment of goodwill	12,897	—				12,897
Operating profit before working capital changes	304,304	229,713				534,017
Decrease/(increase) in inventories	48,803	(4,630)				44,173
Increase in deferred expenses	—	—		(31,450)	4	(31,450)
Increase in amount due from the ultimate holding company	(85)	—				(85)
Increase in prepayments for frame board space	(15,471)	—				(15,471)
Increase in an amount due from a PRC subcontractor	(24,553)	—				(24,553)
Decrease in a non-bank financial institution	24,915	—				24,915
Decrease in promissory notes	6,296	—				6,296
Increase in trade debtors and other receivables	(28,795)	(3,717)		(3,931)	4	(36,443)
Increase/(decrease) in trade payables, other payables and accruals	3,917	(6,360)				(2,443)
Decrease in amounts due to related companies	(7,545)	—				(7,545)
Increase in provision for post-employment benefits	3,923	—				3,923
Cash generated from operations	315,709	215,006				495,334
Interest paid	(35,122)	(76,514)		(3,931)	4	(115,567)
Interest element on finance lease and hire purchase rental payments	(434)	—				(434)
Interest on convertible notes	(257)	—				(257)
Hong Kong profits tax paid	(3,575)	—				(3,575)
Overseas tax refunded/(paid)	7,345	(18,756)				(11,411)
Net cash inflow from operating activities	283,666	119,736				364,090

	The Group for the year ended 31 December 2003 *(HK$'000)*	ECCA Group for the fiscal year ended 27 December 2003 *(HK$'000)* *(Note 1)*	GAAP differences on ECCA Group between IFRS and HK GAAP *(HK$'000)* *(Note 2)*	Pro forma adjustments *(HK$'000)*	Notes	Pro forma Enlarged Group for the year ended 31 December 2003 *(HK$'000)*
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	43,866	—				43,866
Dividend received from investments	243	—				243
Purchases of fixed assets	(63,400)	(47,921)				(111,321)
Proceeds from disposal of fixed assets	4,815	—				4,815
Acquisition of subsidiaries	(4,904)	—				(4,904)
Acquisition of a jointly controlled entity	—	—		(1,081,517)	5	(1,081,517)
Disposal of subsidiaries	28,000	—				28,000
Proceeds from disposal of short term unlisted investments	35,933	—				35,933
Net cash inflow/(outflow) from investing activities	44,553	(47,921)				(1,084,885)
CASH FLOWS FROM FINANCING ACTIVITIES						
Repurchase and cancellation of own shares	(298)	—				(298)
Issue of shares, net of share issue expenses	430,902	—				430,902
Share options exercised	11,002	—				11,002
Capital injection from minority shareholders of a subsidiary	870	—				870
Net increase/(decrease) in bank borrowings	(44,891)	—		1,375,920	6	1,331,029
Net increase/(decrease) in loan borrowings	—	(69,264)		(967,075)	7	(1,036,339)
Capital element of finance lease and hire purchase rental payments	(15,082)	—				(15,082)
Redemption of convertible notes	(19,828)	—				(19,828)
Distribution to affiliate OD and others	—	(983)				(983)
Dividends paid	(72,536)	—				(72,536)
Net cash inflow/(outflow) from financing activities	290,139	(70,247)				628,737
NET INCREASE IN CASH AND CASH EQUIVALENTS	618,358	1,568				(92,058)
Cash and cash equivalents at beginning of year	156,592	15,070				171,662
Effect of foreign exchange rate changes, net	(18,353)	—				(18,353)
CASH AND CASH EQUIVALENTS AT END OF YEAR	756,597	16,638				61,251
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances and non-pledged time deposits with original maturity of less than three months when acquired	889,940	16,638		(711,984)	5	194,594
Bank overdrafts	(133,343)	—				(133,343)
	756,597	16,638				61,251

Notes:

(1) The pro forma figures represent 56% of the cashflows of the ECCA Group for the fiscal year ended 27 December 2003. The audited consolidated figures of the ECCA Group were denominated in US dollars and had been translated into Hong Kong dollars at the conversion exchange rate of US$1 to HK$7.8.

(2) Being adjustment on GAAP differences on ECCA Group between IFRS and HK GAAP. The GAAP differences comprise amortisation of goodwill and accounting for share-based payments.

(3) The adjustment represents interest charges on the net increase in borrowings to finance the Merger.

(4) The adjustment represents financial expenses arising from the Merger to be amortised over the loan borrowing period and recognised as expenses for the year.

(5) The adjustment represents cash consideration paid for the acquisition of 56% equity interest in ECCA Group and other expenses paid in relation to the Merger.

The adjustment does not take into account cash and bank balances to be acquired from ECCA Group as at 25 September 2004, the latest published financial statements available for the calculation of goodwill purposes.

Since the fair value of the assets and liabilities of ECCA at the date of completion of the Merger will be different from their adjusted book value used in the preparation of the unaudited pro forma financial information, the actual goodwill of the Enlarged Group arising from the Merger will be different from the estimated goodwill as shown above.

(6) The adjustment represents cash to be received from a bank loan and notes issue.

(7) The adjustment represents proceeds for settlement of existing debts and liabilities of ECCA Group upon the completion of the Merger.

B. LETTER FROM ERNST & YOUNG

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

12 February 2005

The Directors
Moulin International Holdings Limited
4/F Kenning Industrial Building
19 Wang Hoi Road
Kowloon Bay
Kowloon
Hong Kong

Dear Sirs,

Moulin International Holdings Limited (the "Company") and its subsidiaries (the "Group") in connection with the circular for the proposed acquisition of Eye Care Centers of America, Inc. (the "Acquisition")

We report on the pro forma financial information of the Enlarged Group (the ''Pro Forma Financial Information'') set out on pages 141 to 147 in Appendix III ''Financial Information Of The Enlarged Group'' to the circular dated 12 February 2005 issued by the Company (the ''Circular''). The Pro Forma Financial Information is unaudited and has been prepared by the directors of the Company, solely for illustrative purposes, to provide information about how the Acquisition might have affected the historical financial information in respect of the Group. Terms used herein have the same meanings as in the Circular unless the context otherwise requires.

The historical financial information used in the preparation of the Pro Forma Financial Information is derived from the audited financial statements of the Group and of ECCA Group appearing elsewhere in the Circular. The basis of preparation of the Pro Forma Financial Information is set out in the accompanying introduction and notes to the Pro Forma Financial Information of the Enlarged Group.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules'').

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial

Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

Our work does not constitute an audit or a review made in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company as set out on pages 142 to 147 of the Circular, and, because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of the Enlarged Group had the Acquisition actually occurred as at the dates indicated therein or at any other future date.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the bases stated;

(b) such bases are consistent with the accounting policies of the Group, and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

C. MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operations

Fiscal 2003

Combining ECCA's fiscal year 2003 revenue of HK$2,858 million increases the Enlarged Group's revenue to HK$4,097 million representing an increase of 230.7% from the Group's fiscal year 2003 turnover of HK$1,239 million. The retail business, which consisted of 371 outlets in the USA and 34 outlets in the PRC, recorded a total revenue of HK$2,072 million accounting for 72.5% of the Enlarged Group's combined revenue of HK$4,097 million. The distribution and manufacturing business revenue of HK$781 million accounted for 27.5% of the Enlarged Group's combined revenue.

The US retail business revenue increased from HK$2,837 million in fiscal 2002 to HK$2,858 million in fiscal 2003, largely as a result of the addition of 10 new stores since the end of fiscal 2002. The opening of these 10 new stores was partially offset by the closing of two stores during fiscal 2003. Net revenues attributable to the new stores opened in fiscal 2003 were HK$33 million. The increase in net revenues attributable to the full year effect of stores opened in fiscal 2002 which had been open all of fiscal 2003 was HK$32 million. Comparable store sales decreased by 0.3% and comparable transaction volume decreased by 0.4%, while average ticket prices increased by 0.2% in fiscal 2003 compared to fiscal 2002. The relatively flat performance on a comparable store basis was largely the result of the lack of overall growth in the optical retail market and a sluggish economy for the majority of fiscal 2003 in the US.

The Enlarged Group's pro forma consolidated turnover for fiscal year 2003 amounted to HK$2,839 million. Pro forma gross profit of the Enlarged Group amounted to HK$1,805 million representing a gross profit margin of 63.6%. Pro forma profit from operating activities amounted to HK$370 million, representing an operating profit margin of 13.0% after deducting net operating expenses of HK$1,435 million. The Enlarged Group's earnings before interest, tax, depreciation and amortization (EBITDA) amounted to HK$538 million demonstrating the strong cash-generating capability of the Enlarged Group.

Fiscal 2002

Pro forma consolidated turnover for fiscal year 2002 amounted to HK$2,477 million. The Group's presence in the PRC retailing business was strengthened in 2002 with a total of 29 stores, and total revenue of HK$2,006 million, which is 81.0% of the Enlarged Group's turnover. Turnover from distribution and manufacturing business accounted for HK$471 million or 19.01% of the Enlarged Group's turnover.

The US retail business revenue increased by HK$216 million in fiscal year 2002 to HK$2,810 million, which mainly came from 5 new stores operating in fiscal year 2002.

Pro forma gross profit of the Enlarged Group amounted to HK$1,631 million representing a gross profit margin of 65.8%. Pro forma profit from operating activities amounted to HK$324 million, representing an operating profit margin of 13.1% after deducting net operating expenses of HK$1,307 million. The Enlarged Group's earnings before interest, tax, depreciation and amortization and adjusted for non-recurring or non-operating expenses (EBITDA) amounted to HK$455 million.

Fiscal 2001

Pro forma consolidated turnover for fiscal year 2001 amounted to HK$2,582 million.

Pro forma gross profit of the Enlarged Group amounted to HK$1,615 million representing a gross profit margin of 62.5%. Pro forma profit from operating activities amounted to HK$293 million, representing an operating profit margin of 11.3% after deducting net operating expenses of HK$1,322 million. The Enlarged Group's earnings before interest, tax, depreciation and amortization (EBITDA) amounted to HK$435 million.

Liquidity and Capital Resources

Cash flows from operating activities provided net cash of HK$364 million for fiscal 2003 of the Enlarged Group on a pro forma basis. The US retail operation provided net cash from operating activities of HK$214 million, HK$268 million and HK$214 million respectively for fiscal 2003, 2002 and 2001. Capital expenditures were HK$118 million, HK$139 million and HK$130 million respectively for fiscal 2003, 2002 and 2001 of which HK$86 million, HK$83 million and HK$82 million respectively were capital expenditures of the US retail operation for new stores, upgrade of information system, investment in laboratory equipment and store maintenance and remodeling.

The net borrowing of the Enlarged Group on a pro forma basis as at 31 December 2003 was HK$2,424 million representing a gearing ratio of 120.5% over the Group's shareholders' equity of HK$2,011 million as at 31 December 2003.

The HK$750 million term loan and revolving credit facility entered into by the Group with a syndicate of banks on 12 November 2004 and the US$25 million (HK$195 million) revolving credit facilities maturing in Year 2010 of Merger Sub provide sufficient financial resources for the working capital needs of the Enlarged Group.

A. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

B. DISCLOSURE OF INTERESTS

(i) Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or the Model Code for Securities Transactions by Directors of Listed Companies, or which will have to be, pursuant to section 352 of the SFO, entered in the register referred to therein:

Long Positions in Ordinary Shares and Underlying Ordinary Shares of the Company

Name of director	Notes	Number of ordinary shares held Personal interests	Family interests	Corporate interests	Other interests	Share options Personal interests	Total	Percentage of the Company's issued share capital
Ma Bo Kee	(a)	500,000	—	10,500,000	159,975,344	940,000	171,915,344	34.44%
Ma Bo Fung	(b)	500,000	—	—	159,975,344	940,000	161,415,344	32.33%
Ma Bo Lung	(b)	500,000	—	—	159,975,344	940,000	161,415,344	32.33%
Ma Lit Kin, Cary	(c)	500,000	—	—	161,265,065	940,000	162,705,065	32.59%
Ma Hon Kin, Dennis	(d)	303,483	—	—	161,189,199	940,000	162,432,682	32.54%
Tong Ka Wai, Dicky		150,000	—	—	—	550,000	700,000	0.14%
Joseph A. Barrett		—	—	—	—	940,000	940,000	0.19%
Ng Tai Chiu, David		—	—	—	—	250,000	250,000	0.05%
Chan Wing Wah, Ivan		94	—	—	—	250,000	250,094	0.05%
So Kwan Hon, Danny		—	—	—	—	200,000	200,000	0.04%

Notes:

(a) *159,975,344 shares are owned by Sharp Merit International Limited, the entire issued share capital of which is held by Dynamic Utility Limited as trustee for the Ma Family Unit Trust. The Ma Family Unit Trust is a private unit trust with 10,000 units in issue, of which 9,999 units are held by HSBC International Trustee Limited in its capacity as trustee of the Ma Family Trust and 1 unit is held jointly by Ma Lit Kin, Cary and Ma Hon Kin, Dennis. The Ma Family Trust is a discretionary trust whose objects include Ma Bo Kee, Ma Bo Fung, Ma Bo Lung, Ma Lit Kin, Cary, Ma Hon Kin, Dennis and their family members. 10,500,000 shares are owned by Excite Holdings Limited, a corporation wholly owned by Ma Bo Kee.*

(b) *159,975,344 shares are owned by Sharp Merit International Limited, the entire issued share capital of which is held by Dynamic Utility Limited as trustee for the Ma Family Unit Trust. The Ma Family Unit Trust is a private unit trust with 10,000 units in issue, of which 9,999 units are held by HSBC International Trustee Limited in its capacity as trustee of the Ma Family Trust and 1 unit is held jointly by Ma Lit Kin, Cary and Ma Hon Kin, Dennis. The Ma Family Trust is a discretionary trust whose objects include Ma Bo Kee, Ma Bo Fung, Ma Bo Lung, Ma Lit Kin, Cary, Ma Hon Kin, Dennis and their family members.*

(c) *159,975,344 shares are owned by Sharp Merit International Limited, the entire issued share capital of which is held by Dynamic Utility Limited as trustee for the Ma Family Unit Trust. The Ma Family Unit Trust is a private unit trust with 10,000 units in issue, of which 9,999 units are held by HSBC International Trustee Limited in its capacity as trustee of the Ma Family Trust and 1 unit is held jointly by Ma Lit Kin, Cary and Ma Hon Kin, Dennis. The Ma Family Trust is a discretionary trust whose objects include Ma Bo Kee, Ma Bo Fung, Ma Bo*

Lung, Ma Lit Kin, Cary, Ma Hon Kin, Dennis and their family members. 1,289,721 shares are held by United Will Holdings Limited for and on behalf of Ma Lit Kin, Cary.

(d) 159,975,344 shares are owned by Sharp Merit International Limited, the entire issued share capital of which is held by Dynamic Utility Limited as trustee for the Ma Family Unit Trust. The Ma Family Unit Trust is a private unit trust with 10,000 units in issue, of which 9,999 units are held by HSBC International Trustee Limited in its capacity as trustee of the Ma Family Trust and 1 unit is held jointly by Ma Lit Kin, Cary and Ma Hon Kin, Dennis. The Ma Family Trust is a discretionary trust whose objects include Ma Bo Kee, Ma Bo Fung, Ma Bo Lung, Ma Lit Kin, Cary, Ma Hon Kin, Dennis and their family members. 1,213,855 shares are held by United Will Holdings Limited for and on behalf of Ma Hon Kin, Dennis.

(e) Further details of the above share options are set out below.

Options to subscribe for Ordinary Shares granted under the Share Option Scheme adopted on September 6, 2002

Name of director	Date granted (day/month/year)	Number of options granted	Options outstanding as at January 1, 2005	Options outstanding as at February 7, 2005	Number of underlying shares as at February 7, 2005
Ma Bo Kee	3/1/2005	940,000	—	940,000	940,000
Ma Bo Fung	3/1/2005	940,000	—	940,000	940,000
Ma Bo Lung	3/1/2005	940,000	—	940,000	940,000
Ma Lit Kin, Cary	3/1/2005	940,000	—	940,000	940,000
Ma Hon Kin, Dennis	3/1/2005	940,000	—	940,000	940,000
Tong Ka Wai, Dicky	3/1/2005	550,000	—	550,000	550,000
Joseph A. Barrett	3/1/2005	940,000	—	940,000	940,000
Ng Tai Chiu, David	3/1/2005	250,000	—	250,000	250,000
Chan Wing Wah, Ivan	3/1/2005	250,000	—	250,000	250,000
So Kwan Hon, Danny	3/1/2005	200,000	—	200,000	200,000

The exercise price of the above share options is HK$5.29.

30% of the options are exercisable for a period of 18 months after one year from the date of the grantee's acceptance of the options (the ''Option Acceptance Date''). 35% of the options are exercisable for a period of 18 months after two years from the Option Acceptance Date provided that either the Strike Price (as defined below) reaches HK$10.00 or the Adjusted Earnings per Share (as defined below) for year 2006 is at least 1.9 times of that of year 2004. 35% of the options are exercisable for a period of 18 months after three years from the Option Acceptance Date provided that either the Strike Price reaches HK$12.00 or the Adjusted Earnings per Share for year 2007 is at least 2.0 times of that of year 2004.

All options will expire four and a half years from the Option Acceptance Date.

''Strike Price'' means the average ten trading days' closing price per share on the Stock Exchange that falls within the 18 month option period; and ''Adjusted Earnings per Share'' means earnings per share as defined in the Company's audited accounts before any one-time non-recurring cost and costs of exercising the option.

(ii) Save as disclosed below, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long Positions in Ordinary Shares of the Company

Name of shareholder	Notes	Number of shares held	Percentage of the Company's issued share capital
HSBC International Trustee Limited ("HSBC")	1	160,025,344	32.06%
Dynamic Utility Limited ("Dynamic Utility")	2	159,975,344	32.05%
Sharp Merit International Limited ("Sharp Merit")	3	159,975,344	32.05%
Templeton Investment Counsel LLC ("Templeton")	4	46,091,800	9.23%
Arisaig Greater China Fund Limited ("Arisaig")	5	40,500,000	8.11%
Arisaig Partners (Mauritius) Ltd ("Arisaig Mauritius")	6	40,500,000	8.11%
Lindsay William Ernest Cooper ("Cooper")	7	40,500,000	8.11%
Morgan Stanley ("Morgan Stanley")	8	38,818,000	7.78%
JPMorgan Chase & Co ("JPMorgan")	9	34,736,000	6.96%
The Capital Group Companies, Inc. ("Capital")	10	28,729,300	5.76%

Short Positions in Ordinary Shares of the Company

Name of shareholder	Notes	Number of shares held	Percentage of the Company's issued share capital
Morgan Stanley	11	9,934,000	1.99%

Notes:

1. *Of these 160,025,344 shares, 159,975,344 shares are held by HSBC in the capacity of trustee of the Ma Family Trust, a discretionary trust whose objects include Ma Bo Kee, Ma Bo Fung, Ma Bo Lung, Ma Lit Kin, Cary, Ma Hon Kin, Dennis and their family members.*

2. *These interests are held by Dynamic Utility as trustee for the Ma Family Unit Trust. The Ma Family Unit Trust is a private unit trust with 10,000 units in issue, of which 9,999 units are held by HSBC International Trustee Limited in its capacity as trustee of the Ma Family Trust and 1 unit is held jointly by Ma Lit Kin, Cary and Ma Hon Kin, Dennis. These interests are duplicated by the interests disclosed in Note 1 above.*

3. *These interests are held by Sharp Merit in the capacity of nominee. The entire issued share capital of Sharp Merit is held by Dynamic Utility as trustee for the Ma Family Unit Trust. The Ma Family Unit Trust is a private unit trust with 10,000 units in issue, of which 9,999 units are held by HSBC International Trustee Limited in its capacity as trustee of the Ma Family Trust and 1 unit is held jointly by Ma Lit Kin, Cary and Ma Hon Kin, Dennis. Ma Bo Kee, Ma Lit Kin, Cary and Ma Hon Kin, Dennis are directors of Sharp Merit. These interests are duplicated by the interests disclosed in Note 1 and Note 2 above.*

4. *These interests are held by Templeton in the capacity of investment manager.*

5. *These interests are held by Arisaig in the capacity of beneficial owner.*

6. *These interests are held by Arisaig Mauritius in the capacity of investment manager. These interests are duplicated by the interests disclosed in Note 5 above.*

7. *These interests represent Cooper's deemed interests through his indirect 33.33% beneficial interest in Arisaig Mauritius. These interests are duplicated by the interests disclosed in Note 5 and Note 6 above.*

8. *These interests are held by Morgan Stanley through corporations controlled by it.*

9. *These interests are held by JPMorgan in the capacity of approved lending agent.*

10. *These interests are held by Capital in the capacity of investment manager.*

11. *These short positions are held by Morgan Stanley through corporations controlled by it.*

C. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

(i) a share purchase and transfer agreement dated September 30, 2003 between Rodenstock Technologie Holding GmbH as seller and Moulin European Holdings Ltd. as purchaser in relation to the purchase of all the shares in NiGuRa Optik Gesellschaft mit begrenzter Haftung, a company incorporated in Germany and engaged in the business of designing, marketing and distributing optical frames and sunglasses;

(ii) the Agreement;

(iii) the Shareholders' Agreement;

(iv) the amended and restated Shareholders' Agreement dated as of February 2, 2005 between Merger Holdco, BVI Holdco, Cayman Holdco, the GGC Entities, the Company and each of the persons listed on a schedule thereto from time to time or who otherwise agrees to be bound by the provisions thereof as a management stockholder by executing a joinder agreement;

(v) the Put Agreement;

(vi) the Supply Agreement;

(vii) the amended and restated Supply Agreement dated as of January 28, 2005 between Merger Sub and the Company;

(viii) a commitment letter dated December 2, 2004 from the Company to Merger Holdco in relation to the provision of equity funding in the amount of US$93 million less the consideration for the Merger payable in respect of the Rollover ECCA Shares and the Rollover ECCA Options;

(ix) a commitment letter dated December 2, 2004 from GGC to Merger Holdco in relation to the provision of equity funding in the amount of US$70 million;

(x) a mutual release dated December 1, 2004 among ECCA, Merger Holdco, Merger Sub, Thomas H. Lee Equity Fund IV, L.P., Thomas H. Lee Foreign Fund IV, L.P. and Thomas H. Lee Foreign Fund IV-B, L.P. in relation to the release of certain claims arising from any act, omission, event or transaction occurring or any circumstances existing with respect to the ECCA Group on or prior to the Closing;

(xi) a commitment letter dated December 2, 2004 from J.P. Morgan Securities Inc. and JPMorgan Chase Bank, N.A. to Merger Holdco and Merger Sub in relation to the arrangement of funding for up to US$340 million to finance the Merger and provide for ongoing working capital needs;

(xii) a voting and support agreement and irrevocable proxy dated December 2, 2004 among ECCA, Merger Holdco, Merger Sub, Thomas H. Lee Equity Fund IV, L.P., Thomas H. Lee Foreign Fund IV, L.P. and Thomas H. Lee Foreign Fund IV-B, L.P. in relation to the agreement by Thomas H. Lee Equity Fund IV, L.P., Thomas H. Lee Foreign Fund IV, L.P. and Thomas H. Lee Foreign Fund IV-B, L.P. to vote all of the shares of ECCA's stock each of them owns in favour of the Merger; and

(xiii) a purchase agreement dated January 28, 2005 between Merger Sub and several initial purchasers pursuant to which Merger Sub agreed to sell US$152.0 million aggregate principal amount of 10¾% senior subordinated notes due 2015 for gross proceeds of US$149.3 million, excluding the initial purchasers commission and other expenses.

D. NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since December 31, 2003, being the date to which the latest published audited accounts of the Company were made up.

E. DIRECTORS' COMPETING INTERESTS

None of the Directors or their respective associates had, as at the Latest Practicable Date, any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

F. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had or was proposed to have any service contract with any member of the Group (excluding contracts expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation)).

G. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

H. CONSENTS AND QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts (the "Experts") who have given opinions in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants
Ernst & Young LLP	Independent Auditors

The Experts have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their advice, letters, reports and/or references to their names in the form and context in which they respectively appear.

I. GENERAL

(i) Mr. Lee Kwok Ming, Don is the chief financial officer of the Company. He is responsible for the overall financial function of the Group. Prior to joining the Group in January 2005, he was the chief financial officer of several listed companies and has over 20 years' experience in operation and corporate finance with extensive experience in cross-border merger and acquisition transactions. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Chartered Institute of Management Accountants.

(ii) Mr. Tang Yiu Leung, Toby is the qualified accountant of the Company. He is a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

(iii) Ms. Kan Siu Yim, Katie is the secretary of the Company. She is an associate of the Institute of Chartered Secretaries and Administrators.

(iv) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which is significant in relation to the business of the Group.

(v) As at the Latest Practicable Date, none of the Directors or Experts had any direct or indirect interest in any asset which had been acquired or disposed of by or leased to any member of the Group since December 31, 2003, being the date to which the latest published audited accounts of the Company were made up, or was proposed to be so acquired, disposed of or leased.

(vi) As at the Latest Practicable Date, none of the Experts had any shareholding in any member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(vii) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(viii) In the event of any inconsistency between the English text and the Chinese text of this circular, the English version shall prevail.

J. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal office of the Company at 4/F, Kenning Industrial Building, 19 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong up to and including February 28, 2005:

(i) the memorandum of association and bye-laws of the Company;

(ii) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix;

(iii) the audited consolidated accounts of the Group for each of the two financial years ended December 31, 2003;

(iv) the accountants' report on the ECCA Group prepared by Ernst & Young LLP, the text of which is set out in section C of Appendix II to this circular;

(v) the report from Ernst & Young on the reconciliation between the accounting policies of ECCA and those of the Company, the text of which is set out in section D of Appendix II to this circular;

(vi) the report from Ernst & Young on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in section B of Appendix III to this circular; and

(vii) the written consents of the Experts.

MOULIN INTERNATIONAL HOLDINGS LIMITED

泰興光學集團有限公司*

(Incorporated in Bermuda with limited liability)

STOCK CODE: 389

NOTICE IS HEREBY GIVEN that a special general meeting of Moulin International Holdings Limited (the ''Company'') will be held at 10:00 a.m. on Monday, February 28, 2005 at 4/F, Kenning Industrial Building, 19 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. **"THAT**

   (i) the agreement and plan of merger dated December 2, 2004 between Eye Care Centers of America, Inc. (''ECCA''), Thomas H. Lee Equity Fund IV, L.P. (solely in its capacity as representative of ECCA's shareholders), LFS-Merger Sub, Inc. (''Merger Sub'') and ECCA Holdings Corporation relating to the merger of Merger Sub with and into ECCA pursuant to the terms thereof, all other related agreements and transactions described in the Company's announcement dated December 6, 2004 and circular dated February 12, 2005 and the transactions contemplated thereunder (together, the ''Transactions'') be and are hereby approved, ratified and confirmed; and

   (ii) the board of directors of the Company be and is hereby authorised to take all steps necessary, desirable or expedient for the purposes of or in connection with the implementation of the Transactions.''

2. **"THAT** Messrs. Deloitte Touche Tohmatsu, Certified Public Accountants, be and are hereby appointed as the auditors of the Company to fill the vacancy following the resignation of Messrs. Ernst & Young, Certified Public Accountants, to hold office with immediate effect until the conclusion of the next annual general meeting of the Company and the board of directors of the Company be and is hereby authorised to fix their remuneration."

By Order of the Board
Kan Siu Yim, Katie
Company Secretary

Hong Kong, February 12, 2005

Principal place of business:

4/F, Kenning Industrial Building
19 Wang Hoi Road
Kowloon Bay, Kowloon
Hong Kong

* *For identification purposes only*

NOTES:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power of authority must be deposited at the Company's principal place of business in Hong Kong at 4/F, Kenning Industrial Building, 19 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. Completion and return of the form of proxy will not preclude a member from attending and voting at the above meeting or any adjournment thereof if he so wishes. In that event, his form of proxy will be deemed to have been revoked.

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