OVERVIEW

Net profit from ordinary activities attributable to shareholders was HK$10.1 million in current year, compared with a loss of HK$58.9 million last year. This being the first year of the Company in current year becoming part of the Tomorrow group, the Group has managed to achieve an operating profit, as opposed to a loss last year. In its OEM/ODM business, the Group managed to generate an operating profit of HK$7.2 million, as opposed to a loss of HK$11 million last year. In its lens business, of which the Group owned 50%, the Group managed to generate a shared profit before tax from associates of HK$9.4 million, versus HK$5.4 million recorded last year.

Also worth-noting were some major gains and losses, which included a HK$16.9 million gain arising from accrued interest on bank loans being written off as a result of the financial restructuring in March 2002, and a restructuring cost of HK$8 million in respect of professional fees incurred and staff redundancy programs implemented during the year.

BUSINESS & FINANCIAL REVIEW

The Group has basically met the operational objectives set out for the year. This included decreasing the fixed costs significantly to lower breakeven point, by trimming down the organization through eliminating non-mission critical job positions and restructuring the organization to become more lean and mean. As a result of the restructuring, which took place primarily in the first half of the year, approximately HK$15.7 million of payroll and staff benefits were saved annually.

On the revenue side, the Group has enjoyed a 14% growth in orders from last year. However, due to sudden slow-down in customer delivery schedule towards the year end, the Group could only finish the year at the same level of revenue as last year. Furthermore, due to pressure on price in the market, the Group experienced a significant squeeze in gross margin in the fourth quarter, which resulted in the yearly gross margin recorded a year-to-year decrease.

FUTURE PROSPECTS

The Group has regained its reputation as a key player in the optical industry. Many of the business fundamentals have been significantly improved, which included: better product quality, reliable shipment schedules, and well-controlled product development programs.

FUTURE PROSPECTS (Cont'd)

In the first quarter of 2003, the Group began to focus on a number of new initiatives:

- Reviewing all of the Group's Equipment, Process, Technology (EPT) as part of the Group's competitive manufacturing strategy to ensure that they are in alignment with the Group's target market segment and that they are competitive;
- Establishing a more aggressive outsourcing program to lower cost of procurement and to make better make versus buy economic decisions, both of which will help to improve gross margin;
- Establishing a target segmentation program whereby design department can take the lead with sales to develop product programs directed at specific target market segments, by giving more value to customers through product concept management and better component integration.
- Further reducing the Group's overhead through elimination of cost structures that do not result in immediate revenue generation.

Bad economic situation in Europe, and the stagnant US economy due to fear of Gulf War in the past few months have already caused a slow-down in demand this year. As a key player in the industry, we are stepping up all our initiatives to improve our competitive positioning to bear on the short term results, as well as putting ourselves on a roadmap for longer term success. We have had a small success in 2002 and we believe we can accomplish more in the years to come.

LIQUIDITY AND FINANCIAL REVIEW

The Group mainly finances its day to day operations with internally generated cash flow. As at 31 December 2002, the current ratio of the Group was 0.94: 1. The low current ratio is due to HK$62.5 million of loan due to a shareholder payable within one year.

During the year, the Group recorded a cash inflow from operating activities of HK$18 million. As at 31 December 2002, the Group has recorded an overdue interest of HK$13 million on loan due to Probest Holdings Inc. ("Probest"). According to the Loan Restructuring Agreement (the "Agreement") signed on 4 March 2003, whereby, subject to the approval of independent shareholders, the accrued overdue interest as at 31 December 2002 will be waived by Probest.

LIQUIDITY AND FINANCIAL REVIEW (Cont'd)

The Group conducts its business transactions mainly in Hong Kong Dollars, US Dollars, Euro and RMB. The Group did not arrange any forward currency contracts for hedging purposes. Whilst most of the Group's cash is denominated in currencies directly and indirectly linked to the US Dollars, the exposure to exchange fluctuation, gains and losses, is minimal. The Group's loans from Probest bear interest at a rate per annum equivalent to 1% over Hong Kong prime rate. The Group's borrowings are mainly denominated in Hong Kong Dollars.

At 1 March 2002, the Company issued 1,500,000,000 ordinary shares of HK$0.20 each to the banks upon exercise of the conversion rights under the convertible notes. As at 31 December 2002, the gearing ratio (long term debts/(long term debts + shareholders fund of the Group)) was 1.92.

THE CORPORATE FINANCE RESTRUCTURING

On 4 March 2003, the Company, Probest and Tomorrow International Holdings Limited entered into the conditional Asset Disposal Agreement and the conditional Loan Restructuring Agreement to restructure the principal loan of HK$250 million due to Probest, subject to the approval by independent shareholders at the extraordinary general meeting of the Company convened to be held on 2 May 2003. The directors also proposed to reorganise the Company's capital structure, including capital reduction, capital increase and share consolidation in the coming extraordinary general meeting.

CHARGES ON GROUP ASSETS AND CONTINGENT LIABILITIES

On 1 March 2002, all the debentures of the Group were released and discharged by the banks following the acquisition of the HK$250 million bank loans by Probest. At 31 December 2002, the Group had no contingent liabilities in respect of bills of exchange discounted with recourse.

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2002, the Group had 2,253 employees. The remuneration policy and package of the Group's employees are based on their performance, experience, prevailing industry practice and market rates. In addition to the basic salaries and contributions to the provident fund, the Group also provides staff benefits including discretionary bonus to senior staff and medical insurance scheme. The Group also provides appropriate training for the employees' better personal development and growth.

Pursuant to the Company's New Share Option Scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. No share options have been granted during the year.

By behalf of the Board
Lau Tai Ming, Eddy
Executive Director & Chief Operating Officer

Hong Kong, 28 April 2003