

Report of the Directors

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's principal activities consisted of the design, manufacture and sale of optical products. There were no changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 72.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the results of the Group for the last five financial reporting years and of its assets, liabilities and minority interests at the respective financial reporting year end dates, as extracted from the published audited financial statements of the Group, is set out below.

	Year ended 31 December				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS					
TURNOVER	242,097	241,671	267,953	315,090	373,446
PROFIT/(LOSS) AFTER FINANCE COSTS	1,337	(64,168)	(102,529)	(33,471)	(312,124)
Share of profits less losses of associates	9,426	5,353	241	(6,256)	(11,371)
PROFIT/(LOSS) BEFORE TAX	10,763	(58,815)	(102,288)	(39,727)	(323,495)
Tax	(1,000)	(295)	(176)	(289)	(1,094)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	9,763	(59,110)	(102,464)	(40,016)	(324,589)
Minority interests	378	221	145	1,519	1,021
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10,141	(58,889)	(102,319)	(38,497)	(323,568)

Report of the Directors (Cont'd)

SUMMARY FINANCIAL INFORMATION (Cont'd)

	As at 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS					
FIXED ASSETS	120,360	133,164	163,291	201,233	204,194
INTERESTS IN ASSOCIATES	30,894	31,530	55,832	132,515	165,331
OTHER NON-CURRENT ASSETS	455	—	1,760	36,719	36,719
CURRENT ASSETS	114,908	98,074	112,396	147,646	166,906
TOTAL ASSETS	266,617	262,768	333,279	518,113	573,150
CURRENT LIABILITIES	122,415	89,065	59,676	140,271	1,257,476
LONG TERM BORROWINGS	187,500	525,000	550,000	550,000	—
OTHER NON-CURRENT LIABILITIES	712	1,000	—	317	1,115
TOTAL LIABILITIES	310,627	615,065	609,676	690,588	1,258,591
MINORITY INTERESTS	45,932	46,310	46,531	46,676	48,195
	(89,942)	(398,607)	(322,928)	(219,151)	(733,636)

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 25 and 26 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company had no retained profits available for cash distribution and/or distribution in specie. In addition, the Company's share premium account, in the amount of HK\$715,132,000, is governed by Section 48B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 49% of the total sales for the year and sales to the largest customer included therein amounted to 19% of the total sales. Purchases from the Group's five largest suppliers accounted for approximately 50% of the total purchases for the year and purchases from the largest supplier included therein amounted to 19% of the total purchases.

As far as the directors are aware, neither the directors, their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) nor those shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.

Report of the Directors (Cont'd)

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Lau Tai Ming, Eddy

Lim Huat Joo

Yau Tak Wah, Paul (appointed on 4 March 2002)

Louie Mei Po (appointed on 4 March 2002)

Wong Shin Ling, Irene (appointed on 4 March 2002)

Tam Wing Kin (appointed on 4 March 2002)

Tam Ping Wah (appointed on 4 March 2002)

Christopher Coulcher (resigned on 28 February 2002)

Claude Jaeck (resigned on 3 April 2002)

Independent non-executive directors:

Kwong Wai Tim, William (appointed on 4 March 2002)

Hahn Ka Fai, Mark (appointed on 4 March 2002)

Gerald Dobby (resigned on 28 May 2002)

Wu Sai Wing (resigned on 28 May 2002)

In accordance with article 103(A) of the Company's articles of association, all directors retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 13 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

1. Interests in the Company

At 31 December 2002, no directors had interests in the listed securities of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").

2. Interests in associated corporation

Tomorrow International Holdings Limited ("TIHL")

At 31 December 2002, the interests of the directors of the Company in the listed securities of TIHL, the ultimate holding company of the Company and whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), as recorded in the register maintained by TIHL pursuant to Section 29 of the SDI Ordinance were as follows:

<u>Director</u>	<u>Notes</u>	<u>Nature of interest</u>	<u>Number of shares</u>
Yau Tak Wah, Paul	1	Corporate	148,474,000
Tam Ping Wah	2	Corporate	80,000

Notes:

1. These shares were held through Pacific Shore Profits Limited, a company beneficially owned by Yau Tak Wah, Paul.
2. These shares were held through Strong Trend International Limited, a company beneficially owned by Tam Ping Wah.

Report of the Directors (Cont'd)

DIRECTORS' INTERESTS IN SHARES (Cont'd)

2. Interests in associated corporation (Cont'd)

Tomorrow International Holdings Limited ("TIHL") (Cont'd)

At 31 December 2002, certain directors of the Company have been granted options to subscribe for shares in TIHL. The details of share options granted to directors which remained outstanding as at 31 December 2002 were as follows:

Name of directors	Date of grant of share options	Exercise period of share options	Number of	Exercise price
			share options outstanding at 31 December 2002	of share options at 31 December 2002
			'000	HK\$
Louie Mei Po	11/2/2000	11/8/2000–10/8/2003	23,700	0.227
	20/3/2000	20/9/2000–19/9/2003	19,800	0.163
	2/5/2000	2/11/2000–1/11/2003	9,000	0.090
Wong Shin Ling, Irene	20/3/2000	20/9/2000–19/9/2003	10,800	0.163
	2/5/2000	2/11/2000–1/11/2003	19,200	0.090
Tam Ping Wah	2/5/2000	2/11/2000–1/11/2003	9,000	0.090
			91,500	

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 26 to the financial statements, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age, to acquire benefits by mean of the acquisition of shares in the Company or any other body corporate.

SHARE OPTION SCHEME

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 26 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
(i) Winspark Venture Limited ("Winspark Venture")	1,291,638,651	57.9%
(ii) TIHL	1,291,638,651	57.9%
(iii) Fortune Dynamic Group Corp. ("Fortune Dynamic")	1,291,638,651	57.9%
(iv) Probest Holdings Inc. ("Probest")	1,291,638,651	57.9%

Winspark Venture was (or was deemed to be) interested in 1,291,638,651 ordinary shares in the Company by virtue of its 56% shareholding in TIHL, which in turn, held 100% shareholding in Fortune Dynamic. Fortune Dynamic held 100% shareholding in Probest, which in turn, held 1,291,638,651 shares of the Company. The entire issued share capital of Winspark Venture is beneficially owned by Mr. Chan Yuen Ming. Accordingly, the interests disclosed by parties (i), (ii), (iii) and (iv) above are in respect of the same shareholding.

Save as disclosed above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's securities during the year.

CONNECTED PARTY TRANSACTIONS

Details of the connected party transactions are set out in note 31 to the financial statements.

HANMY (HOLDING) LIMITED AND ITS RELATED COMPANIES (COLLECTIVELY “HANMY”)

The Group continues its legal proceedings against Hanmy to recover the amounts owed by Hanmy to the Group of approximately HK\$96.3 million. Whilst the Group has not yet obtained a court judgement due to Hanmy's defence, the Group will continue to vigorously pursue legal proceedings on legal advice. The Group has fully provided for these debts as the directors consider it is uncertain whether the debts will be recovered following the conclusion of the legal proceedings.

LITIGATION AGAINST MR. LAM YIN SANG AND MS. CHAN HOI WO

On 15 July 1999, with the approval of the Board of Directors, the Group instigated legal proceedings against Mr. Lam Yin Sang and Ms. Chan Hoi Wo, for losses of HK\$479 million sustained as a result of various alleged breaches of fiduciary and other duties while acting formerly as directors of the Group.

Subsequent to this, Mr. Lam Yin Sang was declared bankrupt by the Court. In light of this, the directors continue to review the position with legal advisors so appropriate actions can be taken. Whilst Ms. Chan Hoi Wo has contested the Group's claim, the Group will continue to vigorously pursue legal proceedings on legal advice.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 32 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the Annual Report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

AUDIT COMMITTEE

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

AUDITORS

During the year, KPMG retired at the last annual general meeting and Ernst & Young were appointed as auditors of the Company. There have been no other changes of auditors in the past three years.

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

ON BEHALF OF THE BOARD

Tam Wing Kin

Executive Director

Hong Kong, 28 April 2003