

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st December, 2003.

ADOPTION OF CHINESE CORPORATE NAME

Pursuant to a resolution passed at the annual general meeting of the Company held on 28th May, 2003 (the "2003 Annual General Meeting"), the Company adopted 雅視光學集團有限公司 as its Chinese corporate name.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, manufacture and sales of optical products.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended 31st December, 2003 are set out in the consolidated income statement on page 21.

An interim dividend of 8 cents per share and a first special dividend of 7 cents per share amounting to HK\$30,150,000 and HK\$26,381,000 respectively were paid to the shareholders of the Company during the year. The directors now recommend the payment of a final dividend of 8 cents per share and a second special dividend of 7 cents per share amounting to HK\$30,150,000 and HK\$26,381,000 respectively to the shareholders of the Company whose names appear on the register of members on 27th May, 2004.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the financial statements.

SHARE OPTIONS

At the 2003 Annual General Meeting, the Company's share option scheme adopted on 24th October, 1996 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted in order to comply with the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to share option scheme. Particulars of the share option schemes are set out in note 23 to the financial statements.

SHARE OPTIONS (Continued)

No share options were granted by the Company during the year. A summary of the movements in share options which were granted under the Old Share Option Scheme to certain eligible employees of the Group on 7th July, 2000 is as follows:

	Number of share options			Outstanding at 31st December, 2003	Number of underlying shares at 31st December, 2003
	Outstanding at 1st January, 2003	Exercised during the year	Lapsed during the year		
Category: Directors					
Ng Hoi Ying, Michael	2,040,000	(510,000)	–	1,530,000	1,530,000
Ng Kim Ying	600,000	(150,000)	–	450,000	450,000
Lee Wai Chung	1,400,000	(350,000)	–	1,050,000	1,050,000
	4,040,000	(1,010,000)	–	3,030,000	3,030,000
Category: Employees					
	6,950,000	(1,450,000)	(1,150,000)	4,350,000	4,350,000
Total all categories	10,990,000	(2,460,000)	(1,150,000)	7,380,000	7,380,000

The above share options are exercisable between 7th July, 2000 and 23rd October, 2006 at an exercise price of HK\$0.88 per share. The closing price of the Company's shares immediately before the date on which the share options were exercised was HK\$2.25.

As at the date of the directors' report, the number of shares available for issue under the Old Share Option Scheme in respect of 7,380,000 shares options outstanding is 7,380,000 shares, representing 2% of the issued share capital of the Company. No further share options can be granted upon termination of the Old Share Option Scheme.

Under the New Share Option Scheme, the maximum number of shares available for issue is 37,441,000 shares. No share options have been granted under the New Share Option Scheme since its adoption.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 24 and in note 24 to the financial statements respectively.

The Company's reserves available for distribution to shareholders as at 31st December, 2003 amounted to HK\$207,949,000.

DIRECTORS' REPORT

INVESTMENT PROPERTY

The investment property of the Group was revalued as at 31st December, 2003 as set out in note 12 to the financial statements. The resulting deficit arising on revaluation, which amounted to HK\$400,000, has been charged directly to the consolidated income statement.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately HK\$39,142,000.

Details of this and other movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ng Hoi Ying, Michael – Chairman

Hui Pui Woon

Ng Kim Ying

Lee Wai Chung

(appointed on 28th May, 2003)

Independent non-executive directors:

Kwong Kam Kwan Alex

Francis George Martin

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Francis George Martin will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

The director being proposed for re-election at the forthcoming annual general meeting does not have any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31st December, 2003, the interests and short positions of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Shares in the Company (Long Position)

Name of director	Number of shares held			Total	Percentage of issued share capital of the Company
	Personal interests	Family interests	Other interests		
Ng Hoi Ying, Michael	1,326,000	36,682,000 <i>(Note a)</i>	151,000,000 <i>(Note b)</i>	189,008,000	50.15%
Hui Pui Woon	36,682,000	152,326,000 <i>(Note c)</i>	–	189,008,000	50.15%
Ng Kim Ying	300,000	–	18,500,000 <i>(Note d)</i>	18,800,000	4.99%
Lee Wai Chung	1,200,000	–	–	1,200,000	0.32%

Notes:

- (a) These shares are owned by Ms. Hui Pui Woon, the wife of Mr. Ng Hoi Ying, Michael.
- (b) These shares are held by Ratagan International Company Limited ("Ratagan"). The entire issued share capital of Ratagan is held by Newcourt Trustees Limited as trustee for The Arts 1996 Trust, a discretionary trust, the beneficiaries of which include Mr. Ng Hoi Ying, Michael and his family members.
- (c) 1,326,000 shares and 151,000,000 shares are respectively held by Mr. Ng Hoi Ying, Michael, the husband of Ms. Hui Pui Woon, and Ratagan.
- (d) These shares are held by Universal Honour Developments Limited ("Universal Honour"). The entire issued share capital of Universal Honour is held by Newcourt Trustees Limited as trustee for The Optical 2000 Trust, a discretionary trust, the beneficiaries of which include Mr. Ng Kim Ying and his family members.

Underlying shares in the Company (Share Options)

Details of the share options held by the Directors of the Company are shown under the heading "Share Options" above.

Save as disclosed above and other than certain nominee shares in subsidiaries held by Ratagan in trust for the Group, as at 31st December, 2003, none of the directors and their associates had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Old Share Option Scheme and the New Share Option Scheme disclosed under the heading "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, other than as disclosed above, none of the directors, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

CONNECTED TRANSACTION

Subsequent to the balance sheet date, the Group entered into a sale and purchase agreement to dispose of a leasehold property to Mr. Ng Kim Ying, an executive director of the Company, for a consideration of HK\$2,500,000. Based on the valuation carried out by Vigers Appraisal & Consulting Limited, an independent firm of professional valuers, the consideration of HK\$2,500,000 represented a premium of approximately 4% to the open market value of the property as at 26th January, 2004. The transaction was completed on 27th February, 2004.

The directors, including the independent non-executive directors of the Company, were of the opinion that the transaction was conducted on normal commercial terms, which was arrived at after arm's length negotiations between the parties and was fair and reasonable insofar as the shareholders of the Company were concerned.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, as at 31st December, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Shares in the Company (Long Position)

Name of shareholder	Number of shares held	Percentage of issued share capital of the Company
Templeton Asset Management Ltd.	29,270,000	7.77% (Note)
Templeton International, Inc.	29,270,000	7.77% (Note)
Templeton Worldwide, Inc.	29,270,000	7.77% (Note)
Franklin Resources, Inc.	29,270,000	7.77% (Note)
David Michael Webb	19,648,000	5.21%

Note: Templeton Asset Management Ltd. is wholly owned by Templeton International, Inc. which is wholly owned by Templeton Worldwide, Inc.. Templeton Worldwide, Inc. is wholly owned by Franklin Resources, Inc.. Hence, Templeton International, Inc., Templeton Worldwide, Inc. and Franklin Resources, Inc. are deemed to be interested in the same parcel of 29,270,000 shares held by Templeton Asset Management Ltd. under Part XV of the SFO.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS (Continued)

Save as disclosed above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no other person as having a notifiable interests or short positions in the issued share capital of the Company at 31st December, 2003.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2003, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 44% of the Group's total turnover and the amount of turnover attributable to the Group's largest customer was approximately 12% of the Group's total turnover. The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 34% of the Group's total purchases and the amount of purchases attributable to the Group's largest supplier was approximately 10% of the Group's total purchases.

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

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the Old Share Option Scheme, the New Share Option Scheme and the exercise of share options during the year disclosed under the heading "Share Options" above and in note 23 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31st December, 2003 and there has been no exercise of any other convertible securities, options, warrants or similar rights during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

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

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

An Audit Committee (the "Committee") has been established by the Company since 1998 to act in an advisory capacity and make recommendations to the board. The Committee currently comprises Messrs. Kwong Kam Kwan Alex and Francis George Martin, both of whom are independent non-executive directors of the Company. During the year, three Committee meetings were held and the Committee members met with representatives from the management and/or external auditors of the Company to review the interim and annual reports of the Group as well as various auditing, financial reporting and internal control matters. All the Committee members attended these three meetings.

A Remuneration Committee was established in 2003 and currently comprises Messrs. Francis George Martin and Kwong Kam Kwan Alex, both of whom are independent non-executive directors of the Company. The duties of the Remuneration Committee include the determination of remuneration of executive directors and review of remuneration policy of the Group. One committee meeting was held during the year and all committee members attended this meeting.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$26,300.

AUDITORS

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

On behalf of the Board
Ng Hoi Ying, Michael
Chairman

Hong Kong, 16th April, 2004