

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

Principal Activities

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

Results and Dividends

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at 31 December 2003 are set out in the financial statements on pages 40 to 92.

An interim dividend of HK7.0 cents per ordinary share was paid on 8 December 2003. The directors recommend the payment of a final dividend of HK4.8 cents per ordinary share in respect of the year, to shareholders on the register of members on 4 June 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

Summary Financial Information

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

Fixed Assets

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

Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 32 and 33 to the financial statements.

Pre-emptive Rights

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

Purchase, Redemption or Sale of Listed Securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2003, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$142,338,000, which included the retained profits and contributed surplus, of which HK\$23,962,000 has been proposed as a final dividend for the year.

Charitable Contributions

During the year, the Group made charitable contributions totalling HK\$490,000.

Major Customers and Suppliers

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

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

Directors

The directors of the Company during the year were:

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

Wong Piu Lung, Peter (resigned on 17 February 2003)

Non-executive directors:

Ng Tai Chiu, David*

Lee Sin Mei, Olivia

Chan Wing Wah, Ivan*

Lee Kiu Wing, Kenneth (resigned on 18 March 2003)

Yu Kit Wai, Laetitia (resigned on 18 March 2003)

(alternative director to Lee Kiu Wing, Kenneth)

* *Independent non-executive directors*

In accordance with the bye-laws of the Company, Messrs. Tong Ka Wai, Dicky and Lee Sin Mei, Olivia, will retire by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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Directors' and Senior Management's Profiles

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 28 to 31 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, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

Directors' Interests and Short Position in Shares and Underlying Shares

At 31 December 2003, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept 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 (the "Model Code"), were as follows:

Long Positions in Ordinary Shares of the Company

Name of director	Notes	Number of ordinary shares held				Total	Percentage of the Company's issued share capital
		Personal interests	Family interests	Corporate interests	Other interests		
Ma Bo Kee	(a)	500,000	—	—	160,931,344	161,431,344	32.34%
Ma Bo Fung	(a)	500,000	—	—	160,931,344	161,431,344	32.34%
Ma Bo Lung	(a)	500,000	—	—	160,931,344	161,431,344	32.34%
Ma Lit Kin, Cary	(b)	500,000	—	—	162,221,065	162,721,065	32.60%
Ma Hon Kin, Dennis	(c)	303,483	—	—	162,145,199	162,448,682	32.54%
Tong Ka Wai, Dicky		150,000	—	—	—	150,000	0.00%
Lee Sin Mei, Olivia		42,670	—	—	—	42,670	0.00%
Chan Wing Wah, Ivan		94	—	—	—	94	0.00%

Save as disclosed above, none of the directors, of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Interests and Short Position in Shares and Underlying Shares

(continued)

Notes:

- (a) These shares are owned by KFL Holdings Limited, the entire capital of which is held by BNP Jersey Trust Corporation Limited as trustee for the Ma Family Trust, a discretionary trust whose objects include Messrs. Ma Bo Kee, Ma Bo Fung, Ma Bo Lung, Ma Lit Kin, Cary, Ma Hon Kin, Dennis and their family members.
- (b) 160,931,344 of these shares are held as note (a) above. In addition, 1,289,721 of these shares are held by United Will Holdings Limited for and on behalf of Mr. Ma Lit Kin, Cary.
- (c) 160,931,344 of these shares are held as note (a) above. In addition, 1,213,855 of these shares are held by United Will Holdings Limited for and on behalf of Mr. Ma Hon Kin, Dennis.

Directors' Rights to Acquire Shares

Save as disclosed under the heading "Directors' interests and short position in shares and underlying shares" above and in the share option scheme disclosures in note 33 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Substantial Shareholders and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2003, the following persons, other than the directors of the Company, whose interests are set out in the section of "Directors' interests and short position in shares and underlying shares" above, had registered an interest of 5% or more of the share capital and share options of the Company that was required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Long Positions:

Name of shareholder	Notes	Number of shares held	Percentage of the Company's issued share capital
KFL Holdings Limited ("KFL")	(1)	160,931,344	32.24%
BNP Paribas Jersey Trust Corporation Ltd ("BNP Trust")	(2)	160,931,344	32.24%
JP Morgan Chase & Co ("JP Morgan")	(3)	45,852,996	9.19%
The Capital Group Companies Inc ("Capital")	(4)	32,721,300	6.55%
Arisaig Greater China Fund ("Arisaig")	(5)	32,046,000	6.42%
Arisaig Partners (Mauritius) Ltd ("Arisaig Mauritius")	(6)	32,046,000	6.42%
Cooper Lindsay William Ernest ("Cooper")	(7)	32,046,000	6.42%
Templeton Investment Counsel LLC ("Templeton")	(8)	31,017,800	6.21%

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Substantial Shareholders and Other Persons' Interests and Short Positions in Shares and Underlying Shares *(continued)*

Notes:

1. These interests are held by KFL in the capacity of nominee. The entire issued share capital of KFL is held by BNP Trust as trustee for the Ma Family Trust, a discretionary trust whose objects include certain directors of the Company. The interests of such certain directors are disclosed in "Directors' Interests".
2. In accordance with Note 1 above, these interests are held by BNP Trust in the capacity of trustee. These interests are duplicated by the interests described in Note 1 above.
3. These interests are held by JP Morgan in the capacity of beneficial owner.
4. These interests are held by Capital 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 described in Note 5 above.
7. These interests represents 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 Templeton in the capacity of investment manager.

Save as disclosed above the Company had not been notified of any other person (other than directors of the Company) who had an interest or a short position in the share and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 31 December 2003.

Connected Transactions Disclosed Under Rule 14.25(2)(a) of the Listing Rules

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

Date of agreement	Guaranteed amount HK\$'000	Non-wholly-owned subsidiaries
13 May 2000	8,000	Creative Eyewear Limited (75%)
9 October 2002	30,000	Active Sino Group Limited (82.5%) Bold Ware Optical (Metal) Manufactory Limited (80%) Metzler International (Asia) Limited (97.45%)
26 November 2002	35,000	Active Sino Group Limited (82.5%) Bold Ware Optical (Metal) Manufactory Limited (80%)
11 February 2003	19,000	Bold Ware Optical (Metal) Manufactory Limited (80%)
30 September 2003	23,962	Shanghai Moulin International Holdings Limited (76.8%)

Practice Note 19 of the Listing Rules

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

Pursuant to a loan agreement dated 25 October 2002 relating to a 42-month syndicated loan of HK\$440,000,000 granted to the Group, the Company's controlling shareholder (including Mr. Ma Bo Kee, his family members, close relatives, related trusts and companies controlled by him, his close relatives or related trusts) is required to maintain at least a 35% interest, in aggregate, in the issued share capital of the Company (the "Obligation"). A breach of the Obligation will cause a default in respect of the loan, which is significant to the operations of the Group. Pursuant to a placing and subscription agreement entered into between KFL Holdings Limited ("KFL"), the Company, Cazenove Asia Limited as placing agent, Mr. Ma Bo Kee, Mr. Ma Bo Fung, Mr. Ma Bo Lung, Mr. Ma Lit Kin, Cary and Mr. Ma Hon Kin, Dennis in relation to (i) a placing of 54,000,000 existing shares of HK\$0.50 each in the Company ("Shares") by KFL to third party placees, and (ii) a top up subscription of 54,000,000 new Shares by KFL (the "Top Up Placing"), KFL, together with parties acting in concert with it, held approximately 33.24% of the issued share capital of the Company as a result of and immediately following implementation of the transactions under the Top Up Placing, which constituted a breach of the Obligation.

The Company sought the waiver of the lenders concerned in connection with the breach of the Obligation (the "Waiver Request") and consent to the Company's Waiver Request was duly obtained from the lenders concerned.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

Code of Best Practice

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

Audit Committee

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

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Auditors

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

ON BEHALF OF THE BOARD

Ma Bo Kee

Chairman

Hong Kong

29 April 2004