

Directors' Report

The directors present their annual report and the audited financial statements for the year ended March 31, 2002.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results and appropriations of the Group for the year ended March 31, 2002 are set out in the consolidated income statement on page 21.

An interim dividend of HK3.6 cents per share amounting to HK\$7,380,000 for the six months ended September 30, 2001 was paid to the shareholders of the Company during the year. The directors now recommend a final dividend of HK7.2 cents per share of the Company for the year ended March 31, 2002 to the shareholders of the Company whose names appear on the register of members on September 20, 2002.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 46% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 11% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 30% of the total purchases.

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

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's land and buildings were revalued at March 31, 2002. The revaluation resulted in a deficit below their carrying amount of approximately HK\$26,000, which has been charged to the consolidated income statement.

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$43,223,000 for the expansion of its production capacity. Details of this and other movements in property, plant and equipment of the Group during the year are set out in note 10 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements in the share capital and warrants of the Company during the year are set out in notes 17 and 19 to the financial statements respectively.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 20 to the financial statements.

SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on May 4, 1999 for the primary purpose of providing incentives to eligible employees and the Scheme will terminate on the business day preceding the 10th anniversary of the date of adoption. Under the Scheme, the Board of Directors of the Company may at their discretion grant options to eligible full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company.

At March 31, 2002, the number of shares in respect of which options had been granted under the Scheme was 11,800,000, representing 5.7% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the share option scheme is not permitted to exceed 10% of the issued share capital of the Company at any point in time but excluding shares issued pursuant to the Scheme. No employee shall be granted a share option which, if exercised in full, would result in such employee becoming entitled to subscribe for more than 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

Options granted must be taken up before the date specified in the offer and the expiry of the Scheme, whichever is the earlier, upon payment of HK\$10 per grant of options. Options may generally be exercised at any time from the date of grant to the earlier of the 5th anniversary of the date of grant and the 10th anniversary of the date of adoption of the Scheme. No option may be exercised by an individual until he shall have completed half year's full-time service with the Company or its subsidiaries. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the shares of the Company and 80% of the average closing price of the shares for the five trading days immediately preceding the date of grant.

The fair value of the option granted in the current year measured as at the date of grant on June 11, 2001 was HK\$0.44. The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

Expected life of options	5 years
Expected volatility based on historical volatility of share prices	49%
Hong Kong Exchange Fund Notes rate	5.3%
Expected annual dividends	4.9%

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of the value of options granted during the year.

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The following table discloses movements in the Company's share options during the year:

Directors	Option grant date	Number of share options		
		Outstanding at April 1, 2001	Granted during year	Outstanding at March 31, 2002
Ku Ngai Yung, Otis	March 3, 2000	3,600,000	–	3,600,000
Ku Ka Yung	March 3, 2000	3,600,000	–	3,600,000
Ku Ling Wah, Phyllis	March 3, 2000	3,600,000	–	3,600,000
Ma Sau Ching	June 11, 2001	–	1,000,000	1,000,000
		<u>10,800,000</u>	<u>1,000,000</u>	<u>11,800,000</u>

Details of specific categories of options are as follows:

Date of grant	Exercise period	Exercise Price HK\$
March 3, 2000	March 3, 2000 – March 2, 2005	0.75
June 11, 2001	June 11, 2001 – June 10, 2006	0.92

The closing price of the Company's shares immediately before the date of grant on June 11, 2001 was HK\$1.19.

DIRECTORS

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

Executive directors:

Ku Ngai Yung, Otis (*Chairman*)
 Ku Ka Yung (*Deputy Chairman*)
 Ku Ling Wah, Phyllis
 Tsang Wing Leung, Jimson
 Cheung Chiu Hung
 Chan Chi Sun (appointed on December 14, 2001)
 Ma Sau Ching (appointed on December 14, 2001)

Non-executive directors:

Ku Yiu Tung
 Li Wai Kit, Leslie (resigned on December 14, 2001)

Independent non-executive directors:

Lo Wa Kei, Roy
 Lee Kwong Yiu (appointed on May 1, 2001)
 Chan Wing Kwan (resigned on May 1, 2001)

In accordance with Article 87 of the Company's bye-laws, Messrs. Ku Ling Wah, Phyllis, Lo Wa Kei, Roy and Tsang Wing Leung, Jimson retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

Also, in accordance with Article 86(2) of the Company's bye-laws, Mr. Chan Chi Sun and Ms. Ma Sau Ching will offer themselves for re-election as directors at the coming annual general meeting of the Company.

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company.

Each of Messrs. Ku Ngai Yung, Otis, Ku Ka Yung, Ku Ling Wah, Phyllis, Tsang Wing Leung, Jimson, Cheung Chiu Hung has entered into a service agreement with the Company for an initial term of two years commencing on May 1, 1999 and continuing thereafter until terminated by not less than three months' written notice served by either party.

Each of Messrs. Chan Chi Sun, Ma Sau Ching has entered into a service agreement with the Company for an initial term of two years commencing on December 14, 2001 and continuing thereafter until terminated by not less than three months' written notice served by either party.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a 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.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At March 31, 2002, the interests of directors and their associates in the shares and warrants of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of shares	
	Personal interest	Other interest
Ku Ngai Yung, Otis	–	122,388,000 (Notes 1&2)
Ku Ka Yung	–	122,388,000 (Notes 1&2)
Ku Ling Wah, Phyllis	–	122,388,000 (Notes 1&2)
Cheung Chiu Hung	1,350,000	–
Tsang Wing Leung, Jimson	1,636,000	–
Chan Chi Sun	1,506,000 (Note 3)	–

Notes:

- (1) 122,388,000 ordinary shares were held by United Vision International Limited, which is ultimately and wholly-owned by The Vision Trust, a discretionary trust settled by Mr. Ku Ngai Yung, Otis and Mr. Ku Ka Yung, the discretionary objects of which include Mr. Ku Ngai Yung, Otis and his spouse, Mr. Ku Ka Yung and his spouse, Ms. Ku Ling Wah, Phyllis and their respective children who are under 18 years of age.
- (2) In addition, United Vision International Limited was the holder of 25,400,000 warrants issued to it on October 4, 2000 as a result of a bonus issue of warrants approved by the Company on September 4, 2000.
- (3) Chan Chi Sun was the holder of 20,000 warrant issued to it on October 4, 2000 as a result of a bonus issue of warrants approved by the Company on September 4, 2000.

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Other than the holdings disclosed above and the Share Option Scheme described under the heading "Share Options" above, (a) at no time during the year was the Company, its holding 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; and (b) none of the directors, their spouses or children under the age of 18, had any right to subscribe for shares of the Company, or had exercised any such right during the year.

Save as disclosed above, none of the directors nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at March 31, 2002.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, its holding 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.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed under the heading "Directors' Interests In Shares and Warrants" above, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no other persons as having an interest representing 10% or more of the Company's issued share capital as at March 31, 2002.

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, 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.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended March 31, 2002 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.

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice throughout the accounting period covered by this report. During the year, the audit committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the interim and annual financial statements of the Group.

JOINT AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu and K.L. Lee & Partners C.P.A. Limited as joint auditors of the Company.

On behalf of the Board

CHAIRMAN

Ku Ngai Yung, Otis

Hong Kong, July 5, 2002