

Notes on the Accounts

for the year ended 31 March 2001

1 Significant accounting policies

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of certain land and buildings, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Basis of consolidation

The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 31 March each year. The results of subsidiaries acquired during the year are included in the consolidated profit and loss account from the date of their acquisition. All material intercompany transactions and balances are eliminated on consolidation.

Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is written off to reserves in the year of acquisition.

(d) Interest in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Interest in subsidiaries in the Company's balance sheet are stated at cost less provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

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for the year ended 31 March 2001

1 Significant accounting policies *(continued)*

(e) Interest in associated companies

An associated company is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associated company is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associated company's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associated company for the year.

Goodwill arising on the acquisition of an associated company, being the excess of the cost over the fair values of the Group's share of the separable net assets acquired, is written off to reserves in the year of acquisition.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company.

(f) Fixed assets and depreciation

(i) Leasehold land and buildings

Leasehold land and buildings are stated in the balance sheet at cost or valuation, less accumulated depreciation.

In preparing these accounts the Group has relied on the transitional provision set out in paragraph 72 of Statement of Standard Accounting Practice 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants with the effect that certain leasehold land and buildings owned by the Group at 31 March 1993 are stated at professional valuation as at that date. The surplus arose on revaluation was credited to the property revaluation reserve. Such leasehold land and buildings have not been revalued to their fair value at the balance sheet date.

Depreciation is calculated to write off the cost or valuation of leasehold land and buildings on a straight-line basis over the shorter of the remaining term of the leases, or 50 years.

1 Significant accounting policies *(continued)*

(f) Fixed assets and depreciation *(continued)*

(ii) Other fixed assets

Other fixed assets are stated in the balance sheet at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of other fixed assets over their anticipated useful lives on a straight-line basis as follows:

Plant and machinery, tools and moulds	15% - 25% per annum
Furniture, fixtures and equipment	20% - 25% per annum
Motor vehicles	25% per annum
Leasehold improvements	5% - 20% per annum

- (iii) The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

- (iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(g) Trademarks

Registration fees and associated legal costs for intellectual property rights are amortised on a straight-line basis over a period of up to four years.

Notes on the Accounts

for the year ended 31 March 2001

1 Significant accounting policies *(continued)*

(h) Investments in securities

The Group's policies for investments in securities other than investments in subsidiaries and associated companies are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.
- (iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(i) Finance leases and hire purchase contracts

Where assets are acquired under finance leases or by hire purchase contracts, the amounts representing the outright purchase price of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases and hire purchase contracts. Depreciation is provided at rates designed to write off the cost of the assets in equal annual amounts over the shorter of the period of the relevant lease or hire purchase contract and the anticipated useful life of the asset, as set out in note 1 (f) above. Finance charges implicit in the lease and hire purchase payments are charged to the profit and loss account over the period of the leases and contracts so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1 Significant accounting policies *(continued)*

(j) Inventories *(continued)*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of overseas subsidiaries are translated into Hong Kong dollars at average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered to customers. This is taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership.

(ii) Dividends

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Dividend income from subsidiaries and associated companies is recognised providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before the accounts of the Company are approved by the directors.

(iii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

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for the year ended 31 March 2001

1 Significant accounting policies *(continued)*

(m) Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the periods of the respective leases.

(n) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

(o) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(p) Retirement costs

Retirement costs of the defined contribution pension scheme and mandatory provident fund (together "the schemes") are charged to the profit and loss account at rates specified in the rules of the schemes.

(q) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

1 Significant accounting policies *(continued)*

(r) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

2 Turnover

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture, distribution and retailing of optical products.

Turnover represents the invoiced value of goods supplied to customers by the Group less returns and discounts.

3 Segmental information

An analysis of turnover and profit from operations by principal activities has not been presented as it is considered that the design, manufacture, distribution and retailing of optical products are essentially one activity for this purpose.

The analysis of the turnover by geographical location of the Group's operations for the financial year is as follows:

	Group turnover	
	2001	2000
	HK\$'000	HK\$'000
North America	406,295	432,390
China	246,348	234,173
Asia (including Hong Kong)	121,919	117,087
Europe	103,156	135,525
Others	10,524	2,766
	<u>888,242</u>	<u>921,941</u>

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4 Income

	2001 HK\$'000	2000 HK\$'000
Other revenue		
Dividend income	88	4,823
Rebate from suppliers	1,545	3,042
Interest income	50,163	21,007
Others	6,631	8,118
	<u>58,427</u>	<u>36,990</u>
Other net income		
Exchange gain/(loss)	5,565	(436)
Gain/(loss) on disposal of fixed assets	1,729	(853)
Realised and unrealised (loss)/profit of listed investments	(2,469)	4,643
	<u>4,825</u>	<u>3,354</u>

5 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
(a) Finance cost:		
Interest on bank advances and other borrowings	63,420	42,255
Finance charges on obligations under finance leases and hire purchase contracts	1,767	1,164
Bank charges	6,187	5,021
Others	8	2,047
	<u>71,382</u>	<u>50,487</u>
Total	71,382	50,487
Less: Borrowing costs capitalised* and included in fixed assets	<u>(3,637)</u>	<u>(1,323)</u>
	<u><u>67,745</u></u>	<u><u>49,164</u></u>
(b) Other items:		
Cost of inventories #	446,223	396,591
Auditors' remuneration	3,263	2,941
Depreciation #		
— owned assets	45,340	35,471
— assets held under finance leases and hire purchase contracts	4,135	5,730
Amortisation of intangible assets	259	268
Operating lease rentals — land and buildings #	18,640	19,006
Staff costs (including retirement costs of HK\$2,961,000 (2000: HK\$4,647,000))#	98,657	95,095
Provision for diminution in value of investment securities	<u>4,500</u>	<u>—</u>

* Borrowing costs have been capitalised at weighted average rate of 8.069% (2000: 8.056%) per annum.

Cost of inventories includes HK\$60,352,000 (2000: HK\$50,228,000) relating to staff costs, depreciation expenses and operating lease rentals, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

Notes on the Accounts

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6 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

	2001 HK\$'000	2000 HK\$'000
Executive directors		
Fees	60	60
Other emoluments		
Salaries and other benefits	9,634	11,220
Pension scheme contributions	466	373
	<u>10,100</u>	<u>11,593</u>
	<u>10,160</u>	<u>11,653</u>
Non-executive directors		
Fees	<u>130</u>	<u>80</u>

The remuneration of the directors is within the following bands:

	2001 Number of directors	2000 Number of directors
HK\$Nil to HK\$1,000,000	7	7
HK\$1,000,001 to HK\$1,500,000	4	2
HK\$1,500,001 to HK\$2,000,000	1	3
HK\$2,500,001 to HK\$3,000,000	<u>1</u>	<u>1</u>

In addition to the above remuneration, certain directors were granted share options under the Company's Share Option Scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' right to acquire shares" in the directors' report. In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

The five highest paid individuals in the Group in the years ended 31 March 2001 and 2000 are all directors of the Company and details of their remuneration are included above.

7 Taxation

(a) Taxation in the consolidated profit and loss account represents:

	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong profits tax for the year	23,888	29,834
(Over)/under-provision in respect of prior years	<u>(8,438)</u>	<u>5,440</u>
	15,450	35,274
Overseas taxation	<u>117</u>	<u>30</u>
	<u><u>15,567</u></u>	<u><u>35,304</u></u>

The provision for Hong Kong profits tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

(b) Tax payable/(recoverable) in the balance sheets represents:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong profits tax for the year	23,888	29,834	430	315
Provisional profits tax paid	<u>(810)</u>	<u>(8,309)</u>	<u>—</u>	<u>(553)</u>
	23,078	21,525	430	(238)
Balance of profits tax relating to prior years	<u>1,175</u>	<u>6,427</u>	<u>(387)</u>	<u>34</u>
	24,253	27,952	43	(204)
Overseas tax recoverable	<u>(307)</u>	<u>(142)</u>	<u>—</u>	<u>—</u>
	<u><u>23,946</u></u>	<u><u>27,810</u></u>	<u><u>43</u></u>	<u><u>(204)</u></u>
Representing:				
Tax recoverable	(1,122)	(755)	—	(204)
Tax payable	<u>25,068</u>	<u>28,565</u>	<u>43</u>	<u>—</u>
	<u><u>23,946</u></u>	<u><u>27,810</u></u>	<u><u>43</u></u>	<u><u>(204)</u></u>

Notes on the Accounts

for the year ended 31 March 2001

7 Taxation (continued)

- (c) In relation to the Group's PRC distribution operations, the Group has made arrangements with certain PRC enterprises under which all PRC taxes incurred in connection with these PRC sales are to be borne by these PRC enterprises. The Group has also received indemnities from these PRC enterprises for any PRC taxes that may be levied on the Group in connection with the activities covered by these arrangements. Accordingly, the directors consider that there is no PRC tax payable in respect of these distribution operations in the PRC.
- (d) No provision for deferred taxation has been made in the accounts as the effect of all timing differences is not material.

8 Profit attributable to shareholders

The profit attributable to shareholders includes a profit of HK\$72,264,000 (2000: HK\$97,762,000) which has been dealt with in the accounts of the Company.

9 Dividends

	2001 HK\$'000	2000 HK\$'000
Interim dividend of HK2.4 cents (2000: HK2.2 cents) per Share	48,469	43,782
Proposed final dividend of HK1.0 cent (2000: HK2.6 cents) per share	<u>20,513</u>	<u>52,361</u>
	<u><u>68,982</u></u>	<u><u>96,143</u></u>

During the year, shareholders received in scrip HK\$26,993,000 (2000: HK\$29,209,000) in respect of the 1999/2000 final dividend and the 2000/2001 interim dividend.

10 Earnings per share

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$200,662,000 (2000: HK\$284,498,000) and the weighted average number of ordinary shares of 2,013,964,184 (2000: 1,988,586,901) in issue during the year.

(b) Diluted earnings per share

The calculation of the diluted earnings per share is based on the adjusted profit attributable to shareholders of HK\$207,915,000 (2000: HK\$287,352,000) and on the weighted average number of ordinary shares of 2,147,584,874 (2000: 2,066,697,435) after adjusting for the effects of all dilutive potential ordinary shares.

(c) Reconciliations

	2001 HK\$'000	2000 HK\$'000
Profit attributable to shareholders	200,662	284,498
Increase in earnings arising from a saving in interest cost, net of tax (assuming the convertible notes had been converted into shares in the Company at the date of issue)	<u>7,253</u>	<u>2,854</u>
Adjusted profit attributable to shareholders	<u><u>207,915</u></u>	<u><u>287,352</u></u>
	2001 Number of shares	2000 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	2,013,964,184	1,988,586,901
Deemed issue of ordinary shares — convertible notes	<u>133,620,690</u>	<u>78,110,534</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>2,147,584,874</u></u>	<u><u>2,066,697,435</u></u>

Notes on the Accounts

for the year ended 31 March 2001

11 Fixed assets

The Group

	Leasehold land and buildings HK\$'000	Construc- tion in progress HK\$'000	Plant and machinery		Tools and moulds HK\$'000	Furniture, fixtures and equipment Hire		Motor vehicles		Leasehold improve- ments HK\$'000	Total HK\$'000
			Owned	Leased		Owned	purchase	Owned	Leased or hire purchase		
			HK\$'000	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Cost or valuation:											
At 1 April 2000	407,204	21,907	132,955	30,861	16,230	47,848	4,123	11,265	4,910	77,424	754,727
Exchange adjustments	—	—	(624)	—	—	(22)	—	(45)	—	(4)	(695)
Additions	48,282	43,818	40,734	—	547	11,478	—	693	1,691	20,916	168,159
Reclassification	35,408	(35,408)	—	—	—	2,470	(2,470)	2,756	(2,756)	—	—
Assets sold and leased back	—	—	(3,461)	3,461	—	—	—	—	—	—	—
Disposals	(36,841)	—	(1,399)	—	(10)	(1,305)	—	(974)	—	(472)	(41,001)
At 31 March 2001	<u>454,053</u>	<u>30,317</u>	<u>168,205</u>	<u>34,322</u>	<u>16,767</u>	<u>60,469</u>	<u>1,653</u>	<u>13,695</u>	<u>3,845</u>	<u>97,864</u>	<u>881,190</u>
Representing:											
Valuation — 1992/1993	69,300	—	—	—	—	—	—	—	—	—	69,300
Cost	<u>384,753</u>	<u>30,317</u>	<u>168,205</u>	<u>34,322</u>	<u>16,767</u>	<u>60,469</u>	<u>1,653</u>	<u>13,695</u>	<u>3,845</u>	<u>97,864</u>	<u>811,890</u>
	<u>454,053</u>	<u>30,317</u>	<u>168,205</u>	<u>34,322</u>	<u>16,767</u>	<u>60,469</u>	<u>1,653</u>	<u>13,695</u>	<u>3,845</u>	<u>97,864</u>	<u>881,190</u>
Accumulated depreciation:											
At 1 April 2000	32,935	—	86,917	9,102	11,869	26,976	629	9,012	3,114	11,596	192,150
Exchange adjustments	—	—	(362)	—	—	(11)	—	(34)	—	(1)	(408)
Charge for the year	8,141	—	15,276	3,325	1,484	8,516	80	1,764	730	10,159	49,475
Reclassification	—	—	—	—	—	332	(332)	2,347	(2,347)	—	—
Assets sold and leased back	—	—	(404)	404	—	—	—	—	—	—	—
Written back on disposal	(3,543)	—	(1,061)	—	—	(943)	—	(671)	—	(113)	(6,331)
At 31 March 2001	<u>37,533</u>	<u>—</u>	<u>100,366</u>	<u>12,831</u>	<u>13,353</u>	<u>34,870</u>	<u>377</u>	<u>12,418</u>	<u>1,497</u>	<u>21,641</u>	<u>234,886</u>
Net book value:											
At 31 March 2001	<u>416,520</u>	<u>30,317</u>	<u>67,839</u>	<u>21,491</u>	<u>3,414</u>	<u>25,599</u>	<u>1,276</u>	<u>1,277</u>	<u>2,348</u>	<u>76,223</u>	<u>646,304</u>
At 31 March 2000	<u>374,269</u>	<u>21,907</u>	<u>46,038</u>	<u>21,759</u>	<u>4,361</u>	<u>20,872</u>	<u>3,494</u>	<u>2,253</u>	<u>1,796</u>	<u>65,828</u>	<u>562,577</u>

Certain leasehold land and buildings of the Group were revalued by an independent firm of surveyors, C. Y. Leung & Company Limited who have among their staff Fellows of the Hong Kong Institute of Surveyors, at their open market value on an existing use basis as at 31 March 1993. The carrying amount of those leasehold land and buildings would have been HK\$31,102,392 (2000: HK\$36,617,028) had those assets been carried at cost less accumulated depreciation. Additional depreciation charge for the year as a result of certain leasehold land and buildings stated at valuation at 31 March 1993 amounted to HK\$647,000 (2000: HK\$765,000).

11 Fixed assets *(continued)*

The analysis of the cost or valuation of properties is as follows:

	2001 HK\$'000	2000 HK\$'000
In Hong Kong under medium term leases	155,360	176,962
Outside Hong Kong		
— under long leases	114,752	79,344
— under medium term leases	86,759	84,693
— no specified term of leases	97,182	66,205
	<u>298,693</u>	<u>230,242</u>
	<u>454,053</u>	<u>407,204</u>

12 Interest in subsidiaries**(a) The Company**

	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	<u>92,714</u>	<u>92,714</u>

(b) Details of the subsidiaries which principally affect the results or assets of the Group are as follows:

Name of company	Place of incorporation	Place of operation	Issued and fully paid capital (all being ordinary shares except where otherwise stated)	Percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
Active Sino Group Limited	British Virgin Islands	Hong Kong	1,000 shares of US\$1 each	—	82.5	Investment holding
Allied Industrial Limited	Hong Kong	The People's Republic of China	10,000 shares of HK\$1 each	—	100	Distribution of optical products

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12 Interest in subsidiaries (continued)

Name of company	Place of incorporation	Place of operation	Issued and fully paid capital (all being ordinary shares except where otherwise stated)	Percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
B.M. Optical Parts Company Limited	Hong Kong	Hong Kong	50,000 shares of HK\$10 each	—	80	Trading of optical products
Bold Ware Optical (Metal) Manufactory Limited	Hong Kong	Hong Kong	100 shares of HK\$1 each	—	80	Manufacture and trading of spectacle accessories
Creative Eyewear Limited	British Virgin Islands	Hong Kong	2,000,000 shares of US\$1 each	—	75	Manufacture and trading of optical products
Infinite Eyewear Limited	Hong Kong	Hong Kong	3 shares of HK\$1 each	—	100	Distribution of optical frames
Leadkeen Industrial Limited	Hong Kong	The People's Republic of China	100,000 shares of HK\$1 each	—	100	Manufacture and trading of optical products
M.D. Creation Limited	Hong Kong	Hong Kong	10,000 shares of HK\$1 each	—	100	Provision of design and marketing services of optical products
Martin Philippines, Inc.	The Philippines	The Philippines	50,000 shares of Peso 100 each	—	51	Distribution of optical products
MonOptic GmbH Brillen	Germany	Germany	Subscribed capital of DM250,000	—	100	Distribution of optical frames
MonOptic (M) SDN. BHD.	Malaysia	Malaysia	100 shares of RM1 each	—	75	Trading of optical products
MonOptic (S'pore) Pte Ltd	Singapore	Singapore	100 shares of S\$1 each	—	75	Trading of optical products
Moulin (HK) Logistics Company Limited	Hong Kong	Hong Kong	10,000 shares of HK\$1 each	—	100	Provision of logistic services

12 Interest in subsidiaries (continued)

Name of company	Place of incorporation	Place of operation	Issued and fully paid capital (all being ordinary shares except where otherwise stated)	Percentage of equity interest held by the Company		Principal activities
				Directly	Indirectly	
Moulin Holdings (H.K.) Company Limited	Hong Kong	Hong Kong	2 shares of HK\$1 each	—	100	Investment holding
Moulin Occhiali SRL	Italy	Italy	Registered capital of Lire 20,000,000	—	100	Manufacture and trading of optical products
Moulin Optical (Far East) Limited	Hong Kong	Hong Kong	4,000,000 shares of HK\$1 each	—	75	Distribution of optical frames
Moulin Optical Manufactory Limited	Hong Kong	Hong Kong	100,000 shares of HK\$10 each	—	100	Manufacture, marketing and distribution of optical products
Mounthill Group Limited	British Virgin Islands	Hong Kong	1,000 shares of US\$1 each	—	100	Licenses holding
N.G.A. Optical Manufactory Limited	Hong Kong	Hong Kong	6,500,000 shares of HK\$1 each	—	50 (note i)	Manufacture and trading of optical products
Peace City Investment Limited	Hong Kong	Hong Kong	3 shares of HK\$1 each	—	100	Property investment
Shanghai Hillman's Spectacles Limited (note ii)	The People's Republic of China	The People's Republic of China	Registered capital of US\$700,000	—	82.5	Retail trading of optical products
Shanghai Hillman Trading Limited (note ii)	The People's Republic of China	The People's Republic of China	Registered capital of Rmb300,000	—	57.75	Retail trading of optical products
Sino Concept Industrial Limited	Hong Kong	Hong Kong	10,000 shares of HK\$1 each	—	100	Provision of electroplating services

Notes on the Accounts

for the year ended 31 March 2001

12 Interest in subsidiaries *(continued)*

Notes:

- (i) N.G.A. Optical Manufactory Limited is accounted for as a subsidiary of the Group because the Group has control of more than half of the voting power of the Company.
- (ii) Shanghai Hillman's Spectacles Limited and Shanghai Hillman Trading Limited obtained business registration certificates on 29 November 1994 and 24 April 1997 respectively and are licensed to conduct business for 15 years and 10 years respectively from the date of their business registration.

13 Intangible assets

The Group

	Trademarks	
	2001 HK\$'000	2000 HK\$'000
Cost:		
At 1 April	1,803	1,733
Additions during the year	—	75
Exchange adjustments	(1)	(5)
At 31 March	<u>1,802</u>	<u>1,803</u>
Accumulated amortisation:		
At 1 April	1,149	881
Charge for the year	<u>259</u>	<u>268</u>
At 31 March	<u>1,408</u>	<u>1,149</u>
Net book value:		
At 31 March	<u>394</u>	<u>654</u>

14 Interest in associated companies

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets other than goodwill	20,238	27,108
Loans to associated companies	47,682	7,673
	67,920	34,781

Included in loans to associated companies were:

- (i) a loan to an associated company amounting to HK\$12,765,000 (2000: HK\$Nil) which is unsecured, interest-free and convertible into equity of the associated company, at the option of the Group.
- (ii) a loan to another associated company amounting to HK\$34,917,000 (2000: HK\$7,673,000) which is unsecured, interest-free and has no fixed terms of repayment.

Details of the principal associated companies are as follows:

Name of company	Place of incorporation and operation	Percentage of equity interest held by the Company indirectly	Principal activities
Liberty Optical, Inc.	United States of America	50%	Trading of optical products
M+M Holding GmbH, Lorch	Germany	25.1%	Manufacture and trading of optical products

Notes on the Accounts

for the year ended 31 March 2001

15 Investments

(a) Non-current investments

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Investment securities		
Unlisted equity securities	77,037	77,037
Less: Provision	(4,500)	—
	<u>72,537</u>	<u>77,037</u>
Other securities		
Equity securities listed in Hong Kong	103	2,400
	<u>72,640</u>	<u>79,437</u>
Market value of listed securities	<u>103</u>	<u>2,400</u>

(b) Current investments

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Other securities		
Equity securities		
— listed in Hong Kong	385	427
— listed outside Hong Kong	1,677	1,963
	<u>2,062</u>	<u>2,390</u>
Market value of listed securities	<u>2,062</u>	<u>2,390</u>

16 Promissory notes

At 31 March 2001, the promissory notes were repayable as follows:

	The Group					
	2001			2000		
	Settlement of trade debts (note a) HK\$'000	Refund of a deposit (note b) HK\$'000	Total HK\$'000	Settlement of trade debts (note a) HK\$'000	Refund of a deposit (note b) HK\$'000	Total HK\$'000
Within 1 year (note 20)	6,630	18,518	25,148	4,680	20,370	25,050
After 1 year	42,248	17,699	59,947	24,852	36,217	61,069
	48,878	36,217	85,095	29,532	56,587	86,119

(a) Included in the promissory notes for settlement of trade debts were:

- (i) an amount of HK\$26,802,000 received during the year ended 31 March 1999. The notes are unsecured, interest-free and repayable by a first payment of HK\$3,900,000 in June 1999, followed by 35 equal monthly instalments of HK\$390,000 commencing 1 August 1999 and a final payment of HK\$19,002,000 on 1 August 2002.
- (ii) an amount of HK\$22,076,000 received during the year. The notes are unsecured, bearing interest rate of 9% per annum and repayable by four equal semi-annual instalments commencing April 2003.

(b) The promissory notes were received for refund of a deposit of HK\$51,852,000 paid for a project in the People's Republic of China ("the PRC") in the year ended 31 March 1999 and a dividend income of HK\$4,735,000 earned from the project. The project relates to the purchase of interests of a PRC entity which engages in the manufacture of plastic sheets. During the year ended 31 March 2000, the Group withdrew from the project and the deposit together with the dividend income are repayable by three annual instalments on 5 April of 2000, 2001 and 2002.

17 Advances to PRC distributors

Advances to PRC distributors, which were unsecured, bearing interest rate of 10% per annum and repayable in April 2001, were repaid in full during the year.

Notes on the Accounts

for the year ended 31 March 2001

18 Staff loans

At 31 March 2001, the staff loans were repayable as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within one year (note 20)	3,061	1,596
After one year	<u>6,578</u>	<u>—</u>
	<u>9,639</u>	<u>1,596</u>

Included in staff loans as at 31 March 2001 were:

- (i) balances totaling HK\$1,011,000 (2000: HK\$1,596,000) which were unsecured, interest-free and had no fixed terms of repayment; and
- (ii) a balance of HK\$8,628,000 (2000: HK\$Nil) which was partially secured, interest-free and with specified repayment terms.

19 Inventories

	The Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	117,700	104,682
Work in progress	38,409	48,150
Finished goods	<u>94,531</u>	<u>86,844</u>
	<u>250,640</u>	<u>239,676</u>

Included in raw materials and finished goods are inventories of HK\$3,541,000 (2000: HK\$2,028,000) and HK\$15,398,000 (2000: HK\$2,612,000) respectively, stated at their estimated net realisable values.

20 Trade and other receivables

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors and bills receivable	354,988	362,995	—	—
Other debtors and prepayments	244,787	171,600	5,098	93
Short-term loans	67,860	—	—	—
Staff loans (note 18)	3,061	1,596	—	—
Promissory notes (note 16)	25,148	25,050	—	—
Prepayment of subcontracting charges	113,754	63,714	—	—
Amount due from ultimate holding company	2,229	2,018	—	—
Amounts due from associated companies	77,484	59,224	—	—
Amounts due from subsidiaries	—	—	711,462	722,718
	<u>889,311</u>	<u>686,197</u>	<u>716,560</u>	<u>722,811</u>

- (i) Short-term loans are unsecured, bearing interest rate of 9% per annum and with specified repayment terms. All the loans have been repaid in full subsequent to the balance sheet date.
- (ii) Amount due from ultimate holding company, associated companies and subsidiaries are unsecured, interest-free and have no fixed terms of repayment.
- (iii) All trade and other receivables, apart from those mentioned in notes 18 and 20(ii) above, are expected to be recovered within one year.

Included in trade and other receivables are trade debtors and bills receivable (net of provisions for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Current	119,343	149,354
1 to 3 months overdue	120,810	98,477
More than 3 months overdue but less than 12 months overdue	104,826	106,858
More than 12 months overdue	<u>10,009</u>	<u>8,306</u>
Total trade debtors and bills receivable	<u>354,988</u>	<u>362,995</u>

The Group maintains a defined credit policy. The general credit term is between 60 days to 90 days.

Notes on the Accounts

for the year ended 31 March 2001

21 Cash and cash equivalents

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Deposits with banks	101,512	133,790	—	—
Cash at bank and in hand	<u>221,192</u>	<u>167,132</u>	<u>28</u>	<u>22</u>
	<u>322,704</u>	<u>300,922</u>	<u>28</u>	<u>22</u>

22 Bank loans and overdrafts

At 31 March 2001, the bank loans and overdrafts of the Group were repayable as follows:

	2001 HK\$'000	2000 HK\$'000
Within 1 year or on demand	<u>223,745</u>	<u>242,989</u>
After 1 year but within 2 years	133,421	251,485
After 2 years but within 5 years	317,583	7,865
After 5 years	<u>4,291</u>	<u>2,892</u>
	<u>455,295</u>	<u>262,242</u>
	<u>679,040</u>	<u>505,231</u>

At 31 March 2001, the bank loans and overdrafts of the Group were secured as follows:

	2001 HK\$'000	2000 HK\$'000
Unsecured bank overdrafts	5,907	2,412
Bank loans		
— secured	21,063	26,217
— unsecured	<u>652,070</u>	<u>476,602</u>
	<u>679,040</u>	<u>505,231</u>

At 31 March 2001, leasehold land and buildings of the Group with a net book value of HK\$75,010,000 (2000: HK\$85,357,000) were mortgaged to various banks to secure banking facilities granted to the Group.

23 Trade and other payables

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors and bills payable	73,415	81,324	—	—
Other creditors and accrued charges	47,250	34,358	2,991	3,634
Amounts due to subsidiaries	—	—	2,042	244
Amount due to a related company	289	844	—	—
	<u>120,954</u>	<u>116,526</u>	<u>5,033</u>	<u>3,878</u>

Amounts due to subsidiaries and a related company are unsecured, interest-free and have no fixed terms of repayment.

All trade and other payables, apart from those mentioned above, are expected to be settled within one year. Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Due within 1 month or on demand	56,772	63,805
Due after 1 month but within 3 months	12,478	11,917
Due after 3 months but within 6 months	4,165	5,602
	<u>73,415</u>	<u>81,324</u>

Notes on the Accounts

for the year ended 31 March 2001

24 Obligations under finance leases and hire purchase contracts

At 31 March 2001, the Group had obligations under finance leases and hire purchase contracts repayable as follows:

	2001 HK\$'000	2000 HK\$'000
Within 1 year	12,124	11,038
After 1 year but within 2 years	8,092	7,418
After 2 years but within 5 years	<u>1,728</u>	<u>3,652</u>
	21,944	22,108
Finance charges relating to future periods	<u>(1,551)</u>	<u>(2,119)</u>
	20,393	19,989
Amount due within 1 year	<u>(11,008)</u>	<u>(9,686)</u>
	<u><u>9,385</u></u>	<u><u>10,303</u></u>

25 Convertible notes

Pursuant to a Subscription Agreement of 13 August 1999, the Company issued unsecured convertible notes with a principal amount of US\$15,000,000 on 2 September 1999. The notes bear interest at the rate of 5% per annum, which is payable semi-annually in arrears on 30 April and 31 October in each year and an additional interest, the dividend yield (equals to dividend declared by the Company divided by the weighted average closing price of the Company's share calculated according to the Subscription Agreement) of the Company's share minus 5%, is payable yearly in arrears on 31 October each year. The notes are convertible into ordinary shares in the Company, at the options of the holders at any time during the three years after the issue of the notes and mandatorily convertible into shares on 2 September 2002, at the conversion price of HK\$0.87 per share (subject to adjustments). The conversion in full of the notes would result in the issue of approximately 133,620,690 shares of HK\$0.1 each in the Company. The shares to be issued on any exercise of the conversion rights attaching to the notes will rank *pari passu* in all respects with the shares in issue.

On 5 February 2001, the Company and the noteholders entered into a conditional supplemental agreement ("Supplemental Agreement") to amend certain provisions of the Subscription Agreement.

25 Convertible notes *(continued)*

The Supplemental Agreement contains the following important amendments to the principal terms and conditions of the Subscription Agreement:

(i) Maturity date

The maturity date is changed from 36 months to 54 months from the date of the issue of the notes. Therefore the maturity date will be 2 March 2004.

(ii) Redemption at maturity

Prior to the Company entering into the Supplemental Agreement, all outstanding notes would be mandatorily converted on maturity. Under the terms of the Supplemental Agreement, unless previously converted or redeemed, the Company is required to redeem the notes on maturity.

Upon such redemption, in addition to the principal amount outstanding and any accrued but unpaid interest under the notes, the Company is required to pay an additional amount calculated as provided in the conditions of the notes which would give the holders of the notes a total internal rate of return of 6%, with reference to the market rate.

(iii) Voluntary Redemption

Prior to the Company entering into the Supplemental Agreement, the Company had no right to voluntarily redeem the notes. Under the terms of the Supplemental Agreement, the Company now has the right to voluntarily redeem the notes at any time under certain conditions.

Upon such redemption, in addition to the principal amount outstanding and any accrued but unpaid interest under the notes, the Company is required to pay an additional amount calculated as provided in the conditions of the notes which would give the holders of the notes a total internal rate of return of 10%, with reference to the market rate.

During the year, no notes were converted into shares in the Company.

Notes on the Accounts

for the year ended 31 March 2001

26 Share capital

	2001 HK\$'000	2000 HK\$'000
Authorised:		
6,000,000,000 ordinary shares of HK\$0.10 each	<u>600,000</u>	<u>600,000</u>
	Number of shares	Amount HK\$'000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at 1 April 1999	1,974,775,727	197,478
Shares issued in lieu of the 1999 final and the 2000 interim dividends	43,791,579	4,379
Repurchase and cancellation of own shares	<u>(4,674,000)</u>	<u>(468)</u>
At 31 March 2000	<u>2,013,893,306</u>	<u>201,389</u>
Ordinary shares of HK\$0.10 each at 1 April 2000	2,013,893,306	201,389
Shares issued in lieu of the 2000 final and the 2001 interim dividends	47,405,008	4,740
Repurchase and cancellation of own shares (note a)	<u>(10,024,000)</u>	<u>(1,002)</u>
At 31 March 2001	<u>2,051,274,314</u>	<u>205,127</u>

Notes:

- (a) During the year, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited as follows:

Month of purchase	Number of ordinary shares of HK\$0.1 each	Price per share		Aggregate price HK\$'000
		Highest	Lowest	
April 2000	4,646,000	HK\$0.65	HK\$0.62	2,941
March 2001	<u>5,378,000*</u>	HK\$0.59	HK\$0.57	<u>3,133</u>
	<u>10,024,000</u>			<u>6,074</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital was diminished by the nominal value of these shares. The premium payable on repurchase was charged against share premium account.

- * An additional of 1,100,000 shares have been repurchased in March 2001 but not yet cancelled in March 2001. Such repurchase is not included in this figure.

26 Share capital *(continued)*

- (b) Pursuant to an ordinary resolution passed on 6 September 1993, a Share Option Scheme was adopted whereby the directors of the Company, at their discretion, are authorised to invite any employees or directors, including executive and non-executive directors of any company of the Group, to take up options to subscribe for shares not exceeding 10 per cent of the issued share capital of the Company. The options are exercisable for a period of up to five years following the date of granting of the options.

On 27 December 2000, share options were granted under the Share Option Scheme to eligible directors and employees to subscribe for 70,930,000 shares of HK\$0.1 each in the Company at a subscription price of HK\$0.62 per share. No consideration has been received by the Company for options granted.

A total of 57,000,000 share options have been granted to employees in a position of managerial level or above. The options are divided into three portions and are exercisable as follows:

	Number of share options	Exercisable period (both dates inclusive)
Portion A	14,250,000	6 September 2001 to 5 September 2002
Portion B	21,375,000	27 December 2000 to 5 September 2002
Portion C	<u>21,375,000</u>	6 September 2002 to 5 September 2003
	<u><u>57,000,000</u></u>	

Both portions B and C are exercisable only under certain conditions. The exercisable period for portion B may be extended for one year under certain conditions.

A total of 13,930,000 share options have been granted to employees in a position of assistant manager level or below. Half of the options are exercisable during the period from 1 January 2002 to 5 September 2003, both dates inclusive; and the remaining balance are exercisable on 5 September 2003.

None of the share options had been exercised during the year.

- (c) As at 31 March 2001, the Group had outstanding convertible notes which can be converted to a maximum of approximately 133,620,690 shares of HK\$0.1 each in the Company. Further details of the convertible notes are set out in note 25 on the accounts.

Notes on the Accounts

for the year ended 31 March 2001

27 Reserves

(a)	Property revaluation reserve HK\$'000	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
The Group					
At 1 April 1999	39,681	201,051	788	541,307	782,827
Exchange differences in respect of net investments in foreign subsidiaries	—	—	837	—	837
Shares issued in lieu of dividends	—	(4,379)	—	29,209	24,830
Repurchase and cancellation of own shares	—	(2,614)	—	—	(2,614)
Elimination of goodwill	—	—	—	(11,687)	(11,687)
Profit for the year	—	—	—	284,498	284,498
Dividends	—	—	—	(96,143)	(96,143)
At 31 March 2000	<u>39,681</u>	<u>194,058</u>	<u>1,625</u>	<u>747,184</u>	<u>982,548</u>
At 1 April 2000	39,681	194,058	1,625	747,184	982,548
Exchange differences in respect of net investments in foreign subsidiaries	—	—	(7,644)	—	(7,644)
Realisation on disposal of fixed assets	(6,115)	—	—	6,115	—
Shares issued in lieu of dividends	—	(4,740)	—	26,993	22,253
Repurchase and cancellation of own shares	—	(5,072)	—	—	(5,072)
Elimination of goodwill	—	—	—	(3,622)	(3,622)
Profit for the year	—	—	—	200,662	200,662
Dividends	—	—	—	(68,982)	(68,982)
At 31 March 2001	<u>33,566</u>	<u>184,246</u>	<u>(6,019)</u>	<u>908,350</u>	<u>1,120,143</u>

27 Reserves (continued)

(b)	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profit HK\$'000	Total HK\$'000
The Company				
At 1 April 1999	201,051	92,613	123,624	417,288
Shares issued in lieu of dividends	(4,379)	—	29,209	24,830
Repurchase and cancellation of own shares	(2,614)	—	—	(2,614)
Profit for the year	—	—	97,762	97,762
Dividends	—	—	(96,143)	(96,143)
	<u>194,058</u>	<u>92,613</u>	<u>154,452</u>	<u>441,123</u>
At 31 March 2000	<u>194,058</u>	<u>92,613</u>	<u>154,452</u>	<u>441,123</u>
At 1 April 2000	194,058	92,613	154,452	441,123
Shares issued in lieu of dividends	(4,740)	—	26,993	22,253
Repurchase and cancellation of own shares	(5,072)	—	—	(5,072)
Profit for the year	—	—	72,264	72,264
Dividends	—	—	(68,982)	(68,982)
	<u>184,246</u>	<u>92,613</u>	<u>184,727</u>	<u>461,586</u>
At 31 March 2001	<u>184,246</u>	<u>92,613</u>	<u>184,727</u>	<u>461,586</u>

- (c) The contributed surplus of the Company represents the excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation scheme over the nominal value of the new shares of the Company issued in exchange.

Under the Bye-laws of the Company, the share premium is not distributable.

The property revaluation reserve and exchange fluctuation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for the revaluation of land and buildings and foreign currency translation respectively (note 1).

In addition to the retained profit, under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium accounts.

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28 Material related party transactions

Transactions with associated companies

- (i) During the year, the Group sold optical frames to its associated companies under the same terms as those available to other customers under normal course of business. Total sales of optical frames to its associated companies for the year amounted to HK\$39,784,000 (2000: HK\$26,553,000).
- (ii) Loans to associated companies amounted to HK\$47,682,000 as at 31 March 2001 (2000: HK\$7,673,000). Please refer to note 14 for further details.
- (iii) Amounts due from associated companies are disclosed in note 20.

29 Capital and other commitments

- (a) **At 31 March 2001, the Group had the following capital commitments outstanding and not provided for in the accounts:**

	2001 HK\$'000	2000 HK\$'000
Contracted for	—	5,052
Authorised but not contracted for	—	—
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>5,052</u>

The Company did not have any capital commitments at the balance sheet date.

- (b) **At 31 March 2001, the Group had commitments under operating leases in respect of land and buildings to make payments in the next year as follows:**

	2001 HK\$'000	2000 HK\$'000
Leases expiring:		
Within 1 year	1,738	1,496
After 1 year but within 5 years	9,038	13,578
After 5 years	2,618	2,529
	<u>13,394</u>	<u>17,603</u>

The Company did not have any operating lease commitments at the balance sheet date.

30 Contingent liabilities

(a)	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills discounted with banks	—	2,904	—	—
Guarantees given to banks for banking facilities granted to subsidiaries	—	—	678,985	489,240
Guarantees given to a finance company for finance leases granted to subsidiaries	—	—	20,080	14,672
	<u>—</u>	<u>2,904</u>	<u>699,065</u>	<u>503,912</u>

(b) The Company has issued letters of support in connection with certain subsidiaries with deficiencies in shareholders' fund of HK\$51,607,000 (2000: HK\$72,194,000) as at 31 March 2001.

31 Pension scheme

The Group has a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately under a provident fund managed by an independent insurance company under an insurance arrangement. Pursuant to the rules of the scheme, the employees are required to make contributions to the scheme calculated at 5% of their basic salaries on a monthly basis whilst the employer's contributions are varied with the number of years of service of the employees from 5% to 10% of the basic monthly salary. The employees are entitled to 100% of the employer's contributions and the accrued interest after 10 complete years' service, or at an increasing scale of between 30% to 90% after completion of 3 to 9 years' service.

Where there are employees who leave the scheme prior to vesting fully in the contributions, in accordance with the rules of the scheme, any unvested employer's contributions shall be used to reduce the future contributions of the employer due under the scheme. The Group's total retirement cost charged to the profit and loss account during the year ended 31 March 2001 amounted to HK\$2,961,000 (2000: HK\$4,647,000) after a forfeiture of HK\$343,000 (2000: HK\$136,000) unvested contributions. At the balance sheet date, the total amount of forfeited unvested contribution outstanding was HK\$20,000 (2000: HK\$231,000).

On 30 November 2000, the defined contribution pension scheme was ceased and replaced by mandatory provident fund. The Group has chosen to follow the minimum statutory contribution requirement.

Employees engaged by the Group outside Hong Kong are covered by local arrangements.

32 Ultimate holding company

The directors consider the ultimate holding company at 31 March 2001 to be KFL Holdings Limited, which is incorporated in the British Virgin Islands.