

Report of the Directors

The directors herein present their annual report and the audited financial statements of the Company and of the Group for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and trading of optical frames, sunglasses and optical cases. There was no change in the nature of the principal activities of the Group during the year.

SEGMENTAL INFORMATION

The Group's turnover and operating profit are almost entirely derived from the manufacturing and trading of optical frames, sunglasses and optical cases. Accordingly, an analysis by principal activity has not been presented. An analysis of the Group's turnover and contribution to profit from operating activities by geographical area of market and of the Group's turnover by product range (for reference only) for the year ended 31 March 2001 and 2000 are as follows:

	2001		2000	
	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000	Turnover HK\$'000	Contribution to profit from operating activities HK\$'000
By geographical area:				
United States of America	172,377	44,244	159,409	39,676
Europe	150,353	38,716	95,097	23,659
The People's Republic of China:				
Hong Kong (Note 1)	74,411	15,244	69,636	8,769
Mainland China	7,837	(672)	4,490	(251)
Other Asian countries	16,063	3,497	17,374	2,314
Others	6,297	1,590	10,931	4,034
	<u>427,338</u>	<u>102,619</u>	<u>356,937</u>	<u>78,201</u>

Report of the Directors *(continued)*

SEGMENTAL INFORMATION *(continued)*

	2001		2000	
	Turnover HK\$'000	Percentage (Note 2)	Turnover HK\$'000	Percentage (Note 2)
By product range (for reference only):				
Prescription frames:				
Metal-based optical frames	254,171	59.4	264,024	74.0
Titanium-based optical frames	46,081	10.8	29,591	8.3
Plastic-based hand-made optical frames	18,616	4.4	9,134	2.5
Plastic-based injection-moulded optical frames	1,559	0.4	1,038	0.3
Sunglasses	103,029	24.1	48,541	13.6
Optical cases	3,882	0.9	4,609	1.3
	427,338	100.0	356,937	100.0

Notes:

1. Sales were primarily made to agents in Hong Kong, but were also made to local retailers. The directors believe that the agents export most of the Group's products to Europe and North America.
2. An analysis of contribution to profit from operating activities by product range has not been presented as the ratio of contribution to profit from operating activities to turnover for each individual product category is substantially in line with the overall group ratio.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 58.

An interim dividend of HK 4.0 cents per share was paid on 17 January 2001. The directors recommend the payment of a final dividend of HK 7.5 cents per share in respect of the year to shareholders on the register of members on 7 September 2001. This recommendation has been incorporated in the financial statements.

Report of the Directors *(continued)*

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary is not part of the audited financial statements.

Results

	Year ended 31 March				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover	<u>427,338</u>	<u>356,937</u>	<u>260,843</u>	<u>267,184</u>	<u>181,621</u>
Net profit from ordinary activities attributable to shareholders	<u>89,041</u>	<u>67,318</u>	<u>38,120</u>	<u>32,689</u>	<u>31,257</u>

Assets and liabilities

	31 March				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
TOTAL ASSETS	<u>478,032</u>	<u>423,025</u>	<u>341,536</u>	<u>319,313</u>	<u>278,943</u>
TOTAL LIABILITIES	<u>(83,865)</u>	<u>(84,152)</u>	<u>(48,971)</u>	<u>(58,786)</u>	<u>(50,786)</u>
MINORITY INTERESTS	<u>(16,942)</u>	<u>(13,469)</u>	<u>(12,752)</u>	<u>(14,743)</u>	<u>—</u>
TOTAL NET ASSETS AND SHAREHOLDERS' EQUITY	<u>377,225</u>	<u>325,404</u>	<u>279,813</u>	<u>245,784</u>	<u>228,157</u>

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions of approximately HK\$376,000.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 11 and 12 to the financial statements, respectively.

Report of the Directors *(continued)*

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 13 to the financial statements.

ASSOCIATES

Particulars of the Group's associates are set out in note 14 to the financial statements.

BANK OVERDRAFTS AND OTHER BORROWINGS

Details of bank overdrafts and other borrowings of the Group are set out in notes 20, 21, 22 and 23 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

As at 31 March 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$147,376,000. In addition, the Company's share premium account with a balance of HK\$56,831,000 may be distributed in the form of fully paid-up bonus shares.

DIRECTORS

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

Executive directors

Hui Leung Wah (*Chairman and Managing Director*)
Poon Sui Hong
Leung Shu Sum

Non-executive directors

Lee Chien
Mario Pietribiasi
Vittorio Tabacchi

Independent Non-executive directors

Fok Kwan Wing
Poon Kwok Fai, Ronald

In accordance with the Company's bye-laws, Mr. Poon Sui Hong, Mr. Mario Pietribiasi and Mr. Fok Kwan Wing will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. All other directors continue in office.

Report of the Directors *(continued)*

DIRECTORS' SERVICE CONTRACTS

Under an agreement dated 21 March 1996 ("Consultancy Agreement") between the Company and HLW Concept Company Limited ("HLW Concept"), the Company agreed Mr. Hui Leung Wah, as the nominee of HLW Concept, should provide management services to the Company.

Mr. Poon Sui Hong and Mr. Leung Shu Sum have each entered into a renewed service agreement with the Company. Both agreements are for a term of three years commencing on 17 February 1999.

The Consultancy Agreement and the service agreements continue after the expiry of their existing terms subject to three months' notice served by either party.

Save as disclosed above, none of the directors 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 SHARES AND RIGHTS TO ACQUIRE SHARES

At the balance sheet date, the directors of the Company and their associates held the following interests, which were beneficial unless otherwise stated, in the issued share capital of the Company, its subsidiaries and associated corporations, as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

The Company

Name of director	Nature of interest		Number of ordinary shares beneficially held
Hui Leung Wah	Corporate	<i>Note</i>	141,116,000
Hui Leung Wah	Personal		5,410,000
Poon Sui Hong	Personal		6,200,000
Leung Shu Sum	Personal		6,000,000
Lee Chien	Personal		2,776,238
Fok Kwan Wing	Personal		150,000
Mario Pietribiasi	Personal		100,000

Note: 141,116,000 shares are held by Best Quality Limited, the entire issued voting share capital of which is held by Wahyee Limited as trustee for a unit trust which, in turn, is beneficially owned by a discretionary trust, the beneficiaries of which include Mr. Hui Leung Wah's spouse and children.

Report of the Directors *(continued)*

DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES *(continued)*

Subsidiaries

Mr. Hui Leung Wah is beneficially interested in 200,000 non-voting deferred shares in the capital of Elegance Optical Investments Limited. The rights and restrictions of such non-voting deferred shares are set out in note 13 to the financial statements.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries of the Group held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Associated corporations

Each of Best Quality Limited, HLW Concept Company Limited, Brilliant Hill Investment Limited and Deluxe Concept Limited is a wholly-owned subsidiary of Wahyee Limited, the ultimate holding company of the Company. Wahyee Limited holds the shares of such companies as trustee for a unit trust which, in turn, is beneficially owned by a discretionary trust, the beneficiaries of which include Mr. Hui Leung Wah's spouse and children. Accordingly, Mr. Hui Leung Wah is deemed to be interested in the shares of each of Best Quality Limited, HLW Concept Company Limited, Brilliant Hill Investment Limited and Deluxe Concept Limited directly or indirectly held by Wahyee Limited, as described below:

Name of corporation	Nature of interest	Number of ordinary shares beneficially held
Best Quality Limited	Corporate	1 share of US\$1
HLW Concept Company Limited	Corporate	2 shares of HK\$0.10 each
Brilliant Hill Investment Limited	Corporate	100 shares of HK\$1 each
Deluxe Concept Limited	Corporate	2 shares of US\$1 each

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other beneficial interest in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

At no time during the year was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company, their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Report of the Directors *(continued)*

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company, its holding company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, the following interests of 10% or more in the issued share capital of the Company were recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of shares	Percentage of issued shares
Hui Leung Wah	146,526,000	45.27%
Safilo Far East Limited	74,599,123	23.05%

Save as disclosed above, the directors were not aware of any person who was, directly or indirectly, interested in 10% or more of the issued share capital of the Company as at 31 March 2001 that was required to be recorded under Section 16(1) of the SDI Ordinance.

SHARE OPTIONS

Under a share option scheme dated 21 March 1996, which became effective on 11 April 1996, the directors may, at their discretion, grant options to employees (including executive directors) of the Company and/or of its subsidiaries, to subscribe for shares in the Company. The maximum number of shares which can be granted under the scheme may not exceed 10% of the issued share capital of the Company. No options were granted to any directors or employees under this scheme up to the date of this report.

Pursuant to an option agreement, as approved by shareholders of the Company in a special general meeting held on 10 April 1997, the Company granted two options to Safilo Far East Limited to subscribe for new shares in the Company. These two options were exercised by Safilo Far East Limited in full in the prior years. Details of the options granted and exercised are also set out in notes 24 and 29 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or by any of its subsidiaries during the year.

Report of the Directors *(continued)*

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the year under review, the Group's largest customer and the Group's five largest customers accounted for 38.38% and 54.99% of the Group's total sales, respectively. The Group's largest customer, the Safilo S.p.A. group of companies, owned 23.05% of the Company's issued share capital at the balance sheet date. Details of the sales to the Safilo S.p.A. group of companies are included in note 29 to the financial statements.

During the year under review, the Group's largest supplier and the Group's five largest suppliers accounted for 9.32% and 40.71% of the Group's total purchases, respectively.

Apart from as detailed above and as far as the directors are aware, none of the directors of the Company or any of their associates or any shareholders, which to the best knowledge of the directors owns more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers and suppliers during the year.

CONNECTED TRANSACTIONS

- (i) The directors have reviewed the sale of optical frames and parts to the Safilo S.p.A. group of companies for which a conditional waiver (the "Waiver") from compliance with the connected transaction requirements, as set out in Chapter 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "SEHK"), was obtained on 15 April 1997.

The directors, including the independent non-executive directors, confirmed that the sales of optical frames and parts to the Safilo S.p.A. group of companies were approved by the board of directors and were:

- (a) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;
- (b) fair and reasonable so far as the shareholders of the Company were concerned; and
- (c) entered into in accordance with the terms of the supply agreement governing such transactions, details of which are set out in a circular to the Company's shareholders dated 24 March 1997.

During the year, the Group sold goods to Safilo S.p.A. group of companies with a sales value amounting to HK\$164,011,000, which exceeded the cap limit of 35% as stated in the Waiver granted by SEHK. Save for the condition in relation to the cap limit of 35%, the board of directors considers that all of the other conditions attached to the Waiver have been fully complied with by the Group in respect of the sales to Safilo S.p.A. group of companies during the year.

Report of the Directors *(continued)*

CONNECTED TRANSACTIONS *(continued)*

As the sales to Safilo S.p.A. group of companies are expected to continue in the future on a regular basis in the normal and ordinary course of the business of the Group, and will continue to constitute connected transactions under the Listing Rules for so long as Safilo Far East Limited remains a connected person of the Group, it would be impracticable and unduly burdensome for the Group to make separate press announcements and seek independent shareholders' prior approval for each of the future sales to Safilo S.p.A. group of companies on each occasion as they arise. Accordingly, the Company has applied to the SEHK for a new waiver with revised cap limits based on 48%, 52% and 55% of the turnover of the Group for the year ended 31 March 2002, 2003 and 2004, respectively (the "New Waiver"). A special general meeting is scheduled to be held on 10 August 2001 for the purpose of seeking the approval of the shareholders (other than Safilo Far East Limited and its associates) as regards (i) the sales to Safilo S.p.A. group of companies during the year ended 31 March 2001 which exceeded the cap limit of 35%; and (ii) the New Waiver.

- (ii) In addition to the transactions with Safilo S.p.A. group of companies set out above, during the year, the Company executed guarantees in respect of banking facilities granted to certain non-wholly-owned subsidiaries, Gold Strong Industrial Limited and Grand Artic Limited.

Details of such guarantees are set out below:

Name of non-wholly-owned subsidiaries to which banking facilities were granted	Extent of guarantees given by the Company
Gold Strong Industrial Limited	Corporate guarantee to the extent of HK\$3 million
Grand Artic Limited	Corporate guarantee to the extent of HK\$2 million

Certain non-wholly-owned subsidiaries of the Group also owed certain of the Group's wholly-owned subsidiaries amounts arising from their ordinary and usual course of business during the year. The amounts due are unsecured, interest-free and are repayable in accordance with normal trading terms. Details of the amounts outstanding at the respective balance sheet dates are set out below:

	31 March	
	2001 HK\$'000	2000 HK\$'000
Gold Strong Industrial Limited	1,701	1,401
Grand Artic Limited	3,493	3,642
Leader Up Limited	2,440	2,429
	<u>7,634</u>	<u>7,472</u>

Report of the Directors *(continued)*

EMPLOYEES

As at 31 March 2001, the Group employed 117 staff in Hong Kong and approximately 3,507 staff in other areas of the People's Republic of China. Remuneration is reviewed on an annual basis. In addition to basic salary payments, other benefits for the Hong Kong staff include a medical insurance scheme and a provident fund scheme.

CODE OF BEST PRACTICE

The Company complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the year and up to the date of this report. The independent non-executive directors of the Company are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's by-laws.

In compliance with the Code of Best Practice, the Company established an Audit Committee on 12 April 1999 with written terms of reference, comprising Fok Kwan Wing and Poon Kwok Fai, Ronald, the independent non-executive directors of the Company. Two audit committee meetings have been held since the previous report date.

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

Hui Leung Wah
Chairman

Hong Kong
19 July 2001