

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 2002.

### **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.

### **SEGMENT 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 results by geographical area of market for the year ended 31 March 2002 is set out in note 4 to the financial statements.

### **RESULTS AND DIVIDENDS**

The Group's profit for the year ended 31 March 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 27 to 72.

An interim dividend of HK4.0 cents per share was paid on 17 January 2002. The directors recommend the payment of a final dividend of HK7.5 cents per share in respect of the year, to shareholders on the register of members on 16 August 2002. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within capital and reserves in the balance sheet. Further details of this accounting treatment are set in notes 11 and 13 to the financial statements.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the 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 below. This summary is not part of the audited financial statements.

### Results

	Year ended 31 March				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	<b>370,389</b>	427,338	356,937	260,843	267,184
Net profit from ordinary activities attributable to shareholders	<b>79,335</b>	89,041	67,318	38,120	32,689

### Assets, liabilities and minority interests

	31 March				
	2002 HK\$'000	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)
TOTAL ASSETS	<b>516,676</b>	478,032	423,025	341,536	319,313
TOTAL LIABILITIES	<b>(54,844)</b>	(59,591)	(63,114)	(36,025)	(49,562)
MINORITY INTERESTS	<b>(18,218)</b>	(16,942)	(13,469)	(12,752)	(14,743)
TOTAL NET ASSETS AND SHAREHOLDERS' EQUITY	<b>443,614</b>	401,499	346,442	292,759	255,008

### CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions of approximately HK\$151,000.

### FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 14 and 15 to the financial statements, respectively.

### **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 26 to the financial statements.

### **DISTRIBUTABLE RESERVES**

As at 31 March 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$157,866,000. 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 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, Messrs. Leung Shu Sum, Lee Chien and Vittorio Tabacchi will retire by rotation and, being eligible, offer themselves for re-election (with the exception of Mr. Lee Chien) at the forthcoming annual general meeting. All other directors continue in office.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the annual report.

## 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 that Mr. Hui Leung Wah, as the nominee of HLW Concept, would 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 2002.

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

At 31 March 2002, 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 (Note)	141,116,000
Hui Leung Wah	Personal	5,678,000
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.

## DIRECTORS' INTERESTS IN 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 16 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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.

## **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 Group to which the Company, its holding company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

## **SHARE OPTIONS**

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

On 21 March 1996, the Company conditionally approved a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to employees and executive directors of the Group, to subscribe for shares of the Company during the ten years from its date of approval. The existing Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 April 1996 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Subsequent to the adoption of the Scheme on 21 March 1996, the Stock Exchange introduced a number of changes to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on share option schemes. These new rules came into effect on 1 September 2001. Since then no share options have been granted under the Scheme. However, any option to be granted in the future under the Scheme shall be subject to the new changes which include, inter alia, the following:-

- (a) the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting;
- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive directors; and
- (c) the exercise price of share options is determined by directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

### SHARE OPTIONS (continued)

Under the existing Scheme, the maximum number of shares over which options may be granted must not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person. The subscription price of the options is to be subject to a minimum which is the higher of the nominal value of a share and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options.

Summary details of the Scheme are also set out in note 25 to the financial statements.

The Company shall amend, in due course, the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, 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	146,794,000	45.36
Safilo Far East Limited	<u>74,599,123</u>	<u>23.05</u>

Save as disclosed above, no person other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company as at 31 March 2002 that was required to be recorded under Section 16(1) of the SDI Ordinance.

### 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.

## MAJOR CUSTOMERS AND MAJOR SUPPLIERS

During the year under review, the Group's largest customer and the Group's five largest customers accounted for 36.47% and 54.42% 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 31 to the financial statements.

During the year under review, the Group's largest supplier and the Group's five largest suppliers accounted for 9.96% and 35.86% of the Group's total purchases, respectively.

Apart from as detailed above, 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 beneficial interest in any of the Group's five largest customers or 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 Listing Rules, was obtained on 29 October 2001.

This new Waiver has replaced the expired Waiver granted by the Stock Exchange on 15 April 1997.

The directors, including the independent non-executive directors, confirm 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;
- (c) entered into in accordance with the terms of the supply agreement governing such transactions, details of which are set out in the circulars to the Company's shareholders dated 24 March 1997 and 18 July 2001; and
- (d) within an annual limit of 48% of the audited consolidated turnover of the Group for the year.

Further details of sales to the Safilo S.p.A. group of companies are set out in note 31 to the financial statements.



### CONNECTED TRANSACTIONS (continued)

- (ii) In addition to the transactions with the 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:

<b>Name of non wholly-owned subsidiaries to which banking facilities were granted</b>	<b>Extent of guarantees given by the Company</b>
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:

	<b>31 March</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Gold Strong Industrial Limited	<b>5,589</b>	1,701
Grand Artic Limited	<b>3,348</b>	3,493
Leader Up Limited	<b>2,570</b>	2,440
	<b>11,507</b>	7,634

### 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 bye-laws.

### **AUDIT COMMITTEE**

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  
28 June 2002