

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st March 2002.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiary companies are shown on pages 46 to 48.

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st March 2002 are set out in the consolidated profit and loss account on page 14.

The directors do not recommend the payment of a dividend for the year.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the accounts.

### FIXED ASSETS

Details of the movements in fixed assets are shown in note 13 to the accounts.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws although there is no restriction against such rights under the laws in Bermuda.

### DIRECTORS AND INTERESTS IN CONTRACTS

The directors during the year and at the date of this report were:

**Wong** Chue Meng

**Wong** Chong Po

Joseph C. C. **Wong**

**Chu** Kai Wah, Anthony

Sakorn **Kanjanapas**

**Lee** Shu Chung, Stan

Sudarat **Sagarino** (resigned on 23rd August 2001)

**Wong** Yuk Woon

**Kwong** Yiu Chung (independent non-executive)

**Chu** Chun Keung, Sydney (independent non-executive)

In accordance with Clause 110(A) of the Company's Bye-laws, Mr Stan Lee Shu Chung and Mr Anthony Chu Kai Wah will retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

The independent non-executive directors do not have specific terms of appointment, but are subject to retirement by rotation at periodic intervals pursuant to the Bye-laws of the Company.

No director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

**DIRECTORS AND INTERESTS IN CONTRACTS** *(Continued)*

Pursuant to an Executive Bonus Scheme approved under a board resolution passed on 7th January 1993 by Stelux Holdings Limited, Mr Wong Chong Po and Mr Joseph C. C. Wong were eligible to an annual bonus determinable under the terms of the Executive Bonus Scheme, with respect to their management of the Group. By a board resolution passed on 17th January 2000, Mr Anthony Chu Kai Wah, Mr Stan Lee Shu Chung and Mr Wong Yuk Woon were also eligible to the afore-mentioned bonus scheme. During the year, none of the afore-mentioned directors has received or will receive any bonus in respect of the Executive Bonus Scheme (2001: HK\$2,479,000).

Apart from the foregoing, no other contracts of significance in relation to the Company's business to which the Company, its subsidiary companies or its holding company 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.

**DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

On 25th June 1997, a share option scheme for the executive directors and employees of the Company and its subsidiary companies (the "Scheme") was approved and adopted by the shareholders pursuant to which the directors were authorised to grant options to executive directors and employees of the Company or its subsidiary companies to subscribe for shares of the Company for a period of ten years. The maximum number of shares available for issue is 46,817,001, representing 5% of the issued share capital of the Company as at the date of the report. No option may be granted to any eligible person which if exercised in full would result in the total number of shares already issued and or to be issued to him exceeding 25% of the maximum aggregate number of shares to be issued under the Scheme. An offer of the grant of options must be accepted within 28 days from the commencement date of the relevant options. The purpose of the Scheme is to provide incentives or rewards for the contribution to the Group from the senior executives. The consideration payable on acceptance of the offer for the grant of an option is HK\$1. The exercise price is determined by the directors at the time of grant of the relevant option and shall be the higher of the nominal value of the Company's share and 80% of the average closing prices of the shares for the five trading days immediately before the options are granted.

The details of share options granted to the directors and outstanding as at 31st March 2002 are as follows:

Name of directors	Number of share options			Total outstanding at 31st March 2002
	1st lot <i>(note 1)</i>	2nd lot <i>(note 2)</i>	3rd lot <i>(note 3)</i>	
Mr Joseph C. C. Wong	3,000,000	3,000,000	5,000,000	11,000,000
Mr Chu Kai Wah, Anthony	1,000,000	1,000,000	1,000,000	3,000,000
Mr Lee Shu Chung, Stan	1,000,000	1,000,000	1,000,000	3,000,000
Mr Wong Yuk Woon	1,000,000	1,000,000	1,000,000	3,000,000
Mrs Sudarat Sagarino	1,000,000	1,000,000	1,000,000	– <i>(note 4)</i>

*Notes:*

- These options are granted on 6th August 1997 and exercisable at HK\$1.3632 per share during the period from 6th August 1997 to 5th August 2002.
- These options are granted on 26th October 1998 and exercisable at HK\$0.15 per share during the period from 26th October 1998 to 25th October 2003.
- These options are granted on 17th January 2000 and exercisable at HK\$0.248 per share during the period from 17th January 2000 to 16th January 2005.
- Pursuant to the terms of the Scheme, Mrs Sudarat Sagarino's share options have lapsed upon her resignation on 23rd August 2001.

**DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES** (Continued)

With the exception of the Scheme of the Company, at no time during the year was the Company, its subsidiary companies or its holding company 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.

**DIRECTORS' INTERESTS**

As at 31st March 2002, the interests of the directors and their associates in the shares and options of the Company and its associated corporations as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

**(a) The Company – Ordinary shares**

	Number of shares			Total
	Personal interests	Family interests	Corporate interests	
Mr Wong Chue Meng	12,114,080	527,570,666 <sup>(1)</sup>	609,471,959 <sup>(1)</sup>	630,716,964*
Mr Wong Chong Po	3,600,000	–	518,439,741 <sup>(2)</sup>	522,039,741
Mr Joseph C. C. Wong	5,077,211	10,000	–	5,087,211
Mr Sakorn Kanjanapas	391,056	–	–	391,056

**(b) The Company - Number of options to subscribe for ordinary shares of HK\$0.1 each**

	Number of options			Total
	Personal interests	Family interests	Corporate interests	
Mr Joseph C. C. Wong	11,000,000	–	–	11,000,000
Mr Chu Kai Wah, Anthony	3,000,000	–	–	3,000,000
Mr Lee Shu Chung, Stan	3,000,000	–	–	3,000,000
Mr Wong Yuk Woon	3,000,000	–	–	3,000,000

**DIRECTORS' INTERESTS** *(Continued)*
**(c) Subsidiary companies**

	Number of shares			Total
	Personal interests	Family interests	Corporate interests	
(i) City Chain (Thailand) Company Limited – Preference shares <sup>[3]</sup>				
Mr Wong Chue Meng	–	–	208,800	208,800
Mr Wong Chong Po	200	–	208,800	209,000
Mr Joseph C. C. Wong	200	–	208,800	209,000
Mr Sakorn Kanjanapas	200	–	208,800	209,000
(ii) Stelux Watch (Thailand) Company Limited – Preference shares <sup>[4]</sup>				
Mr Wong Chong Po	600	–	–	600
Mr Joseph C. C. Wong	600	–	–	600
Mr Sakorn Kanjanapas	600	–	–	600
(iii) Optical 88 (Thailand) Company Limited – Preference shares <sup>[5]</sup>				
Mr Wong Chue Meng	–	–	225,000	225,000
Mr Wong Chong Po	5,000	–	225,000	230,000
Mr Joseph C. C. Wong	5,000	–	225,000	230,000
Mr Sakorn Kanjanapas	5,000	–	225,000	230,000

\* *Total interests excluding duplication as explained in the respective notes.*

By virtue of the SDI Ordinance and his interests in the ultimate holding company, Yee Hing Company Limited, Thong Sia Company Limited, Active Lights Company Limited and Yee Hing International Limited, Mr Wong Chue Meng is deemed to have family and corporate interests in the shares of the Company and its associated corporations at 31st March 2002 as follows:

- (1) This includes the duplication of corporate interests of 518,439,741 shares through Yee Hing Company Limited, Active Lights Company Limited and Yee Hing International Limited in which Mr Wong Chue Meng is deemed to have both family and corporate interests.

By virtue of the SDI Ordinance, Mr Wong Chong Po is deemed to have corporate interests in the shares of the Company and its associated corporations at 31st March 2002 as follows:

- (2) Mr Wong Chong Po has beneficial interests in Yee Hing Company Limited which has corporate interests in the Company.

**DIRECTORS' INTERESTS** *(Continued)***(c) Subsidiary companies** *(Continued)*

By virtue of the SDI Ordinance and their family and corporate interests in the Company stated above, Mr Wong Chue Meng, Mr Wong Chong Po, Mr Joseph C. C. Wong and Mr Sakorn Kanjanapas are deemed to have corporate interests in City Chain (Thailand) Company Limited at 31st March 2002 as follows:

- (3) City Chain (Thailand) Company Limited is deemed to be a wholly owned subsidiary company of the Company as all its ordinary shares carrying voting rights are held by a wholly owned subsidiary of the Company. The interests of these directors in the ordinary shares of City Chain (Thailand) Company Limited are therefore equivalent to their respective personal, family and corporate interests in the Company. The preference shares held by certain directors represent preference shares issued by City Chain (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends.

By virtue of the SDI Ordinance and their family and corporate interests in the Company stated above, Mr Wong Chong Po, Mr Joseph C. C. Wong and Mr Sakorn Kanjanapas are deemed to have corporate interests in Stelux Watch (Thailand) Company Limited at 31st March 2002 as follows:

- (4) Stelux Watch (Thailand) Company Limited is deemed to be a wholly owned subsidiary company of the Company as all its ordinary shares carrying voting rights are held by a wholly owned subsidiary of the Company. The interests of these directors in the ordinary shares of Stelux Watch (Thailand) Company Limited are therefore equivalent to their respective personal, family and corporate interests in the Company. The preference shares held by certain directors represent preference shares issued by Stelux Watch (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends.

By virtue of the SDI Ordinance and their family and corporate interests in the Company stated above, Mr Wong Chue Meng, Mr Wong Chong Po, Mr Joseph C. C. Wong and Mr Sakorn Kanjanapas are deemed to have corporate interests in Optical 88 (Thailand) Company Limited at 31st March 2002 as follows:

- (5) Optical 88 (Thailand) Company Limited is deemed to be a wholly owned subsidiary company of the Company as all its ordinary shares carrying voting rights are held by a wholly owned subsidiary of the Company. The interests of these directors in the ordinary shares of Optical 88 (Thailand) Company Limited are therefore equivalent to their respective personal, family and corporate interests in the Company. The preference shares held by certain directors represent preference shares issued by Optical 88 (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends.

Save as disclosed above, none of the directors of the Company was interested in the shares and options of the Company or any of the Company's associated corporations as at 31st March 2002.

**SHARE OPTIONS**

As at 31st March 2002, in addition to the share options granted to the directors as disclosed in the section headed "Directors' right to acquire shares or debentures", there were 2,000,000 outstanding share options which were granted in 1998 to two employees of the Group. The options are exercisable at HK\$0.15 per share during the period from 26th October 1998 to 25th October 2003. During the year, there were no share options granted to nor share options exercised by the employees of the Group.

**SUBSTANTIAL SHAREHOLDERS**

Save as disclosed in Directors' Interests above, so far as the directors are aware, there are no other parties which were, directly or indirectly, interested in 10 per cent or more of the nominal value of the share capital of the Company as at 31st March 2002 as recorded in the register required to be kept by the Company under section 16(1) of the SDI Ordinance.

**PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

**MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the Group purchased less than 30% of its goods and services from its 5 largest suppliers and sold less than 30% of its goods and services to its 5 largest customers.

**MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

**CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited ("Stock Exchange") throughout the year except that the independent non-executive directors of the Company are not appointed for a specific term.

**CONNECTED TRANSACTIONS**

- (1) The Group purchased timepieces from Thong Sia Company Limited, Thong Sia Watch Company Limited, Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd, collectively referred to as Thong Sia Companies; and optical products from PRO Vision Trading Company Limited ("Pro Vision") and Thong Sia Company (Singapore) Private Limited. Mr Wong Chue Meng, who is interested in approximately 67% of the issued share capital of the Company, is a director and holds more than 30% of the equity of the Thong Sia Companies. Pro Vision is a 60% indirectly owned subsidiary of Yee Hing Company Limited which is a substantial shareholder of the Company holding approximately 41% of its issued share capital. Accordingly, Thong Sia Companies and Pro Vision are associates of a connected person to the Company and the transactions constitute connected transactions under the Listing Rules. The total purchases during the year amounted to HK\$29,726,000 (2001: HK\$43,441,000).

The Company has been granted waivers from the Stock Exchange from strict compliance with the disclosure requirements under Chapter 14 of the Listing Rules. The independent non-executive directors, Messrs Kwong Yiu Chung and Chu Chun Keung, Sydney have reviewed the above transactions and confirm that the transactions were:

- (a) entered into in the usual and ordinary course of business of the Company;
- (b) conducted either (i) on normal commercial terms or (ii) where there is no available comparison on terms that are fair and reasonable so far as the shareholders are concerned;
- (c) entered into either (i) in accordance with the terms of the agreements governing such transactions or (ii) where there is no such agreements on terms no less favourable than terms available to or from independent third parties; and
- (d) within the maximum amounts as agreed with the Stock Exchange.

The auditors have also reviewed the above transactions and confirmed that the transactions have received the approval of the directors of the Company and were undertaken in accordance with notes (c) and (d) above.

**CONNECTED TRANSACTIONS** *(Continued)*

- (2) The Group entered into a tenancy agreement with International Optical Manufacturing Company Limited (“IOM”) to lease certain units in Stelux House to IOM for a period of three years from 15th August 2001 at a monthly rental of HK\$95,040. The Group also entered into a tenancy agreement with Yee Hing Company Limited (“Yee Hing”) to lease certain units in Stelux House to Yee Hing for a period of three years from 15th August 2001 at a monthly rental of HK\$55,900.

Yee Hing ultimately holds 55.37% of the issued share capital of the Company. Thong Sia Company Limited (“Thong Sia”) holds 9.72% of the issued share capital of the Company. Yee Hing holds 60% and Thong Sia holds 40% respectively of the issued share capital in IOM. Both tenancy agreements were entered into on normal commercial terms as stated in the connected transaction press announcement dated 19th July 2001.

The above transactions also constitute related party transactions and are disclosed in note 27 to the accounts.

**AUDIT COMMITTEE**

Pursuant to the Listing Rules, an audit committee, comprising two independent non-executive directors, namely Messrs Kwong Yiu Chung and Chu Chun Keung, Sydney, was established on 26th February 1999 (“Audit Committee”).

By reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the Board of the Company on the same date. The principal responsibilities of the Audit Committee include the review and supervision of the Group’s financial reporting process and internal controls.

**AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Joseph C. C. Wong**

*Managing Director*

Hong Kong, 19th July 2002