

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the subsidiaries comprise the design, manufacture, distribution and retailing of optical products. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by geographical area of operations 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 the Group at that date are set out in the financial statements on pages 38 to 97.

An interim dividend of HK1.4 cents per ordinary share was paid on 18 March 2002. The directors recommend the payment of a final dividend of HK1.5 cents per ordinary share in respect of the year, to shareholders on the register of members on 6 September 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 out in note 12 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and 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 on page 6. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the Group's fixed assets during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in note 34 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company. Further details of these transactions are set out in note 34 to the financial statements.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2002, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with The Companies Act 1981 of Bermuda (as amended), amounted to HK\$220,228,000 which include retained profits and contributed surplus.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$328,000.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 22% of the Group's total sales for the year and sales to the largest customer included therein amounted to approximately 6%.

Purchases from the Group's five largest suppliers accounted for approximately 12% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to approximately 3%.

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

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DIRECTORS

The directors of the Company during the year were:

Executive directors:

Ma Bo Kee – *Chairman*

Ma Bo Fung – *Vice chairman*

Ma Bo Lung – *Vice chairman*

Ma Lit Kin, Cary – *Managing director*

Ma Hon Kin, Dennis

Wong Piu Lung, Peter

Tong Ka Wai, Dicky

Non-executive directors:

Ng Tai Chiu, David

Chau Cham Son

Lee Meow Chan, Derrick

Knight Dean A.

(resigned on 30 November 2001)

Lee Kiu Wing, Kenneth

Lee Sin Mei, Olivia

Chan Wing Wah, Ivan

(appointed on 11 March 2002)

Poon Yick Pang, Philip (Alternate director
to Lee Meow Chan, Derrick)

Yu Kit Wai, Laetitia (Alternate director
to Lee Kiu Wing, Kenneth)

Subsequent to the balance sheet date, Messrs. Chau Cham Son, Poon Yick Pang, Philip and Lee Meow Chan, Derrick resigned as directors of the Company on 2 April 2002, 25 April 2002 and 2 July 2002, respectively.

In accordance with the bye-laws of the Company, Messrs. Ma Bo Fung, Ng Tai Chiu, David and Chan Wing Wah, Ivan, will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 24 to 27 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

No director 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 CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2002, the interests of the directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of the Company

Name of director	Notes	Number of shares held and nature of interest			
		Personal	Family	Corporate	Other
Ma Bo Kee	(a)	–	–	–	819,127,323
Ma Bo Fung	(a)	–	–	–	819,127,323
Ma Bo Lung	(a)	–	–	–	819,127,323
Ma Lit Kin, Cary	(b)	–	–	–	825,575,932
Ma Hon Kin, Dennis	(c)	41,921	–	–	825,196,601
Lee Sin Mei, Olivia		213,352	–	–	–
Chan Wing Wah, Ivan		5,000,472	–	–	–

Notes:

- (a) These shares are owned by KFL Holdings Limited, the entire capital of which is held by BNP Jersey Trust Corporation Limited as trustee for the Ma Family Trust, a discretionary trust whose objects include Messrs. Ma Bo Kee, Ma Bo Fung, Ma Bo Lung, Ma Lit Kin, Cary, Ma Hon Kin, Dennis and their family members.
- (b) 819,127,323 of these shares are held as note (a) above. In addition, 6,448,609 of these shares are held by United Will Holdings Limited for and on behalf of Mr. Ma Lit Kin, Cary.
- (c) 819,127,323 of these shares are held as note (a) above. In addition, 6,069,278 of these shares are held by United Will Holdings Limited for and on behalf of Mr. Ma Hon Kin, Dennis.

Save as disclosed above and other than shares in subsidiaries held by the directors in trust for the Company, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from the share option scheme as detailed below under the heading "Share option scheme" and in note 34 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors, and other directors and employees of the Group. The Scheme became effective on 6 September 1993 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 5% of the shares of the Company in issue at any time. At 31 March 2002, the number of shares issuable under share options granted under the Scheme was 68,330,000, which represented approximately 3.46% of the Company’s shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 25% of the share options of the Company 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.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the nominal value of the Company’s shares; and (ii) an amount not less than 80% of the average closing price of the Company’s shares on the Stock Exchange for the five business days immediately preceding the date on which the offer to grant an option.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in relation to share option scheme which took effect on 1 September 2001. With a view to bringing the Company’s share option scheme in line with the new requirements of Chapter 17 of the Listing Rules, the board of directors intend to terminate the Scheme and to adopt a new share option scheme at the forthcoming annual general meeting of the Company to be held on 6 September 2002.

SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options				Date of grant of share options ⁽¹⁾	Exercise period of share options ⁽²⁾	Exercise price of share options ⁽³⁾ HK\$	Price of Company's share at grant date of options ⁽⁴⁾ HK\$
	At 1 April 2001	Granted during the year	Cancelled during the year	At 31 March 2002				
Directors								
Ma Bo Kee	5,000,000	–	–	5,000,000	27-12-2000	27 December 2000 to 5 September 2003	0.62	–
Ma Bo Fung	5,000,000	–	–	5,000,000	27-12-2000	27 December 2000 to 5 September 2003	0.62	–
Ma Bo Lung	5,000,000	–	–	5,000,000	27-12-2000	27 December 2000 to 5 September 2003	0.62	–
Ma Lit Kin, Cary	5,000,000	–	–	5,000,000	27-12-2000	27 December 2000 to 5 September 2003	0.62	–
Ma Hon Kin, Dennis	3,000,000	–	–	3,000,000	27-12-2000	27 December 2000 to 5 September 2003	0.62	–
Wong Piu Lung, Peter	3,000,000	–	–	3,000,000	27-12-2000	27 December 2000 to 5 September 2003	0.62	–
Tong Ka Wai, Dicky	3,000,000	–	–	3,000,000	27-12-2000	27 December 2000 to 5 September 2003	0.62	–
	<u>29,000,000</u>	<u>–</u>	<u>–</u>	<u>29,000,000</u>				
Other employees								
In aggregate	41,930,000	–	(12,080,000)	29,850,000	27-12-2000	1 January 2002 to 5 September 2003	0.62	–
	–	9,480,000	–	9,480,000	30-5-2001	1 January 2002 to 5 September 2003	0.62	0.72
	<u>41,930,000</u>	<u>9,480,000</u>	<u>(12,080,000)</u>	<u>39,330,000</u>				
	<u>70,930,000</u>	<u>9,480,000</u>	<u>(12,080,000)</u>	<u>68,330,000</u>				

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SHARE OPTION SCHEME (continued)

Notes:

- (1) *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*
- (2) *The exercise period of the share options (for managerial level or above) is divided into three periods for portions A, B and C at 25%, 37.5% and 37.5%, respectively, over the number of share options. Details of these periods are set out in note 34 to the financial statements.*
- (3) *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*
- (4) *The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.*

Summary details of the Company's share option scheme are also set out in note 34 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options.

The directors are of the view that the value of the theoretical value of the share options granted depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical basis and speculative assumptions. Accordingly, the directors believed that any calculation of the value of options will not be meaningful and may be misleading to shareholders in these circumstances.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2002, 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 of 10% or more of the share capital of the Company that was required to be recorded in the register kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

Pursuant to a notification given on 3 June 2002, KFL Holdings Limited, a substantial shareholder of the Group, agreed to bear the remuneration, totalling HK\$12,664,000, paid or payable to the Company's executive directors for the year ended 31 March 2002. Further details of the transaction are included in note 8 to the financial statements.

CONNECTED TRANSACTIONS WHICH ARE THE SUBJECT OF EXEMPTION UNDER THE LISTING RULES

The Company has entered into guarantee agreements whereby the banking facilities granted by its bankers to non-wholly owned subsidiaries of the Group were guaranteed by the Company by ways of letters of guarantee issued in favour of the bankers. The details of the guarantees are as follows:

Date of agreement	Guaranteed amount <i>HK\$'000</i>	Non-wholly owned subsidiaries
13 May 2000	8,000	Creative Eyewear Limited
18 January 2001	30,000	Active Sino Group Limited Bold Ware Optical (Metal) Manufactory Limited Moulin Optical (Far East) Limited
5 January 2002	17,136	Moulin Optical (Far East) Limited
8 January 2002	9,000	Bold Ware Optical (Metal) Manufactory Limited
20 March 2002	35,000	Active Sino Group Limited Bold Ware Optical (Metal) Manufactory Limited

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 41 to the financial statements.

PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of one of the Group's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a loan agreement dated 22 February 2001 relating to a three-year syndicated loan of HK\$400,000,000, the controlling shareholder (including Mr. Ma Bo Kee, his family members, close relatives, related trusts and companies controlled by him, his close relatives or related trusts) is required to maintain at least 40% interest, in aggregate, of the issued share capital of the Company. Breach of such obligation will cause a default in respect of the loan that is significant to the operations of the Group.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the provisions of the Company's bye-laws.

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AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors and one non-executive director of the Company.

AUDITORS

Subsequent to the balance sheet date, on 15 April 2002, KPMG resigned as auditors of the Company and Ernst & Young were appointed by the directors to fill the casual vacancy so arising until the next annual general meeting. There have been no other changes of auditors in the past three years.

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

Ma Bo Kee

Chairman

Hong Kong

30 July 2002