1 CORPORATE INFORMATION

During the year, the Group was involved in the design, manufacture, distribution and retailing of optical products.

In the opinion of the directors, the ultimate holding company is KFL Holdings Limited, which is incorporated in the British Virgin Islands.

2 IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 12 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 30 and 39 to the financial statements.

2 IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 12, 17 and 35 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosure in respect thereof. The adoption of the SSAP has no significant impact on the financial statements, except that provisions are now disclosed as a separate line item, "Provisions for restructuring", on the face of the balance sheet and note 28 to the financial statements has been added to include the newly required additional disclosures.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in note 16 to the financial statements. The required new additional disclosures are included in notes 16, 18 and 35 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

- SSAP 10: "Accounting for investments in associates"
- SSAP 17: "Property, plant and equipment"

There are no significant effects of these revisions to the financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated in reserves, is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the goodwill previously eliminated against consolidated reserves for all acquisitions has been retrospectively restated as if the new accounting policy above had always been applied. This restatement has given rise to a prior year adjustment, further details of which are included in notes 16, 18 and 35 to the financial statements. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill, including goodwill restated retrospectively, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the shorter of the remaining lease terms or 2%
Leasehold improvements	5% to 20%
Plant and machinery	15% to 25%
Tools and moulds	15% to 25%
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	25%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Intangible assets

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

Web platform

Web platform, including associated consultancy charges, for product development, workflow automation and inventory management, which supports the enterprise resources planning system, is stated at cost and amortised on the straight-line basis over its estimated useful life of five years, commencing from the date when the web platform is put into use.

Trademarks

Trademarks including registration fees and associated legal costs for intellectual property rights, are stated at cost and amortised on the straight-line basis over their estimated useful lives up to four years.

Long term investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

Other long term investments in listed equity securities, intended to be held on a long term basis, are stated at their fair values at the balance sheet date, on an individual investment basis.

The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Short term investments

Short term investments in listed equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such listed securities are their quoted market prices at the balance sheet date. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories *(continued)*

With effect from the current financial year, the Group changed the basis for cost determination of inventories, in that particular, cost is now determined on the weighted-average basis, instead of the first-in, first-out basis as in prior years. This change, which has been applied prospectively, does not give rise to a material effect on the financial statements.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(c) from the rendering of subcontracting services, on completion of the transactions;

(d) management fee income, when services are rendered; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 9 (Revised) and SSAP 18 (Revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in notes 12, 17 and 35 to the financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "prior scheme") for those employees who were eligible to participate in this scheme. This prior scheme operated in a similar way to the MPF Scheme, except that when an employee left the prior scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer contributions. With effect from 1 December 2000, the prior scheme was frozen.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme.

The employees of the Group's subsidiaries which operate outside Hong Kong and the PRC are covered by the respective local arrangements.

4 SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of geographical segment. No business segment analysis of the Group's revenues and results is presented as all the Group's revenue and results are generated from vertically integrated activities which include the design, manufacture, distribution and retailing of optical products.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

4 SEGMENT INFORMATION *(continued)*

Geographical segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments.

Group

	North America		PRC		Asia Pacific (including Hong Kong)		Europe		Corporate and others		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000 (Restated)
Segment revenue:												
Sales to external customers	**204,975**	422,176	**264,230**	235,556	**107,938**	140,640	**534,653**	79,768	**3,003**	10,102	**1,114,799**	888,242
Other revenue	**1,094**	2,859	**1,770**	1,835	**1,448**	1,181	**14,050**	655	**2,194**	1,646	**20,556**	8,176
Total	**206,069**	425,035	**266,000**	237,391	**109,386**	141,821	**548,703**	80,423	**5,197**	11,748	**1,135,355**	896,418
Segment results	**36,509**	145,295	**88,602**	59,424	**12,470**	40,005	**(238)**	4,144	**7,671**	(4,150)	**145,014**	244,718
Interest and dividend income											**39,578**	50,251
Profit from operating activities											**184,592**	294,969
Finance costs											**(44,105)**	(64,365)
Share of profits less losses of associates	**–**	(16,513)	**–**	–	**–**	–	**–**	5,155	**–**	–	**–**	(11,358)
Profit before tax											**140,487**	219,246
Tax											**(19,915)**	(15,567)
Profit before minority interests											**120,572**	203,679
Minority interests											**22,784**	(3,198)
Net profit from ordinary activities attributable to shareholders											**143,356**	200,481

4 SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

Group

	North America		PRC		Asia Pacific (including Hong Kong)		Europe		Consolidated	
	2002 HK$'000	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000	**2002 HK$'000**	2001 HK$'000 (Restated)
Segment assets	**85,617**	72,580	**1,102,993**	1,022,443	**1,112,740**	1,128,570	**698,927**	26,987	**3,000,277**	2,250,580
Interests in associates	**–**	45,513	**–**	–	**–**	–	**–**	25,848	**–**	71,361
Unallocated assets									**1,943**	1,122
Total assets									**3,002,220**	2,323,063
Segment liabilities	**5,157**	385	**31,057**	30,782	**51,854**	86,069	**231,471**	3,718	**319,539**	120,954
Unallocated liabilities									**1,262,067**	841,501
Total liabilities									**1,581,606**	962,455
Other segment information:										
Depreciation	**13**	–	**32,957**	31,599	**18,024**	16,636	**18,771**	1,240	**69,765**	49,475
Amortisation of intangible assets	**–**	–	**–**	–	**237**	248	**1,513**	11	**1,750**	259
Amortisation of goodwill	**1,828**	–	**–**	–	**–**	–	**4,613**	181	**6,441**	181
Impairment of long term unlisted investments	**–**	–	**–**	–	**–**	4,500	**–**	–	**–**	4,500
Provision for doubtful debts	**357**	–	**63**	1,334	**7,112**	6,024	**4,320**	1,190	**11,852**	8,548
Provision for slow moving and obsolete inventories	**3,219**	–	**3,547**	1,208	**2,360**	2,248	**731**	–	**9,857**	3,456
Capital expenditures	**103**	–	**54,331**	126,464	**12,531**	41,103	**235,953**	592	**302,918**	168,159

5 TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover and other revenue is as follows:

	2002	2001
	HK$'000	HK$'000
Turnover		
Sale of goods	**1,114,799**	888,242
Other revenue		
Interest income	**39,482**	50,163
Dividend income from listed investments	**96**	88
Subcontracting income	**907**	–
Management fee income	**495**	–
Rebate from suppliers	**–**	1,545
Others	**19,154**	6,631
	60,134	58,427

6 PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	**2002 HK$'000**	2001 HK$'000 (Restated)
Cost of inventories sold	*(i)*	**511,722**	446,223
Auditors' remuneration		**4,757**	3,263
Depreciation	*(i)*	**69,765**	49,475
Minimum lease payments under operating leases on land and buildings	*(i)*	**31,091**	18,640
Amortisation of intangible assets	*(ii)*	**1,750**	259
Amortisation of goodwill	*(ii)*	**6,441**	181
Staff costs (excluding directors' remuneration – *note 8*):			
Wages and salaries	*(i)*	**214,109**	95,696
Net pension contributions (after a forfeiture of HK$Nil (2001: HK$343,000))	*(iii)*	**4,117**	2,961
		218,226	98,657
Restructuring costs	*(iv)*	**8,020**	–
Impairment of long term unlisted investments		**–**	4,500
Provision for doubtful debts		**11,852**	8,548
Provision for slow moving and obsolete inventories		**9,857**	3,456
Exchange loss/(gain), net		**4,026**	(5,565)
Loss/(gain) on realisation of short term investments		**3,759**	(133)
Unrealised loss on revaluation of long and short term listed investments carried at fair value		**20**	2,469
Loss on disposal of intangible assets		**2,773**	–
Gain on disposal of fixed assets		**(701)**	(1,729)

Notes:

(i) Cost of inventories includes HK$85,751,000 (2001: HK$60,352,000) relating to staff costs, depreciation and operating lease rentals, which is also included in the respective total amounts disclosed separately above for each of these expenses.

(ii) Amortisation of intangible assets and goodwill for the year are included in "Other operating expenses, net" on the face of the profit and loss account.

(iii) At 31 March 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2001: HK$20,000).

(iv) Restructuring costs, comprising compensation for dismissal of workers and staff, removal costs and restructuring advisory fees, were incurred for the restructuring of distribution business in Europe and the North America during the year.

7 FINANCE COSTS

	Group	
	2002	2001
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**34,329**	63,420
Interest on finance leases and hire purchase contracts	**1,288**	1,767
Interest on convertible notes	**6,217**	–
Total interest	**41,834**	65,187
Less: Interest capitalised*	**–**	(3,637)
	41,834	61,550
Bank charges**	**2,271**	2,807
Others	**–**	8
	44,105	64,365

* *Interest capitalised in last year arose on the general borrowing pool and was capitalised at a weighted average rate of 8.069% per annum.*

** *In the prior year, certain bank charges in the nature of general charges for day-to-day transactions were classified as finance costs. To accord with the presentation adopted in the current year, which in the opinion of the directors better reflects the underlying nature of the transactions, they have been reclassified to administrative expenses.*

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Executive directors:		
Fees	**–**	60
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	9,634
Pension scheme contributions	**–**	466
	–	10,100
	–	10,160
Non-executive directors:		
Fees	**470**	130

During the year, the remuneration of all executive directors, amounting to HK$12,664,000, was borne by the ultimate holding company, KFL Holdings Limited ("KFL"), instead of being waived by the directors. In the prior year, certain directors waived their other emoluments, amounting to HK$5,000,000. The details of the remuneration borne by KFL are as follows:

	2002	2001
	HK$'000	HK$'000
Fees	**60**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**12,520**	–
Pension scheme contributions	**84**	–
	12,664	–

8 DIRECTORS' REMUNERATION *(continued)*

The number of directors whose remuneration, including the amounts borne by the ultimate holding company, fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil to HK$1,000,000	**8**	7
HK$1,000,001 to HK$1,500,000	**2**	4
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**4**	–
HK$2,500,001 to HK$3,000,000	**–**	1
	14	13

In addition to the above remuneration, 29,000,000 share options were granted to certain directors in respect of their services to the Group in the prior year, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 32. During the year, no options were granted to the directors nor exercised by these option holders.

9 FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the five (2001: Nil) non-director, highest paid employees are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**5,170**	–
Pension scheme contributions	**483**	–
	5,653	–

The five highest paid individuals in the Group in the year ended 31 March 2001 were all executive directors of the Company and details of whose remuneration are set out in note 8 above.

9 FIVE HIGHEST PAID EMPLOYEES *(continued)*

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2002	2001
	HK$'000	HK$'000
Nil to HK$1,000,000	**2**	–
HK$1,000,001 to HK$1,500,000	**3**	–
	5	–

During the year, no share options were granted to the five non-director, highest paid employees in respect of their services to the Group.

10 TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2002	2001
	HK$'000	HK$'000
Hong Kong	**12,848**	23,888
Elsewhere	**2,373**	117
Under/(over)provision in prior year	**194**	(8,438)
Deferred *(note 32)*	**4,500**	–
Tax charge for the year	**19,915**	15,567

In relation to the Group's distribution operations in the People's Republic of China (the "PRC"), the Group has made arrangements with a PRC subcontractor and its related enterprise under which all PRC taxes incurred in connection with these PRC sales are to be borne by the PRC subcontractor and its related enterprise. The Group has also received indemnities from the PRC subcontractor and its related enterprise 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.

11 NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company is, HK$71,326,000 (2001: HK$98,408,000 as restated).

The comparative amount for 2001 has been restated by a prior year adjustment resulting in a net increase of HK$26,144,000 to the Company's net profit for that year, and a decrease of HK$70,000,000 to the amounts due from subsidiaries in the Company's balance sheet. The prior year adjustment reversed dividends from subsidiaries which were declared and approved by the subsidiaries after the prior year's balance sheet date, but which were recognised by the Company as revenue in its financial statements for that year. This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in notes 2 and 35 to the financial statements.

The effect of this change in accounting policy on the Company's net profit for the current year, was to decrease the net profit by HK$10,000,000 to HK$71,326,000, as disclosed above, representing the net effect of the prior year adjustment of HK$70,000,000 and the dividends declared by the subsidiaries after the current balance sheet date of HK$80,000,000.

12 DIVIDENDS

	2002 **HK$'000**	2001 HK$'000
Interim – HK1.4 cents (2001: HK2.4 cents) per ordinary share	**28,338**	48,469
Proposed final – HK1.5 cents (2001: HK1.0 cent) per ordinary share	**30,100**	20,513
	58,438	68,982

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 March 2001 of HK$20,513,000, which was recognised as a current liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this has been to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 March 2001, by HK$20,513,000.

The effect of this change in accounting policy as at 31 March 2002, is that the current year's proposed final dividend of HK$30,100,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

During the year, the Company has not issued any shares in lieu of dividend. In the prior year, shareholders received in scrip HK$26,993,000 in respect of the 2000 final dividend and the 2001 interim dividend.

13 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

Earnings	2002 HK$'000	2001 HK$'000 (Restated)
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	**143,356**	200,481
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)	**4,914**	7,253
Adjusted profit attributable to shareholders	**148,270**	207,734

Shares	Number of shares 2002	2001
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**2,028,798,473**	2,013,964,184
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all convertible notes outstanding during the year	**133,620,690**	133,620,690
Weighted average number of ordinary shares used in diluted earnings per share calculation	**2,162,419,163**	2,147,584,874

14 FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Tools and moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation:								
At beginning of year	454,053	97,864	202,527	16,767	62,122	17,540	30,317	881,190
Additions	6,453	4,160	12,664	2,237	13,734	2,453	34,705	76,406
Acquisition of subsidiaries	71,104	760	68,997	9,094	51,888	24,669	–	226,512
Disposals	–	–	(4,436)	(198)	(5,876)	(1,354)	–	(11,864)
Transfers	–	30,317	–	–	–	–	(30,317)	–
Exchange realignment	–	(5)	(30)	–	(14)	(27)	–	(76)
At 31 March 2002	**531,610**	**133,096**	**279,722**	**27,900**	**121,854**	**43,281**	**34,705**	**1,172,168**
Analysis of cost or valuation:								
At cost	462,310	133,096	279,722	27,900	121,854	43,281	34,705	1,102,868
At 31 March 1993 valuation	69,300	–	–	–	–	–	–	69,300
	531,610	133,096	279,722	27,900	121,854	43,281	34,705	1,172,168
Accumulated depreciation:								
At beginning of year	37,533	21,641	113,197	13,353	35,247	13,915	–	234,886
Provided during the year	10,969	11,178	27,402	2,908	13,909	3,399	–	69,765
Acquisition of subsidiaries	8,758	446	31,247	4,503	43,532	18,152	–	106,638
Disposals	–	–	(3,353)	(20)	(5,094)	(1,260)	–	(9,727)
Exchange realignment	–	(2)	(22)	–	(9)	(27)	–	(60)
At 31 March 2002	**57,260**	**33,263**	**168,471**	**20,744**	**87,585**	**34,179**	**–**	**401,502**
Net book value:								
At 31 March 2002	**474,350**	**99,833**	**111,251**	**7,156**	**34,269**	**9,102**	**34,705**	**770,666**
At 31 March 2001	416,520	76,223	89,330	3,414	26,875	3,625	30,317	646,304
Net book value of the Group's fixed assets held under finance leases or hire purchase contract:								
At 31 March 2002	**–**	**–**	**21,016**	**–**	**10,139**	**2,431**	**–**	**33,586**
At 31 March 2001	–	–	21,491	–	1,276	2,348	–	25,115

14 FIXED ASSETS *(continued)*

Certain of the Group's leasehold land and buildings were revalued at 31 March 1993, by C.Y. Leung & Company Limited, an independent firm of surveyors. The land and buildings were revalued at open market value, based on their existing use. Since then, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions of SSAP 17, "Property, plant and equipment", from the requirement to carry out future revaluations of its fixed assets which were stated at valuation at that time.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$30,363,000 (2001: HK$31,102,000).

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong HK$'000	**Elsewhere** HK$'000	**Total** HK$'000
At cost:			
Long term leases	–	79,344	79,344
Medium term leases	86,060	90,188	176,248
Short term leases	–	34,931	34,931
No specified terms of leases	–	171,787	171,787
	86,060	376,250	462,310
At valuation:			
Medium term leases	69,300	–	69,300
	155,360	376,250	531,610

Certain of the Group's leasehold land and buildings situated in Hong Kong were pledged to secure general banking facilities granted to the Group detailed in note 29 to the financial statements.

15 INTANGIBLE ASSETS

Group

	Development costs HK$'000	**Web platform** HK$'000	**Trademarks** HK$'000	**Total** HK$'000
Cost:				
At beginning of year	–	–	1,802	1,802
Additions	927	4,945	9	5,881
Acquisition of subsidiaries	13,009	–	10,778	23,787
Disposal	–	–	(4,437)	(4,437)
At 31 March 2002	**13,936**	**4,945**	**8,152**	**27,033**
Accumulated amortisation:				
At beginning of year	–	–	1,408	1,408
Provided during the year	1,142	–	608	1,750
Acquisition of subsidiaries	7,713	–	4,806	12,519
Disposal	–	–	(1,664)	(1,664)
At 31 March 2002	**8,855**	**–**	**5,158**	**14,013**
Net book value:				
At 31 March 2002	**5,081**	**4,945**	**2,994**	**13,020**
At 31 March 2001	–	–	394	394

16 GOODWILL

SSAP 30, "Business combinations", was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the goodwill capitalised as an asset in the balance sheet, arising from the acquisition of subsidiaries, are as follows:

Group

	Goodwill HK$'000
Cost:	
At beginning of year:	
As previously reported	–
Prior year adjustment	20,821
As restated	20,821
Transfer from an associate which became a subsidiary during the year	3,441
Acquisition of subsidiaries	203,799
At 31 March 2002	**228,061**
Accumulated amortisation and impairment:	
At beginning of year:	
As previously reported	–
Impairment – prior year adjustment	18,768
Amortisation – prior year adjustment	2,053
As restated	20,821
Amortisation provided during the year	6,441
At 31 March 2002	**27,262**
Net book value:	
At 31 March 2002	**200,799**
At 31 March 2001 (as restated)	–

16 GOODWILL *(continued)*

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of previous acquisitions to be restated to the non-current assets section of the balance sheet, in accordance with the new accounting policy.

The prior year adjustment so arising has resulted in goodwill previously eliminated against retained earnings of HK$20,821,000 as at 1 April 2001, being restated as the cost of the goodwill above, as at 1 April 2001. The cumulative amount of goodwill that would have been amortised to the profit and loss account under the new accounting policy, of HK$2,053,000 as at 1 April 2001, together with the amount of further impairment which would have arisen in prior years under the requirements of SSAP 30, of HK$18,768,000 as at 1 April 2001, have been restated as the balance of accumulated amortisation and impairment of goodwill as at 1 April 2001.

The effect of this change in accounting policy on the profit and loss account for the current year was to increase the amortisation of goodwill by HK$6,441,000.

17 INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK$'000	HK$'000
		(Restated)
Unlisted shares, at cost	**92,714**	92,714
Current accounts:		
Due from subsidiaries	**639,607**	641,462
Due to subsidiaries	**(15,883)**	(2,042)
	623,724	639,420
	716,438	732,134

The amounts due from/to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

The amounts due from subsidiaries in the prior year have been adjusted for the effect of the prior year adjustment of HK$70,000,000 in respect of dividends proposed after the prior year's balance sheet date, as further explained in note 12 to the financial statements.

17 INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Active Sino Group Limited	British Virgin Islands	The People's Republic of China	US$1,000	–	82.5	Investment holding
Allied Industrial Limited	Hong Kong	The People's Republic of China	HK$10,000	–	100	Distribution of optical products
B.M. Optical Parts Company Limited	Hong Kong	Hong Kong	HK$500,000	–	80	Trading of optical products
Bold Ware Optical (Metal) Manufactory Limited	Hong Kong	The People's Republic of China	HK$100	–	80	Manufacture and trading of spectacle accessories
Chaoyang City Taixingshen Optical Company Limited *(note c)*	The People's Republic of China	The People's Republic of China	HK$3,000,000	–	80	Investment holding
Creative Eyewear Limited	British Virgin Islands	The People's Republic of China	US$2,000,000	–	75	Manufacture and trading of optical products
Filos GmbH *(note c)*	Germany	Germany	DM48,896	–	46	Distribution of optical products
Filos North America Inc. *(note c)*	United States of America	United States of America	USD500,000	–	54.16	Distribution of optical products
Filos S.p.A.	Italy	Italy	Euro 8,904,289	–	54.16	Distribution of optical products
Filospiave Holdings Limited *(note c)*	United Kingdom	United Kingdom	GBP500	–	27.62	Investment holding
Filos U.K. Ltd *(note c)*	United Kingdom	United Kingdom	GBP100	–	27.62	Distribution of optical products

17 INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Gali Optik s.r.o. *(note c)*	Czech Republic	Czech Republic	CZK100,000,000	–	54.16	Manufacture of optical products
Infinite Eyewear Limited	Hong Kong	Hong Kong	HK$3	–	100	Distribution of optical products
Leadkeen Industrial Limited	Hong Kong	The People's Republic of China	HK$100,000	–	100	Manufacture and trading of optical products
Liberty Optical, Inc. *(note c)*	United States of America	United States of America	US$8	–	100	Distribution of optical products
M+M Holding GmbH *(note c)*	Germany	Germany	Euro749	–	54.16	Manufacture and distribution of optical products
Martin Philippines, Inc. *(note c)*	The Philippines	The Philippines	PHP5,000,000	–	51	Distribution of optical products
Metzler Bonnier B.V. *(note c)*	Netherlands	Netherlands	Euro113,400	–	54.16	Distribution of optical products
Metzler International AG (formerly known as European Eyewear AG) *(note c)*	Germany	Germany	Euro150,000	–	54.16	Investment holding
Metzler Optik Partner AG *(note c)*	Germany	Germany	Euro4,652,800	–	54.16	Distribution of optical products
Metzler Optik Partner AG *(note c)*	Switzerland	Switzerland	SFR140,000	–	29.79	Distribution of optical products
Metzler Optik Partner KK *(note c)*	Japan	Japan	JPY30,000,000	–	27.26	Distribution of optical products
Metzler Optik Partner Ltd. *(note c)*	United Kingdom	United Kingdom	GBP10,000	–	35	Distribution of optical products
Metzler Optik Partner s.r.o. *(note c)*	Czech Republic	Czech Republic	CZK1,000,000	–	40.62	Distribution of optical products

17 INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Metzler Optik Partner s.r.o. *(note c)*	Slovakia	Slovakia	SKK400,000	–	40.62	Distribution of optical products
M.D. Creation Limited	Hong Kong	Hong Kong	HK$10,000	–	100	Provision of design and marketing services of optical products
MonOptic GmbH Brillen *(note c)*	Germany	Germany	DM250,000	–	100	Distribution of optical products
MonOptic (M) SDN. BHD.	Malaysia	Malaysia	RM100	–	75	Distribution of optical products
MonOptic (S'pore) Pte Limited	Singapore	Singapore	S$100	–	75	Distribution of optical products
Moulin (HK) Logistics Company Limited	Hong Kong	Hong Kong	HK$10,000	–	100	Provision of logistic services
Moulin Holdings (H.K.) Company Limited	Hong Kong	Hong Kong	HK$2	–	100	Investment holding
Moulin Occhiali SRL *(note c)*	Italy	Italy	ITL20,000,000	–	100	Manufacture and trading of optical products
Metzler International (Asia) Limited (formerly known as Moulin Optical (Far East) Limited)	Hong Kong	Hong Kong	HK$4,000,000	–	75	Distribution of optical products
Moulin Optical Manufactory Limited	Hong Kong	Hong Kong	HK$1,000,000	–	100	Manufacture, marketing and distribution of optical products
Mounthill Group Limited	British Virgin Islands	Hong Kong	US$1,000	–	100	Licenses holding
N.G.A. Optical Manufactory Limited	Hong Kong	The People's Republic of China	HK$6,500,000	–	50 *(note a)*	Manufacture and trading of optical products

17 INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ registration	Place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Opti-Fashion Inc. *(note c)*	United States of America	United States of America	USD2,400,000	–	54.16	Distribution of optical products
Peace City Investment Limited	Hong Kong	Hong Kong	HK$3	–	100	Property investment
Shanghai Hillman's Spectacles Limited *(note b)*	The People's Republic of China	The People's Republic of China	US$700,000	–	82.5	Retail trading of optical products
Shanghai Hillman Trading Limited *(note b)*	The People's Republic of China	The People's Republic of China	RMB300,000	–	57.75	Retail trading of optical products
Sino Concept Industrial Limited	Hong Kong	The People's Republic of China	HK$10,000	–	100	Provision of electroplating services
Sintesi S.r.l. *(note c)*	Italy	Italy	Euro4,080,000	–	54.16	Manufacture of optical products
United Optical S.p.A. *(note c)*	Italy	Italy	Euro2,452,621	–	54.16	Distribution of optical products

Notes:

(a) 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.

(b) 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.

(c) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

During the year, the Group acquired Filos S.p.A., Liberty Optical Inc. and M+M Holding GmbH, and their respective subsidiaries. Further details of these acquisitions are included in note 36(d) to the financial statement.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18 INTERESTS IN ASSOCIATES

	Group	
	2002	2001
	HK$'000	HK$'000
		(Restated)
Share of net assets	–	20,238
Goodwill on acquisition (net of accumulated amortisation of HK$1,683,000)	–	11,949
	–	32,187
Loans to associates	–	47,682
	–	79,869
Provision for impairment	–	(8,508)
	–	71,361

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of previous acquisitions to be restated to the non-current assets section of the balance sheet, in accordance with the new accounting policy.

The prior year adjustment so arising has resulted in goodwill previously eliminated against retained earnings of HK$13,632,000 as at 1 April 2001, being restated as the cost of the goodwill above, as at 1 April 2001. The cumulative amount of goodwill that would have been amortised to the profit and loss account under the new accounting policy, of HK$1,683,000 as at 1 April 2001, together with the amount of further impairment which would have arisen in prior years under the requirements of SSAP 30, of HK$8,508,000 as at 1 April 2001, have been restated as the balance of accumulated amortisation and impairment of goodwill as at 1 April 2001.

The effect of this change in accounting policy on the profit and loss account for the year ended 31 March 2001 was to increase the amortisation of goodwill by HK$181,000.

The net amount of goodwill amortisation and impairment, of HK$181,000 as at 1 April 2001 and HK$10,010,000 as at 1 April 2000, has been adjusted to the balance of retained earnings as at those dates.

Last year's loans to the associates were unsecured, interest-free and had no fixed terms of repayment, except for a loan to an associate amounting to HK$12,765,000 which was convertible into equity of the associate at the option of the Group. The amount was converted to equity during the year.

During the year, the Group increased its shareholdings in the two principal associates, Liberty Optical, Inc. and M+M Holding GmbH. Accordingly, the two associates became subsidiaries of the Group. The percentage of ownership interest attributable to the Group from Liberty Optical, Inc. and M+M Holding GmbH was 50% and 25.1%, respectively, in the prior year. Further details are included in note 17 to the financial statements.

19 LONG TERM INVESTMENTS

	Group 2002 HK$'000	2001 HK$'000
Unlisted equity investments, at cost:		
Hong Kong	**40,000**	70,000
Elsewhere	**–**	7,037
	40,000	77,037
Provision for impairment	**(4,500)**	(4,500)
	35,500	72,537
Listed equity investments in Hong Kong, at market value	**47**	103
	35,547	72,640
Market value of listed equity investments	**47**	103

20 PROMISSORY NOTES

	Group 2002 HK$'000	2001 HK$'000
Settlement of trade debts *(note a)*	**62,919**	48,878
Refund of a deposit *(note b)*	**17,699**	36,217
Advances to a PRC subcontractor *(note c)*	**18,519**	–
	99,137	85,095
Portion classified as current assets *(note 24)*:		
Settlement of trade debts	**(40,843)**	(6,630)
Refund of a deposit	**(17,699)**	(18,518)
	(58,542)	(25,148)
	40,595	59,947

20 PROMISSORY NOTES *(continued)*

Notes:

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

(i) an outstanding amount of HK$23,802,000, net of provision of HK$3,000,000, received in the year ended 31 March 1999. The original notes of HK$36,552,000 are unsecured, interest-free and are repayable by a first payment of HK$3,900,000 in June 1999, followed by 35 equal monthly installments of HK$390,000 commencing on 1 August 1999 and a final payment of HK$19,002,000 on 1 August 2002;

(ii) an outstanding amount of HK$22,076,000 received in the year ended 31 March 2001. The notes are unsecured, bear interest at 9% per annum and are repayable by four equal semi-annual installments commencing from April 2003;

(iii) an remaining amount of HK$6,365,000 receivable for a newly acquired subsidiary. The notes are secured by a licensing agreement, bear interest at US prime rate and are repayable by quarterly installments of HK$2,437,000 commencing on 1 December 1999 and a final payment on 30 September 2002; and

(iv) an amount of HK$10,676,000 received in the current year. The notes are unsecured, bear interest at 6.25% per annum and are repayable by five monthly installments of HK$1,783,000 commencing on 1 June 2002 and a final payment of HK$1,760,000 on 1 November 2002.

(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 installments on 5 April of 2000, 2001 and 2002, respectively.

(c) The promissory notes were received for fund advances to a PRC subcontractor. The notes are unsecured, interest-free and are repayable by half yearly installments commencing from 30 April 2003.

21 STAFF LOANS

	Group	
	2002	2001
	HK$'000	HK$'000
Staff loans	**8,224**	9,639
Portion classified as current assets *(note 24)*	**(2,610)**	(3,061)
	5,614	6,578

Included in staff loans were:

(i) balances totalling HK$810,000 (2001: HK$1,011,000) which are unsecured, interest-free and have no fixed terms of repayment; and

(ii) a balance of HK$7,414,000 (2001: HK$8,628,000) which is partially secured, interest-free and with specified repayment terms.

22 PREPAYMENTS FOR FRAME BOARD SPACE

	Group	
	2002	2001
	HK$'000	HK$'000
Prepayments for frame board space	**63,654**	–
Portion classified as current assets *(note 24)*	**(13,524)**	–
	50,130	–

Prepayments for frame board space were made to optical retail chains to secure continuous purchase from these retail chains and reserve a certain minimum percentage of frame board space for display in each retail outlets in accordance with contractual agreements.

23 INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**153,436**	119,974
Work in progress	**121,802**	38,409
Finished goods	**253,876**	111,621
	529,114	270,004
Provision for slow moving and obsolete inventories	**(79,606)**	(19,364)
	449,508	250,640

The carrying amount of raw materials and finished goods carried at net realisable value included in the above balances were HK$1,269,000 (2001: HK$3,541,000) and HK$61,897,000 (2001: HK$15,398,000), respectively, as at the balance sheet date.

24 TRADE AND OTHER RECEIVABLES

	Notes	Group 2002 HK$'000	Group 2001 HK$'000	Company 2002 HK$'000	Company 2001 HK$'000
Trade debtors and bills receivable	*(a)*	**472,970**	354,988	**–**	–
Other debtors and prepayments		**310,226**	244,787	**5,515**	5,098
Promissory notes	*20*	**58,542**	25,148	**–**	–
Staff loans	*21*	**2,610**	3,061	**–**	–
Short term loans	*(b)*	**–**	67,860	**–**	–
Due from a PRC subcontractor		**181,551**	113,754	**–**	–
Prepayments for frame board space	*22*	**13,524**	–	**–**	–
Due from the ultimate holding company	*(c)*	**15,063**	2,229	**12,664**	–
Due from associates	*(c)*	**–**	77,484	**–**	–
		1,054,486	889,311	**18,179**	5,098

Notes:

(a) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period from 60 to 90 days, but 120 days for major customers, and each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An aged analysis of the trade debtors and bills receivable as at the balance sheet date, based on the invoice date, is as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Current	**161,291**	39,339
1 to 3 months	**157,360**	64,779
4 to 6 months	**27,825**	113,063
7 to 12 months	**144,289**	117,746
Over 12 months	**29,791**	32,453
	520,556	367,380
Provision for doubtful debts	**(47,586)**	(12,392)
	472,970	354,988

(b) Short term loans as at 31 March 2001 were unsecured, bore interest at 9% per annum and had specified repayment terms. All the loans were repaid in full during the year.

(c) The amounts due from the ultimate holding company and associates are unsecured, interest-free and have no fixed terms of repayment. The Company's balance as at 31 March 2002 comprised the amount of executive directors' remuneration during the year borne by the ultimate holding company as set out in note 8.

25 SHORT TERM INVESTMENTS

	Group	
	2002	2001
	HK$'000	HK$'000
Listed equity investments, at market value:		
Hong Kong	**357**	385
Elsewhere	**1,657**	1,677
	2,014	2,062

26 CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**66,410**	221,192	**53**	28
Time deposits	**311,488**	101,512	**–**	–
	377,898	322,704	**53**	28

27 TRADE AND OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2002	2001	**2002**	2001
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Trade creditors and bills payable	*(a)*	**193,947**	73,415	**–**	–
Other creditors and accruals		**115,198**	47,250	**3,324**	2,991
Due to related companies	*(b)*	**3,584**	289	**–**	–
		312,729	120,954	**3,324**	2,991

27 TRADE AND OTHER PAYABLES AND ACCRUALS *(continued)*

Notes:

(a) An aged analysis of the trade creditors and bills payable as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Current	**88,313**	56,772
1 to 3 months overdue	**68,340**	12,478
Over 3 months	**37,294**	4,165
	193,947	73,415

(b) The amount due to related companies are unsecured, interest-free and have no fixed terms of repayment.

28 PROVISIONS FOR RESTRUCTURING

Group

	Restructuring
	HK$'000
At beginning of year	–
Arising from acquisition of subsidiaries	6,810
At 31 March 2002	**6,810**
Portion classified as current liabilities	(6,810)
Long term portion	–

Provisions for restructuring are estimated based on the costs required under the restructuring plan of the acquired subsidiaries to eliminate product lines and compensate redundant staff. The provisions are reviewed on an ongoing basis and revised where appropriate.

29 INTEREST-BEARING BANK BORROWINGS

	Group	
	2002	2001
	HK$'000	HK$'000
Bank overdrafts:		
Secured	**13,077**	–
Unsecured	**86,338**	5,907
	99,415	5,907
Bank loans:		
Secured	**285,556**	21,063
Unsecured	**714,510**	652,070
	1,000,066	673,133
	1,099,481	679,040
Bank overdrafts repayable within one year or on demand	**99,415**	5,907
Bank loans repayable:		
Within one year or on demand	**307,763**	195,838
In the second year	**34,246**	45,421
In the third to fifth years, inclusive	**131,972**	27,583
Over five years	**148,085**	4,291
	622,066	273,133
Syndicated loan repayable:		
Within one year	**88,000**	22,000
In the second year	**290,000**	88,000
In the third to fifth years, inclusive	**–**	290,000
	378,000	400,000
	1,099,481	679,040
Portion classified as current liabilities	**(495,178)**	(223,745)
Long term portion	**604,303**	455,295

29 INTEREST-BEARING BANK BORROWINGS *(continued)*

Certain of the Group's bank loans, other than those of the European subsidiaries, are secured by mortgages over certain of the Group's leasehold land and buildings, which had an aggregate net book value at the balance sheet date of approximately HK$73,426,000 (2001: HK$75,010,000).

Bank loans of the European subsidiaries totalling HK$368,480,000 (2001: Nil), of which HK$283,467,000 (2001: Nil) are secured by:

(a) leasehold land and buildings of the corresponding subsidiaries, which had an aggregate net book value at the balance sheet date of approximately HK$38,312,000;

(b) fixed assets, excluding leasehold land and buildings, of the corresponding subsidiaries, which had an aggregate net book value at the balance sheet date of approximately HK$27,942,000;

(c) collateralising inventories and accounts receivables of HK$99,581,000 and HK$194,972,000, respectively, of the corresponding subsidiaries; and

(d) the pledge of certain shares of a subsidiary, M+M Holding GmbH.

30 FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery, furniture fixtures and equipment and motor vehicles for its business. These leases are classified as finance leases or hire purchase contracts and have remaining lease terms up to 3 years.

At 31 March 2002, the total future minimum lease payments under finance leases and hire purchase contract payables and their present values, were as follows:

Group	**Minimum lease payments 2002 HK$'000**	**Minimum lease payments** 2001 HK$'000	**Present value of minimum lease payments 2002 HK$'000**	**Present value of minimum lease payments** 2001 HK$'000
Amounts payable:				
Within one year	**18,375**	12,124	**17,462**	11,009
In the second year	**9,710**	8,092	**9,238**	7,733
In the third to fifth years, inclusive	**8,398**	1,728	**7,666**	1,651
Total minimum finance lease payments	**36,483**	21,944	**34,366**	20,393
Future finance charges	**(2,117)**	(1,551)		
Total net finance lease and hire purchase contract payables	**34,366**	20,393		
Portion classified as current liabilities	**(17,462)**	(11,008)		
Long term portion	**16,904**	9,385		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

31 CONVERTIBLE NOTES

Pursuant to a Subscription Agreement dated 13 August 1999 and a Supplemental Agreement dated 5 February 2001, 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 of 5%, is payable 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 54 months after the issue of the notes, 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$0.10 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.

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 2 March 2004. In addition, 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 6% and 10%, for redemption at maturity and voluntary redemption, respectively, with reference to the market rate.

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

32 DEFERRED TAX

	Group	
	2002	2001
	HK$'000	HK$'000
At beginning of year	**–**	–
Charge for the year *(note 10)*	**4,500**	–
At 31 March	**4,500**	–

The principal components of the Group's provision for deferred tax, and the net deferred tax asset position not recognised in the financial statements are as follows:

	Provided		Not provided	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accelerated depreciation allowances	**6,308**	–	**323**	(1,667)
Tax losses	**(1,808)**	–	**(8,572)**	(2,711)
Others	**–**	–	**(2,129)**	–
	4,500	–	**(10,378)**	(4,378)

33 MINORITY INTERESTS

Minority interests are presented as a recoverable amount as one of the minority shareholders of the European subsidiaries has a binding obligation to make good the losses in proportion to its shareholding and to the extent that the losses exceeded its contributed capital, but in no event exceeding HK$8,172,000 (equivalent to Euro1,200,000).

34 SHARE CAPITAL

Shares

	2002 **HK$'000**	2001 HK$'000
Authorised:		
6,000,000,000 ordinary shares of HK$0.10 each	**600,000**	600,000
Issued and fully paid:		
2,006,648,314 (2001: 2,051,274,314) ordinary shares of HK$0.10 each	**200,665**	205,127

During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of purchase	**Number of ordinary shares of HK$0.1 each**	**Price per share Highest** HK$	**Price per share Lowest** HK$	**Aggregate consideration paid** HK$'000
April 2001	3,750,000*	0.580	0.560	2,130
July 2001	6,910,000	0.580	0.560	3,936
August 2001	8,192,000	0.580	0.550	4,615
September 2001	9,146,000	0.570	0.460	4,543
October 2001	1,948,000	0.495	0.480	948
November 2001	100,000	0.485	0.485	48
December 2001	5,590,000	0.600	0.600	3,354
January 2002	5,448,000	0.600	0.580	3,231
February 2002	3,542,000	0.600	0.600	2,125
	44,626,000			24,930

* *Included in this figure is 1,100,000 shares which were repurchased in March 2001, but not yet cancelled until April 2001.*

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 the share premium account.

34 SHARE CAPITAL *(continued)*

Shares *(continued)*

A summary of the transactions during the current and prior years with reference to the above movements of the Company's ordinary share capital is as follows:

	Number of shares in issue	**Share capital** HK$'000
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	(10,024,000)	(1,002)
At 31 March 2001 and beginning of year	2,051,274,314	205,127
Repurchase and cancellation of own shares	(44,626,000)	(4,462)
At 31 March 2002	**2,006,648,314**	**200,665**

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 32.

At the beginning of the year, there were 70,930,000 options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at any time during periods ranging from 27 December 2000 to 5 September 2003. The subscription price payable upon the exercise of these options was HK$0.62 per share, subject to adjustment.

During the year, the Company granted a total of 9,480,000 share options under the Scheme for a nominal consideration of HK$1 in total per grant. The share options granted entitle the holders to subscribe for shares of the Company at any time during the period ranging from 27 December 2000 to 5 September 2003. The subscription price per share payable upon the exercise of these options is HK$0.62, subject to adjustment.

None of the share options were exercised, and 12,080,000 share options with an exercise price of HK$0.62 were cancelled during the year.

34 SHARE CAPITAL *(continued)*

Share options *(continued)*

At 31 March 2002, the Company had 68,330,000 share options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company as follows:

	Number of shares options	**Exercisable period (both dates inclusive)**
Managerial level or above		
Portion A	14,025,000	6 September 2001 to 5 September 2002
Portion B	21,037,500	27 December 2000 to 5 September 2002
Portion C	21,037,500	6 September 2002 to 5 September 2003
	56,100,000	
Assistant manager level or below		
Portion D	6,115,000	1 January 2002 to 5 September 2003
Portion E	6,115,000	On 5 September 2003
	12,230,000	
	68,330,000	

The subscription price payable upon the exercise of the above options was HK$0.62 per share, subject to adjustment.

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.

Portion E are only exercisable on 5 September 2003.

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 68,330,000 additional shares of HK$0.10 each and proceeds of approximately HK$42,365,000.

Convertible notes

At 31 March 2002, the Group had outstanding convertible notes which can be converted to a maximum of approximately 133,620,690 additional shares of HK$0.10 each in the Company. Further details of the convertible notes are set out in note 31 to the financial statements.

35 RESERVES

Group

	Share premium account HK$'000	Property revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2000					
As previously reported	194,058	39,681	1,625	747,184	982,548
Prior year adjustment:					
SSAP 30 – Restatement to non-current assets section of balance sheet of goodwill on acquisition of:					
Subsidiaries *(notes 2 and 16)*	–	–	–	20,821	20,821
Associates *(notes 2 and 18)*	–	–	–	10,010	10,010
Amortisation of goodwill	–	–	–	(3,555)	(3,555)
Impairment of goodwill	–	–	–	(27,276)	(27,276)
As restated	194,058	39,681	1,625	747,184	982,548
Exchange realignments	–	–	(7,644)	–	(7,644)
Revaluation reserve released 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)
Net profit for the year (as restated)	–	–	–	200,481	200,481
Interim 2001 dividend	–	–	–	(48,469)	(48,469)
Proposed final 2001 dividend	–	–	–	(20,513)	(20,513)
At 31 March 2001 – as restated	184,246	33,566	(6,019)	911,791	1,123,584

35 RESERVES *(continued)*

Group

	Share premium account HK$'000	**Property revaluation reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 April 2001 and beginning of year					
As previously reported	184,246	33,566	(6,019)	908,350	1,120,143
Prior year adjustment:					
SSAP 30 – Restatement to					
non-current assets					
section of balance sheet of goodwill					
on acquisition of associates					
(notes 2 and 18)	–	–	–	3,622	3,622
Amortisation of goodwill	–	–	–	(181)	(181)
As restated	184,246	33,566	(6,019)	911,791	1,123,584
Exchange realignments	–	–	4,218	–	4,218
Repurchase and cancellation of own shares	(20,468)	–	–	–	(20,468)
Net profit for the year	–	–	–	143,356	143,356
Interim 2002 dividend	–	–	–	(28,338)	(28,338)
Proposed final 2002 dividend	–	–	–	(30,100)	(30,100)
At 31 March 2002	**163,778**	**33,566**	**(1,801)**	**996,709**	**1,192,252**
Reserves retained by:					
Company and subsidiaries					
at 31 March 2002	**163,778**	**33,566**	**(1,801)**	**996,709**	**1,192,252**
Company and subsidiaries	184,246	33,566	(6,019)	919,192	1,130,985
Associates	–	–	–	(7,401)	(7,401)
At 31 March 2001	184,246	33,566	(6,019)	911,791	1,123,584

35 RESERVES *(continued)*

Company

	Share premium account HK$'000	**Contributed surplus** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 April 2000				
As previously reported	194,058	92,613	154,452	441,123
Prior year adjustment:				
SSAP 18 (Revised) – net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year *(notes 2 and 11)*	–	–	(96,144)	(96,144)
As restated	194,058	92,613	58,308	344,979
Shares issued in lieu of dividends	(4,740)	–	26,993	22,253
Repurchase and cancellation of own shares	(5,072)	–	–	(5,072)
Net profit for the year (as restated)	–	–	98,408	98,408
Interim 2001 dividend	–	–	(48,469)	(48,469)
Proposed final 2001 dividend	–	–	(20,513)	(20,513)
	184,246	92,613	114,727	391,586
At 31 March 2001 and beginning of year				
As previously reported	184,246	92,613	184,727	461,586
Prior year adjustments:				
SSAP 18 (Revised) – net year-on-year effect of dividends from subsidiaries no longer recognised as income for the year *(notes 2 and 11)*	–	–	(70,000)	(70,000)
As restated	184,246	92,613	114,727	391,586
Repurchase and cancellation of own shares	(20,468)	–	–	(20,468)
Net profit for the year	–	–	71,326	71,326
Interim 2002 dividend	–	–	(28,338)	(28,338)
Proposed final 2002 dividend	–	–	(30,100)	(30,100)
At 31 March 2002	**163,778**	**92,613**	**127,615**	**384,006**

35 RESERVES *(continued)*

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation becoming effective, over the nominal value of the Company's shares issued in exchange therefor.

Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus in certain circumstances. 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.

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

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002 **HK$'000**	2001 HK$'000 (Restated)
Profit from operating activities	**184,592**	294,969
Interest income	**(39,482)**	(50,163)
Dividend income from listed investments	**(96)**	(88)
Gain on disposal of fixed assets	**(701)**	(1,729)
Loss on disposal of intangible assets	**2,773**	–
Depreciation	**69,765**	49,475
Amortisation of intangible assets	**1,750**	259
Amortisation of goodwill	**6,441**	181
Unrealised loss on revaluation of long and short term listed investments	**20**	2,469
Provision for impairment of long term unlisted investments	**–**	4,500
Decrease/(increase) in promissory notes	**(13,715)**	827
Decrease in advances to PRC distributors	**–**	63,506
Decrease/(increase) in staff loans	**1,430**	(8,067)
Increase in prepayments for frame board space	**(63,578)**	–
Decrease/(increase) in inventories	**9,465**	(12,929)
Decrease in trade debtors and bills receivable	**86,624**	5,224
Increase in other debtors and prepayments	**(11,619)**	(43,475)
Decrease/(increase) in short term loans	**67,860**	(67,860)
Increase in amount due from a PRC subcontractor	**(66,782)**	(50,932)
Increase in amount due from the ultimate holding company	**(12,750)**	(228)
Increase in amounts due from associates	**–**	(18,260)
Decrease in trade creditors and bills payable	**(36,377)**	(7,333)
Increase/(decrease) in other creditors and accruals	**(43,287)**	14,432
Increase/(decrease) in amounts due to related companies	**3,275**	(553)
Increase in provisions for restructuring	**6,810**	–
Net cash inflow from operating activities	**152,418**	174,225

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account) HK$'000	**Long term bank loans** HK$'000	**Short term bank loans** HK$'000	**Finance leases and hire purchase contracts** HK$'000	**Minority interests** HK$'000
At 1 April 2000	395,447	262,242	176,678	19,989	8,355
Cash inflow/(outflow) from financing activities, net	(6,074)	193,053	(7,263)	(7,329)	–
Inception of finance lease contracts	–	–	–	7,733	–
Share of profit after tax of subsidiaries	–	–	–	–	3,198
Exchange realignments	–	–	690	–	(169)
At 31 March 2001 and beginning of year	389,373	455,295	170,105	20,393	11,384
Cash outflow from financing activities, net	(24,930)	–	(108,403)	(7,182)	–
Reclassification	–	(123,083)	123,083	–	–
Inception of finance lease contracts	–	–	–	9,355	–
Share of profit after tax of subsidiaries	–	–	–	–	(22,784)
Subsidiaries acquired during the year	–	272,091	–	11,800	6,361
Exchange realignments	–	–	–	–	2,636
At 31 March 2002	**364,443**	**604,303**	**184,785**	**34,366**	**(2,403)**

(c) Major non-cash transactions

During the year, the Group entered into the following non-cash transactions:

(i) The Group entered into finance lease and hire purchase arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK$9,355,000 (2001: HK$7,733,000).

(ii) The Group's construction in progress has additions of HK$34,705,000 arising from the consolidation of Chaoyang City Taixingshen Optical Company Limited which was treated as a long term investment in the previous years.

(iii) The Group increased its interest in an associate, M+M Holding GmbH ("M+M") which became a subsidiary now, by converting a loan of HK$12,765,000 into equity of M+M.

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Acquisition of subsidiaries

	HK$'000
Net assets acquired:	
Fixed assets	119,874
Goodwill	49,504
Intangible assets	11,268
Inventories	205,820
Trade debtors and bills receivables	201,962
Other debtors and prepayments	49,754
Cash and bank balances	64,406
Trade creditors and bills payable	(155,824)
Other creditors and accruals	(97,826)
Due to the Group	(125,568)
Tax payable	(6,510)
Finance lease payables	(11,800)
Bank loans	(272,091)
Bank overdrafts	(90,956)
Minority interests	(6,361)
	(64,348)
Goodwill on acquisition	154,295
	89,947
Satisfied by:	
Cash	50,236
Conversion of loan into equity of an associate	12,765
Costs associated with the acquisition of subsidiaries	7,110
Reclassification to interests in subsidiaries from interests in associates	19,836
	89,947

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Acquisition of subsidiaries *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002
	HK$'000
Cash consideration	**(50,236)**
Cash paid for costs associated with the acquisition of subsidiaries	**(7,110)**
Cash and bank balances acquired	**64,406**
Bank overdrafts and bank loans acquired	**(90,956)**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(83,896)**

In April 2001, the Group further increased its shareholdings in the two associates, Liberty Optical, Inc. ("Liberty") and M+M Holding GmbH ("M+M"), and accordingly the two associates became subsidiaries of the Group. Liberty and M+M are both engaged in the distribution of optical products, and M+M is also involved in the manufacture of optical products. The purchase consideration for the acquisition of M+M was satisfied by converting the loan granted to M+M of HK$12,765,000. Liberty redeemed and cancelled all the shares of Liberty held by Liberty Manufacturing Co. Inc., a former shareholder which held 50% of Liberty, and became a wholly owned subsidiary of the Group since 1 April 2001.

In October 2001, the Group acquired 54.16% interest in Filos S.p.A. ("Filos"), which is engaged in the manufacture and distribution of optical products, via a newly established company, Metzler International AG ("MIAG") (formerly known as European Eyewear AG). The purchase consideration for the acquisition was in the form of cash, with HK$50,236,000 being paid at the acquisition date. Following the restructuring of the European subsidiaries, M+M is also held by MIAG as 54.16% owned subsidiary of the Group.

For the year ended 31 March 2002, these new subsidiaries paid HK$30,961,000 in respect of the Group's operating activities, paid HK$9,532,000 in respect of the cash flows for net returns on investments and servicing of finance, made payments of HK$6,525,000 for overseas taxes, paid HK$4,577,000 in respect of investing activities, and gave rise to financing cash outflows of HK$7,459,000.

Since the respective acquisitions in 2002, these new subsidiaries contributed HK$437,775,000 to the Group's turnover and loss of HK$37,081,000 to the consolidated profit after tax and before minority interests for the year ended 31 March 2002. These turnover and profit after tax amounts exclude the former associates' contribution to the results prior to it becoming a subsidiary.

37 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group did not have any material transactions with related parties during the year.

Last year's transactions with associates are set out below.

(a) During the year ended 31 March 2001, the Group sold optical frames to its associates, amounting to HK$39,784,000, under the same terms as those available to other customers under the normal course of business.

(b) The Group granted loans to the associates in prior years. The loans to associates outstanding as at 31 March 2001, amounted to HK$47,682,000, as detailed in note 18 to the financial statements. The associates became subsidiaries of the Group in April 2001.

(c) Details of last year's trade balances with its associates are disclosed in note 24 to the financial statements.

38 CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank guarantee given in lieu of deposits				
for licensing arrangement	**9,971**	–	**–**	–
Bills discounted with recourse	**568**	–	**–**	–
Guarantee given to banks in connection				
with facilities granted to:				
Subsidiaries	**–**	–	**742,165**	678,985
A related company	**9,224**	–	**–**	–
Guarantees given to a finance company				
for finance leases granted to subsidiaries	**–**	–	**8,173**	20,080
	19,763	–	**750,338**	699,065

39 OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties, motor vehicles and office equipments under operating lease arrangements, with leases negotiated for terms up to 5 years.

At 31 March 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
		(Restated)
Within one year	**25,476**	13,394
In the second to fifth years, inclusive	**38,989**	35,516
After five years	**45**	1,573
	64,510	50,483

At the balance sheet date, the Company did not have any future minimum lease payments under non-cancellable operating leases.

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee stated above, have been restated to accord with the current year's presentation.

40 COMMITMENTS

In addition to the operating lease commitments detailed in note 39 above, the Group had the following commitments at the balance sheet date:

	Group	
	2002	2001
	HK$'000	HK$'000
(a) Capital commitments		
Capital contribution to a subsidiary in the form of PRC joint stock company (RMB46,100,000)	**42,685**	–
Authorised, but not contracted for, in respect of the purchase of land use rights in the PRC (RMB15,000,000)	**13,889**	–
	56,574	–

40 COMMITMENTS *(continued)*

	Group	
	2002	2001
	HK$'000	HK$'000
(b) Other commitments		
Commitments contracted with banks in connection with bank loans waived in prior year	**17,409**	–

M+M Holding GmbH ("M+M"), a newly acquired subsidiary, had a bank loan of DM5,000,000 waived by the bank in the prior year. An agreement was signed between M+M and the banker in which M+M agreed to repay the banker on an installment basis at 20% of the net profit of M+M, commencing from the calendar year ended 31 December 2002, if M+M makes profit, and until the amount is fully paid.

At the balance sheet date, the Company did not have any significant commitments.

41 POST BALANCE SHEET EVENT

On the approval date of this Annual Report, 30 July 2002, the board of directors recommended to make a consolidation of the Company's share on the basis that every five shares of HK$0.10 each in the issued and unissued share capital of the Company be consolidated into one share of HK$0.50 each ("Consolidated Share") with effect from 9 September 2002. This recommendation has not been incorporated in the financial statements because the Consolidated Share is conditional upon the approval by shareholders at the forthcoming annual general meeting and the granting by the Stock Exchange of the listing of and permission to deal in the Consolidated Shares to be issued.

42 COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

43 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 July 2002.