

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 66.

An interim dividend of HK4.0 cents per share was paid on 16 January 2003. The directors recommend the payment of a final dividend of HK7.5 cents per share in respect of the year, to shareholders on the register of members on 22 August 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

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

Results

| | Year ended 31 March | | | | |
|---|---------------------|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 |
| Turnover | <u>383,984</u> | <u>370,389</u> | <u>427,338</u> | <u>356,937</u> | <u>260,843</u> |
| Net profit from ordinary activities attributable to shareholders | <u>55,721</u> | <u>79,335</u> | <u>89,041</u> | <u>67,318</u> | <u>38,120</u> |

Report of the Directors (continued)

SUMMARY FINANCIAL INFORMATION (continued)

Assets, liabilities and minority interests

| | 2003 | 2002 | 31 March | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | HK\$'000 | HK\$'000 | 2001 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| TOTAL ASSETS | 558,671 | 516,676 | 478,032 | 423,025 | 341,536 |
| TOTAL LIABILITIES | (75,024) | (54,844) | (59,591) | (63,114) | (36,025) |
| MINORITY INTERESTS | (19,845) | (18,218) | (16,942) | (13,469) | (12,752) |
| TOTAL NET ASSETS AND SHAREHOLDERS' EQUITY | <u>463,802</u> | <u>443,614</u> | <u>401,499</u> | <u>346,442</u> | <u>292,759</u> |

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$157,807,000, of which HK\$24,274,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$56,831,000, may be distributed in the form of fully paid bonus shares.

Report of the Directors (*continued*)

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions of approximately HK\$698,000.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Hui Leung Wah (*Chairman and managing director*)

Poon Sui Hong

Leung Shu Sum

Non-executive directors

Mario Pietribiasi

Vittorio Tabacchi

Lee Chien (*resigned on 16 August 2002*)

Independent non-executive directors

Fok Kwan Wing

Poon Kwok Fai, Ronald

In accordance with the Company's bye-laws, Messrs. Poon Sui Hong and Poon Kwok Fai, Ronald will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All other directors continue in office.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

Mr. Poon Sui Hong and Mr. Leung Shu Sum have each entered into a renewed service agreement with the Company. Both agreements are for a term of three years commencing on 17 February 2002.

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

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SHARES

At 31 March 2003, the directors of the Company and their associates held the following interests, which were beneficial unless otherwise stated, in the issued share capital of the Company, its subsidiaries and associated corporations, as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

The Company

| Name of director | Nature of interest | Number of ordinary shares beneficially held |
|-------------------|--------------------|---|
| Hui Leung Wah | Corporate (Note) | 141,116,000 |
| Hui Leung Wah | Personal | 5,678,000 |
| Poon Sui Hong | Personal | 6,600,000 |
| Leung Shu Sum | Personal | 6,000,000 |
| Fok Kwan Wing | Personal | 150,000 |
| Mario Pietribiasi | Personal | 100,000 |

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

Subsidiaries

Mr. Hui Leung Wah is beneficially interested in 200,000 non-voting deferred shares in the capital of Elegance Optical Investments Limited. The rights and restrictions of such non-voting deferred shares are set out in note 16 to the financial statements.

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

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SHARES (continued)

Associated corporations

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

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 26 to the financial statements, at no time during the year was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company, their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

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

SHARE OPTIONS

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, the detailed disclosures relating to the Company's share option scheme have been moved to note 26 to the financial statements.

Report of the Directors (continued)

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

| Name | Number of shares | Percentage of the Company's issued share capital |
|-------------------------|-------------------|--|
| Hui Leung Wah | 146,794,000 | 45.36 |
| Safilo Far East Limited | <u>74,599,123</u> | <u>23.05</u> |

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company as at 31 March 2003 that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's largest customer and the Group's five largest customers accounted for 51.98% and 63.53% of the Group's total sales, respectively. The Group's largest customer, the Safilo S.p.A. group of companies, owned 23.05% of the Company's issued share capital at the balance sheet date. Details of the sales to the Safilo S.p.A. group of companies are included in note 32 to the financial statements.

During the year under review, the Group's largest supplier and the Group's five largest suppliers accounted for 10.70% and 36.21% of the Group's total purchases, respectively.

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

Report of the Directors (*continued*)

CONNECTED TRANSACTIONS

- (i) The directors have reviewed the sale of optical frames and parts to the Safilo S.p.A. group of companies for which a conditional waiver (the “Waiver”) from compliance with the connected transaction requirements, as set out in Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), was obtained on 29 October 2001.

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

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

- (a) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;
- (b) fair and reasonable so far as the shareholders of the Company were concerned;
- (c) entered into in accordance with the terms of the supply agreement governing such transactions, details of which are set out in the circulars to the Company’s shareholders dated 24 March 1997 and 18 July 2001; and
- (d) within an annual limit of 52% of the audited consolidated turnover of the Group for the year.

Further details of the sales to the Safilo S.p.A. group of companies are set out in note 32 to the financial statements.

Report of the Directors (continued)

CONNECTED TRANSACTIONS (continued)

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

Details of such guarantees are set out below:

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

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

| | 31 March | |
|--------------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Gold Strong Industrial Limited | 5,589 | 5,589 |
| Grand Artic Limited | 2,250 | 3,348 |
| Leader Up Limited | 2,769 | 2,570 |
| | <u>10,608</u> | <u>11,507</u> |

CODE OF BEST PRACTICE

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

Report of the Directors (*continued*)

AUDIT COMMITTEE

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

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Hui Leung Wah

Chairman

Hong Kong
26 June 2003