

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st March 2004.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiary companies are shown on pages 47 to 50.

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st March 2004 are set out in the consolidated profit and loss account on page 13.

The directors recommend the payment of a final dividend of HK\$0.02 per ordinary share totaling HK\$18,867,000.

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the accounts.

### DONATIONS

During the year, the Group made charitable and other donations of HK\$17,000.

### FIXED ASSETS

Details of the movements in fixed assets are shown in note 14 to the accounts.

### PRINCIPAL PROPERTIES

Details of the principal properties held for own use and for investment purposes are set out on page 51 to 55.

### SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 24 to the accounts.

### PRE-EMPTIVE RIGHTS

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

### DIRECTORS AND INTERESTS IN CONTRACTS

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

<b>Wong</b> Chue Meng	(deceased on 15th June 2003)
<b>Wong</b> Chong Po	
Joseph C. C. <b>Wong</b>	
<b>Chu</b> Kai Wah, Anthony	
Sakorn <b>Kanjanapas</b>	
<b>Lee</b> Shu Chung, Stan	
<b>Wong</b> Yuk Woon	
<b>Kwong</b> Yiu Chung	(independent non-executive)
<b>Chu</b> Chun Keung, Sydney	(independent non-executive)

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

In accordance with Clause 110(A) of the Company's Bye-laws, Mr Wong Yuk Woon and Mr Kwong Yiu Chung will retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-election.

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

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

During the year, Mr Wong Chong Po, Mr Joseph C. C. Wong, Mr Anthony Chu Kai Wah, Mr Stan Lee Shu Chung and Mr Wong Yuk Woon were eligible to an annual bonus determinable under the terms of an executive bonus scheme with respect to the management of the Group. Provision for the executive bonus in respect of the directors eligible under the Executive Bonus Scheme for the year ended 31st March 2004 amounted to HK\$6,442,000 (2003: Nil).

Apart from the foregoing, no other contracts of significance in relation to the Company's business to which the Company, its subsidiary companies or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**SHARE OPTIONS**

On 25th June 1997, a share option scheme for the executive directors and employees of the Company and its subsidiary companies (the "Scheme") was approved and adopted by the shareholders pursuant to which the directors were authorised to grant options to executive directors and employees of the Company or its subsidiary companies to subscribe for shares of the Company for a period of ten years. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 5% of the total issued share capital of the Company as at the date of the report. No option may be granted to any eligible person which if exercised in full would result in the total number of shares already issued or to be issued to him exceeding 25% of the maximum aggregate number of shares to be issued under the Scheme. An offer of the grant of options must be accepted within 28 days from the commencement date of the relevant options. The purpose of the Scheme is to provide incentives or rewards for the contribution to the Group from the senior executives. The consideration payable on acceptance of the offer for the grant of an option is HK\$1. The exercise price is determined by the directors at the time of grant of the relevant option and shall be the higher of the nominal value of the Company's share and 80% of the average of the closing prices of the shares for the five trading days immediately before the options are granted. No option was granted during the year.

Further share options will only be granted subject to compliance with the Listing Rules.

The details of share options granted to the directors and employees outstanding as at 31st March 2004 are as follows:

	Number of share options		Total outstanding at 31st March 2004
	2nd lot <i>(note 1)</i>	3rd lot <i>(note 2)</i>	<i>(note 2)</i>
Directors			
Mr Joseph C. C. Wong	3,000,000	5,000,000	5,000,000
Mr Chu Kai Wah, Anthony	1,000,000	1,000,000	1,000,000
Mr Lee Shu Chung, Stan	1,000,000	1,000,000	1,000,000
Mr Wong Yuk Woon	1,000,000	1,000,000	1,000,000
Employees	2,000,000	–	–

**SHARE OPTIONS** (Continued)

Notes:

1. These options are granted on 26th October 1998 and exercisable at HK\$0.15 per share during the period from 26th October 1998 to 25th October 2003. 1,000,000 share options have lapsed. 7,000,000 share options were exercised during the year with details as follows:

Number of share options	Exercise date	Closing price of the Company's shares immediately prior to the exercise date
1,000,000	25th September 2003	HK\$0.300
1,000,000	2nd October 2003	HK\$0.280
5,000,000	3rd October 2003	HK\$0.295

The Board of Directors of the Company resolved on 9th October 2003 to issue the shares. All the share certificates were approved and issued on 14th October 2003.

2. These options are granted on 17th January 2000 and exercisable at HK\$0.248 per share during the period from 17th January 2000 to 16th January 2005.

Total number of ordinary shares available for issue under the Scheme	46,817,001
Total number of ordinary shares issued during the year	(7,000,000)

Total number of ordinary shares available for issue in the remaining life of the Scheme	39,817,001
---	------------

As at 31st March 2004, the total number of ordinary shares available for issue in the remaining life of the Scheme represented 4.22% (2003: 5.00%) of the issued share capital of the Company.

With the exception of the Scheme of the Company, at no time during the year was the Company, its subsidiary companies or its holding company a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**DIRECTORS' INTERESTS**

As at 31st March 2004, the interests and short positions of the directors, chief executive and their associates in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (including interests which they are deemed or taken to have under such provisions of the SFO)) as recorded in the register maintained under Section 352 of the SFO or as otherwise notified to the Company were as follows:

All interests disclosed below represent long positions in shares of the Company.

**(a) The Company – Ordinary shares**

	Number of shares			Total	Approximate percentage of issued share capital as at 31st March 2004
	Personal interests	Family interests	Corporate interests		
Mr Wong Chong Po	3,600,000	–	552,037,741 <sup>(1)</sup>	555,637,741	58.90
Mr Joseph C. C. Wong	8,181,211	10,000	–	8,191,211	0.87
Mr Chu Kai Wah, Anthony	1,000,000	–	–	1,000,000	0.11
Mr Sakorn Kanjanapas	391,056	–	–	391,056	0.04
Mr Lee Shu Chung, Stan	1,000,000	–	–	1,000,000	0.11
Mr Wong Yuk Woon	1,000,000	–	–	1,000,000	0.11

**DIRECTORS' INTERESTS** (Continued)

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

	Number of options				Approximate percentage of issued share capital as at 31st March 2004
	Personal interests	Family interests	Corporate interests	Total	
Mr Joseph C. C. Wong	5,000,000	–	–	5,000,000	0.53
Mr Chu Kai Wah, Anthony	1,000,000	–	–	1,000,000	0.11
Mr Lee Shu Chung, Stan	1,000,000	–	–	1,000,000	0.11
Mr Wong Yuk Woon	1,000,000	–	–	1,000,000	0.11

**(c) Subsidiary companies**

	Number of shares				Approximate percentage of preference shares as at 31st March 2004
	Personal interests	Family interests	Corporate interests	Total	
(i) City Chain (Thailand) Company Limited – Preference shares <sup>(2)</sup>					
Mr Wong Chong Po	200	–	208,800	209,000	99.52
Mr Joseph C. C. Wong	200	–	208,800	209,000	99.52
Mr Sakorn Kanjanapas	200	–	208,800	209,000	99.52
(ii) Stelux Watch (Thailand) Company Limited – Preference shares <sup>(3)</sup>					
Mr Wong Chong Po	600	–	–	600	16.67
Mr Joseph C. C. Wong	600	–	–	600	16.67
Mr Sakorn Kanjanapas	600	–	–	600	16.67
(iii) Optical 88 (Thailand) Company Limited – Preference shares <sup>(4)</sup>					
Mr Wong Chong Po	5,000	–	225,000	230,000	90.20
Mr Joseph C. C. Wong	5,000	–	225,000	230,000	90.20
Mr Sakorn Kanjanapas	5,000	–	225,000	230,000	90.20

*Notes:*

- (1) This includes the duplication of corporate interests of 552,037,741 shares through Yee Hing Company Limited, Active Lights Company Limited and Yee Hing International Limited in which Mr Wong Chong Po is deemed to have corporate interests. Active Lights Company Limited and Yee Hing International Limited are wholly owned subsidiary companies of Yee Hing Company Limited. Mr Wong Chong Po indirectly holds 10% of the issued ordinary shares of Yee Hing Company Limited.
- (2) City Chain (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by City Chain (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends. The corporate interests of each of Mr Wong Chong Po, Mr Joseph C.C. Wong and Mr Sakorn Kanjanapas in 208,800 preference shares duplicate with each other.

**DIRECTORS' INTERESTS** (Continued)

(c) **Subsidiary companies** (Continued)

Notes: (Continued)

- (3) Stelux Watch (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by Stelux Watch (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends.
- (4) Optical 88 (Thailand) Company Limited is a wholly-owned subsidiary of the Company. The preference shares held by certain directors represent preference shares issued by Optical 88 (Thailand) Company Limited which do not carry any voting rights and which are not entitled to any profit sharing but are only entitled to annual fixed dividends. The corporate interests of each of Mr Wong Chong Po, Mr Joseph C.C. Wong and Mr Sakorn Kanjanapas in 225,000 preference shares duplicate with each other.

Save as disclosed above, no directors, chief executive of the Company or their associates have any interest or short positions in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

**SUBSTANTIAL SHAREHOLDERS**

As at 31st March 2004, the following companies (other than directors of the Company as disclosed above) had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Number of shares	Percentage of shareholding	Note
Yee Hing Company Limited	415,031,771	44.00	(a)
Active Lights Company Limited	135,653,636	14.38	(b)
Thong Sia Company Limited	91,032,218	9.65	(c)

Notes:

- (a) These shares are held by Yee Hing Company Limited as beneficial owner and duplicate part of the corporate interests held by Mr Wong Chong Po in the Company.
- (b) These shares are held by Active Lights Company Limited as beneficial owner and duplicate part of the corporate interests held by Mr Wong Chong Po in the Company.
- (c) These shares are held by Thong Sia Company Limited as beneficial owner. The estate of Mr Wong Chue Meng (deceased on 15th June 2003 and former Chairman of the Company), holds 38% of the issued shares of Thong Sia Company Limited.

All interests disclosed above represent long positions in shares of the Company.

Save as disclosed in Directors' Interests above, so far as the directors are aware, there are no other parties which were, directly or indirectly, interested in 5% or more of the nominal value of the share capital of the Company as at 31st March 2004 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

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

**MAJOR CUSTOMERS AND SUPPLIERS**

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

**MANAGEMENT CONTRACTS**

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

**CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange throughout the year except that the independent non-executive directors of the Company are not appointed for a specific term but subject to retirement by rotation in accordance with the Company's Bye-laws.

**MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")**

The Company has adopted Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by directors of the Company. The Company confirms that after having made specific enquiry of all its directors, its directors have confirmed that they have complied with the Model Code from 31st March 2004 up to and including 15th June 2004, the latest practicable date prior to the printing of this Annual Report.

**CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received confirmations of independence from its independent non-executive directors, who have confirmed their independence as of 31st March 2004 up to and including 15th June 2004, the latest practicable date prior to the printing of this Annual Report. The Company considers its independent non-executive directors to be independent.

**CONNECTED TRANSACTIONS**

- (1) During the year, the Group purchased timepieces from Thong Sia Company Limited, Thong Sia Watch Company Limited, Thong Sia Company (Singapore) Private Limited and Thong Sia Sdn Bhd, collectively referred to as Thong Sia Companies; and optical products from Vision PRO Trading Company Limited (formerly known as PRO Vision Trading Company Limited) ("Vision Pro"), and Thong Sia Company (Singapore) Private Limited. The estate of Mr Wong Chue Meng is interested in approximately 70% of the issued share capital of the Company and holds more than 30% of the equity in each of the Thong Sia Companies. Vision Pro is a 60% indirectly owned subsidiary of Yee Hing Company Limited ("Yee Hing") which is a substantial shareholder of the Company holding 44% of its issued share capital. Accordingly, Thong Sia Companies and Vision Pro are associates of a connected person to the Company and the transactions constitute connected transactions under the Listing Rules. The total purchases during the year amounted to HK\$31,330,000 (2003: HK\$31,512,000).

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

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

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

**CONNECTED TRANSACTIONS** *(Continued)*

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

Yee Hing ultimately holds 58.52% of the issued share capital of the Company. Thong Sia Company Limited (“Thong Sia”) holds 9.65% of the issued share capital of the Company. Yee Hing holds 60% and Thong Sia holds 40% respectively of the issued share capital in IOM. Both tenancy agreements were entered into on normal commercial terms as stated in the connected transaction press announcement dated 19th July 2001.

The above transactions also constitute related party transactions and are disclosed in note 31 to the accounts.

**AUDIT COMMITTEE**

Pursuant to the Listing Rules, an audit committee, comprising two independent non-executive directors, namely Mr Kwong Yiu Chung and Dr Chu Chun Keung, Sydney, was established on 26th February 1999 (“Audit Committee”). By reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted by the Board of the Company on the same date. The principal responsibilities of the Audit Committee include the review and supervision of the Group’s financial reporting process and internal controls. The Company will appoint one more independent non-executive director by the end of September 2004 as an additional member of the Audit Committee.

**SUBSEQUENT EVENT**

On 15th July 2004, the board of directors proposed to transfer the credit balance of the contributed surplus account to the profit and loss appropriation account of the Company subject to the approval of the shareholders at the upcoming Special General Meeting to be held on 6th September 2004.

**AUDITORS**

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

On behalf of the Board

**Joseph C. C. Wong**

*Vice Chairman and Chief Executive Officer*

Hong Kong, 15th July 2004