Results of Operation

The Group's turnover for the year under review amounted to HK$888 million, representing a decrease of 4% compared with previous financial year. The Group had a gross profit of HK$442 million, being 50% of the turnover. The gross profit percentage decreased by 7% compared with previous financial year. The total of distribution, selling and administrative expenses was HK$149 million and this represented 17% of the turnover. The profit attributable to shareholders was HK$201 million, representing a decrease of 29% compared with the previous financial year. The net margin was in the 23% range.

Based on the profit attributable to shareholders of HK$201 million and on the weighted average number of 2,014 million shares in issue during the year, the basic earnings per share was HK9.96 cents (2000: HK14.31 cents). After all, the Group has been able to maintain a healthy return on assets and return on average shareholders' funds were 9% and 16% respectively. The dividend payout ratio was 34%.

Segmental Information

The Group's business has been customarily divided into three segments, namely, manufacturing, distribution and retailing.

For the year under review, the turnover of the manufacturing segment was HK$480 million and decreased by 16% compared with previous financial year, which was mainly due to decrease in export sales to the U.S. market. Turnover of manufacturing business represented 54% of the Group's turnover, decreased by 8% compared to previous financial year. The U.S. market remains depressed and further consolidation within the optical frame industry remains necessary. The Group promised to utilize its core competence to produce more integrated, higher technology and added value products to its customers. The Group's continuous efforts in quality assurance was further proven when its subsidiary, Leadkeen Industrial Limited, passed the ISO 9001 accreditation annual assessment with remarkable audit results.

The turnover of the distribution segment was HK$335 million and increased by 17% compared with previous financial year. The distribution had experienced a significant growth for the current financial year. Turnover of distribution business represented 38% of the Group's turnover, increased by 7% compared with previous financial year. The biggest market for distribution was the Chinese mainland. Following the gradual recovery of the economy in the Asian region, the Group had recorded encouraging increase in its distribution sales through its network both in the Chinese mainland and Far East region. The sales results of the licensed brands, Giordano, Titane, Goldlion and Elizabeth Arden were up to expectation. With its well established distribution network in the Far East region and the back up of the production plants in the Chinese mainland, we are confident that both the turnover and the profit contribution from this segment remains strong.

Retailing turnover was HK$73 million and increased by 10%. It was mainly due to the replacement of a few low-yielding stores in Shanghai in the financial year. The company's product mix was continuously reviewed so as to fit the customers' preference. More new contact lens products were purchased in this regard. The company also places more emphasis on titanium frames and computer lenses. The foundation of the chain is solid. The Group would further expand its retailing business in the Chinese mainland leveraging the business opportunities created with its potential admittance into the World Trade Organization.

An analysis of the turnover by product range indicated 89% of the turnover was for optical frames, and the metal based optical frames accounted for HK$589 million. On the geographic basis, North America continued to be our major market which accounted for 46% of the turnover, Chinese mainland accounted for 28%, and the Far East region and Europe accounted for the remaining 26%.

Financial Position

The objective of the Group's treasury policies is to manage the Group's assets and liabilities so as to reduce appropriately its exposure to fluctuation in exchange and interest rates. Treasury transactions unrelated to underlying financial exposures are prohibited.

The Group's financial position reflected the strength of its operating results. After raising a syndicated loan of HK$400 million in February 2001, the financial year ended with a gearing ratio of 0.5 at 31 March 2001, based on the bank loans and overdrafts of HK$679 million and on the shareholders' fund of HK$1,325 million. The directors were comfortable to maintain the ratio at this level. As at 31 March 2001, the net borrowings of the Group was HK$356 million and the net borrowing versus equity ratio was 26%. At 31 March 2001, leasehold land and buildings of the Group with a net book value of HK$75 million were mortgaged to various banks to secure banking facilities granted to the Group.

As at 31 March 2001, the trade debtors and bills receivable analysed by manufacturing, distribution and retailing segments were HK$235 million, HK$119 million and HK$1 million respectively. Out of the trade receivable of HK$355 million, HK$119 million was current, HK$121 million was 4 to 6 months old, HK$45 million was 7 to 9 months old and HK$60 million was 10 to 15 months old. As at 31 March 2001, the value of inventories was HK$251 million, comprising of raw materials, work in progress and finished goods of HK$118 million, HK$38 million and HK$95 million respectively.

The Group continues to review its capital structure taking into account new investment opportunities in the U.S. and Europe, long term and short term cash requirements. The Group targets to maintain an optimum capital structure to achieve efficiency and thus maximize the shareholders' return.

During the year under review, the net cash inflow generated from operating activities was HK$171 million and the cash position was improved over last year. At 31 March, 2001, the Group had cash and bank deposits of HK$323 million.

In addition to its strong cash position, the Group has undrawn bank facilities to provide future capital expenditure, investments and working capital requirements. The established bank facilities are adequate for the short term requirements. With such a strong balance sheet, the Group is well positioned to access the capital markets for additional funding needs in future.

At 31 March 2001, the Group had no contingent liabilities.

The Group continues to do most of its business in U.S. dollar and Renminbi. Payments to vendors are mainly in Renminbi and HK dollar. That, together with a policy of keeping the majority of our assets also in these currencies, ensures that our exposure to exchange rate fluctuation is minimal. Borrowings are mainly made in HK dollar and U.S. dollar. The interest rates of most borrowings are linked with HIBOR. Foreign currency future contracts are used for hedging exchange rate risk.

Liquidity And Capital Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by bankers in Hong Kong.

During the year ended 31 March, 2001, the Group recorded a net cash inflow from operating activities of HK$171 million (2000: HK$235 million). The Group obtained additional funding from long-term bank loans of HK$193 million during the year. As at 31 March 2001, the current ratio of the Group was 3.65.

Taking into consideration the anticipated internally generated funds and the available unutilized banking facilities, the Group believes that it has sufficient resources to meet its foreseeable capital expenditure and working capital requirements.

Acquisition

The acquisition of Metzler Optik Partner AG effective 1 October 2000 contributed satisfactory to the Group's business in the financial year ended 31 March 2001. This strategic alliance enables the Group to establish a secured position in the optical frame distribution in various European countries.

Capital Expenditure

Capital expenditure for the year amounted to HK$127 million, and principally comprised of production facility, plant and machinery, computer equipment and licenses for the Enterprise Resources Planning System. The Group will further expand its production capacity to enhance the vertical integration capability by the production of more own branded and licensed brand products. By means of controlling the production process and increased coverage of the distribution network, we will maximize the profitability and the shareholders' return.

Enterprise Resources Planning ("ERP") System

The Group's ERP system was fully implemented in February 2001. We plan to roll out the ERP project to our major subsidiaries in stages thereafter. The enhancement of logistics in the manufacturing sector resulted would benefit the Group in optimal resources utilization, more importantly, inventory and cost control.

Employees

As at 31 March 2001, the number of employees of the Group, including its associated companies, was around 5,100 worldwide. The remuneration policy and package of the Group's employees are based on their performance, experience and prevailing industry practice. In addition, discretionary bonus, merit payments, and the grant of share options to eligible employees are linked to the profit performance of the Group and individual performance. Employees are also provided with appropriate training for better personal development and growth.