For the financial year 2001/2002, the sluggish global economy was aggravated by the "911" terrorist attack in the United States. It was indeed a challenging year for most companies including those in the optical industry.

In the year under review, the Group had to face fierce competition with other manufacturers in Hong Kong as well as in Mainland China to compete for the already competitive export markets. Due to the reduction in inventory level by customers in the face of tough economic conditions in the US and Europe, companies which had the ability to produce goods with the least lead time, like Elegance, generally succeeded in obtaining the most orders. Due to the downturn in the economies in the developed countries and the resulting dampened consumer confidence, the consolidated turnover of the Group has decreased by more than 13.33% in the year under review. We have already leveraged our design capabilities and strengthened our human resources of our marketing teams for North American and European sections. We believe our efforts will facilitate us to capture changing market opportunity and customer demand to retain our market share. We also made significant investment in recent years to enhance our capabilities in product development, mould and sample production in China to increase our sample production to meet different and changing customer needs. The Group is keen to keep on better serving its existing customers and also expanding our sales network by establishing our credibility as a reliable supplier of quality optical frames.

Customer relations and customer satisfaction are the Group's key concern. To meet the need of our clientele and to maintain competitiveness within the industry, the Group has allocated significant resources to product design and development. The aim is to both diversify the range of finished optical products and improve the product quality. The Group employs advanced design tools, sophisticated ancillary computer software and experienced design professionals and technical staff to produce quality sample and products to entertain demanding customer requirements. The Group intends to attract more potential customers and broaden our customer base in different geographical regions. To achieve this, the Group is carrying out a "value added" concept when developing quality products at a bargain price through the application of cost-efficient production technology.

## NEW PRODUCTION COMPLEX IN MAINLAND CHINA

To cope with the need for greater production capacity, the new manufacturing complex, adjacent to our existing plant at Jin Quan at Shenzhen, the PRC is now under construction. It is anticipated that the construction will be completed within the year 2002 and the production at the new complex will commence in the year 2003. Upon the completion of construction of the new complex, new production lines for electroplating process and plastic optical frame production will be installed at the new complex to position us competitively where the operation of various production processes in a complex will benefit from the economies of scale and optimal use of new facilities.

## ENTERPRISE RESOURCES PLANNING SYSTEM ("ERP")

In line with our commitment to quality production and management, the Group will implement the ERP system in the year 2002/2003 to facilitate the smoother dissemination of management information within the organisation, which is expected to bring forth greater efficiency and lower production cost. Emphasis will be placed on production planning to ensure smooth production run and good quality output to meet the standard requested by customers.

## LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group has been financing its working capital requirements and capital commitments mainly with cash flow generated internally and to a lesser extent, bank borrowings, to maintain our consistent policy of prudent financial management. As at 31 March 2002, the Group had cash and bank balances of HK$173,849,000 (31 March 2001: HK$98,386,000) and working capital of HK$269,193,000 (31 March 2001: HK$218,975,000). The Group had banking facilities amounted to HK$79,000,000 (31 March 2001: HK$114,500,000), of which approximately HK$10,026,000 (31 March 2001: HK$12,861,000) were utilised. All outstanding bank borrowings were trade finance related and short to medium term in nature.

The current ratio improved from approximately 5.19 for 2000/2001 to 7.15 for current year while gearing ratio, representing total bank borrowings over shareholder's funds was reduced to below 2.3% as we generally financed our normal operation from cash flow generated from our operating activities.

To take advantage of the prevailing low interest rate, the Group secured medium term banking facilities of HK$10,000,000 during the financial year to put medium term financing in place for future capital investment. HK$8,050,000 was drawn as of 31 March 2002. All outstanding bank borrowings were denominated in Hong Kong dollar.

As at 31 March 2002, the Group had capital commitment of HK$20,959,000 (31 March 2001: HK$25,910,000) in respect of the construction of new factory complex and the purchase of plant and equipment.

## FOREIGN CURRENCY RISK

Since both sales and purchase transactions of the Group were primarily denominated in US dollar, Hong Kong dollar and Reminbi, the exposure to foreign exchange risk was minimal. There was an outstanding forward contract with sum of Euro 200,000 outstanding as at 31 March 2002.

## PLEDGE OF ASSETS

At 31 March 2002, the Group had pledged its leasehold properties with an aggregate carrying value of approximately HK$18,972,000 (31 March 2001: leasehold properties of HK$52,123,000 and investment properties of HK$4,100,000) as security for bank loan and general banking facilities granted to the Group. Except the above, there are no other charges on the Group's assets.

## CONTINGENT LIABILITIES

At 31 March 2002, the Company had contingent liabilities of HK$79,000,000 (31 March 2001: HK$110,500,000). The contingent liabilities comprised of guarantees given to banks in connection with facilities granted to its subsidiaries.

## EMPLOYEES

The total number of employees of the Group as of 31 March 2002 has increased to approximately 3,900. Employee costs (excluding director's emoluments) amounting to approximately HK$62,832,000 (31 March 2001: HK$61,231,000). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance and individual merits. Various fringe benefits ranging from Mandatory Provident Fund, medical and hospitalization insurance are provided. Employee's remuneration is consistent with the industry practice in the respective countries where the Group operates. No options have been granted since the approval of the Company's share option scheme.