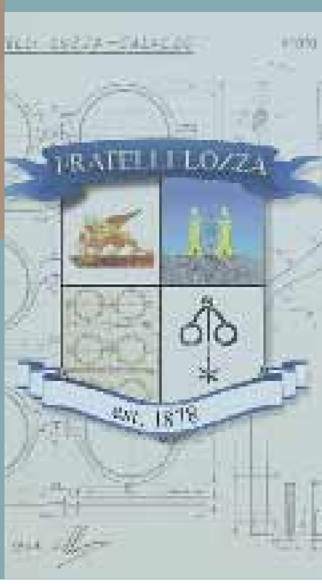
Designer Labels

ELIZABETH
ARDEN

ENRICO
COVERI

GIORDANO

FRATELLI
LOZZA



JACKIE CHAN
EYEGEAR

METZLER
DESIGN
JEFF BANKS

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

The Group's turnover and gross profit for the year under review amounted to HK$1,115 million and HK$603 million respectively, representing an increase of 26% and 36% compared with the previous financial year. Gross profit margin increased by 4%, from 50% to 54% of the turnover. The significant increase was the result of the consolidation of distribution companies acquired during the year. The distribution, selling and administrative expenses ("S, G&A expenses") was HK$402 million, which represented 36% of the turnover. The S, G&A expenses was much higher than that of the previous year, mainly because of the transformation of the Group's primary business from ODM/OEM to manufacturing distribution integrated business. The direct sales and marketing, distribution expenses mainly consist of sales commission, marketing costs including royalties and trade promotion, and logistic costs.

The profit attributable to shareholders was HK$143 million, representing a decrease of 28% compared with the previous financial year. The decline of earnings was partly affected by amortisation of goodwill arising from the newly acquired distribution companies, and restructuring costs of one-off provisions for trade receivables and inventories of these companies. The management believes that such restructuring costs have been mostly reflected in the year under review and will not recur in the future. Even with the net margin at the 13% range, it is still comparable to most of the international eyewear companies bearing the similar business nature.

Based on the profit attributable to shareholders of HK$143 million and on the weighted average number of 2,029 million shares in issue during the year, the basic earnings per share was HK7.07 cents (2001: HK9.95 cents). The dividend payout ratio was 41%.

SEGMENTAL INFORMATION

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

During the past few years, the Group has transformed itself into a manufacturing-distribution company and as a result, the turnover of the manufacturing-distribution business has grown significantly.

For the year under review, the turnover of the ODM/OEM segment was HK$335 million and decreased by 30% compared with previous year, which was mainly due to the Group's plan to scale down its reliance on such business. The ODM/OEM business depends heavily on the stability of order inflow from the importer and wholesaler customers, thus providing the Group less control on the future growth of both turnover and margin aspects. Turnover of the ODM/OEM business now only represented 30% of the Group's turnover, down from 54% in the previous financial year.

The turnover of the manufacturing-distribution segment was HK$706 million and increased by 111% compared with the previous financial year. This segment has experienced a significant growth for the current financial year, in accordance with the Group's expansion plan. Turnover of this business represented 63% of the Group's turnover, an increase from 38% in the previous financial year. Following the acquisitions of Metzler Optik Partner AG ("Metzler") and Filos S.p.A. ("Filos"), Europe became the biggest market of the manufacturing-distribution segment with turnover of HK$535 million for the year under review. As the acquisition of Filos took place during the second half of the financial year 2002, the Group believes that the turnover of such business sector will further increase when including the twelve full months effect in the subsequent year. With its well established global distribution network, enriched brand portfolio and experienced management team, as well as the back up of the production plants in the PRC, Italy and Czech Republic, the management is confident that this segment will continue to be the most significant part of the Group's business.

SEGMENTAL INFORMATION *(continued)*

Retailing business remained steady for the year and the turnover was HK$74 million, representing a 2% increase compared to the previous year. During the year under review, the Group carried out a restructuring plan on such business, including changing a part of its top management team, replacing 3 unprofitable stores with new stores. Currently, the Group is operating a total of 22 stores. The management is satisfied with the result of the restructuring exercise: a 35% jump in sales turnover has been recorded in the first quarter of the financial year of 2003. The Group will continue to capitalize on the goodwill built with its "America's Eyes" retail chain in Shanghai and open new stores at a steady pace.

An analysis of the turnover by product range indicated that 92% of the turnover was derived from the selling of optical frames, and the rest was from trading of optical frame parts and components, lenses and contact lens. The metal-based optical frames accounted for HK$722 million, which represented 65% of the total turnover. On the geographical basis, Europe became the dominant market which accounted for 48% of the turnover, the PRC accounted for 24%, North America accounted for 18% and the Asia Pacific accounted for the remaining 10%.

FINANCIAL POSITION

The bank overdrafts and loans of the Group as at 31 March 2002 was HK$1,099 million, compared to HK$679 million in the previous year. The amount of bank overdrafts and loans repayable within one year was HK$495 million and long term bank loans was HK$604 million. The increase in bank borrowings was mainly due to the inclusion of the bank debts of Metzler and Filos (the two newly acquired European subsidiaries), which were HK$128 million and HK$241 million respectively. The long term portion of bank debts of Metzler and Filos were HK$111 million and HK$156 million respectively, which have been successfully rescheduled to be repayable in more than 8 years period, during the process of acquisition. In addition, the Group does not need to provide any corporate guarantee for such debts.

The trade receivables of the Group were HK$473 million as at 31 March 2002, compared to HK$355 million in the previous year. The increase in trade receivables was due to the inclusion of trade receivables of Metzler, Filos and Liberty Optical, Inc. ("Liberty") in the current year. As at 31 March 2002, the gross amount of trade receivables of Metzler, Filos and Liberty were HK$89 million, HK$134 million and HK$15 million, respectively, and a provision of HK$32 million was made for these trade receivables. As Filos has been using invoice financing as a means to finance its working capital needs, in general, Filos' trade receivables are comparatively higher than the other subsidiaries. The Group will consider replacing such financing with other factoring without recourse arrangement in the near future.

The inventories of the Group were HK$450 million as at 31 March 2002, of which the inventories of Metzler, Filos and Liberty were HK$100 million, HK$64 million and HK$31 million, respectively. The inventories of the Group were HK$251 million in the previous year. The Group has prudentially made in a total of HK$80 million provision already within such inventory value. The Group has already set up special task forces to work on the slow moving and obsolete inventories, and believes that relatively high inventory level will soon be reduced with its existing much extensive distribution network now. On the other hand, the trade payables of the Group were HK$194 million, of which the trade payables of Metzler, Filos and Liberty were HK$66 million, HK$68 million and HK$5 million, respectively. The trade payables of the Group were HK$73 million in the previous year.

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 not related to the normal course of business are prohibited.

FINANCIAL POSITION *(continued)*

The Group's financial position reflected the strength of its operating results. The financial year ended with a ratio of net bank borrowing over equity at 0.51 at 31 March 2002, based on the bank loans and overdrafts, net of cash, of HK$722 million and on the shareholders' fund of HK$1,423 million. At 31 March, 2002, the Group had cash and bank deposits of HK$378 million. Leasehold land and buildings of the Group with a net book value of HK$112 million were mortgaged to various banks to secure banking facilities granted to the Group.

In addition to its strong cash position, the Group has undrawn bank facilities to provide future capital expenditures, investments and working capital requirements. The established bank facilities are adequate for the short term requirements.

At 31 March 2002, the Group had contingent liabilities amounting to HK$20 million for guarantees and trade bills discounted in the ordinary course of business.

The Group continues to do most of its business in US dollar, Euro 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.

LIQUIDITY AND CAPITAL RESOURCES

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

During the year ended 31 March 2002, the Group recorded a net cash inflow from operating activities of HK$152 million (2001: HK$174 million). As at 31 March 2002, the current ratio of the Group was 2.2.

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 expenditures and working capital requirements.

ACQUISITION

The acquisition of Filos was effective in October 2001. Afterwards, Metzler International AG was incorporated to serve as the holding company of all of the Group's distribution subsidiaries including Filos, Metzler and other companies. This strategic investment enables the Group to establish a secured and long term beneficial position in the optical industry.

CAPITAL EXPENDITURES

Capital expenditures for the year amounted to HK$303 million, and principally comprised of production facility, plant and machinery, computer equipment and licenses for the Enterprises Resources Planning System. The Group will further enhance its production capability, through know-how transferred from both Metzler and Filos, to produce higher added value products with its own brands and licensed brands. By means of controlling the production process and increased coverage of the distribution network, the Group will maximize the profitability and the shareholders' return.

ENTERPRISES RESOURCES PLANNING ("ERP") SYSTEM

By investing in an ERP system in 1999, the Group has successfully integrated all operations – planning, budgeting, engineering, procurement, production, sales and distribution, shipping and accounting. This system has been extended to cover the Group's new acquisitions. With an investment of HK$20 million and a 2-year implementation period, the Group has successfully streamlined the operational workflow and achieved better business efficiency.

The successful execution of the Group's integrated manufacturing-distribution business model depends heavily on the ability of geographically distribution subsidiaries, each utilizing disparate systems resources, to effectively operate as a single and cohesive business unit. During the year under review, the Group has developed a web platform to provide the virtual operations hub necessary to fully support centralized business practices. The web platform has achieved three major objectives: data centralization, workflow automation and accountability monitoring. It provides a solid foundation to build up the transformed business model.

EMPLOYEES

As at 31 March 2002, the number of employees of the Group was around 4,700 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 operating results of the Group and individual performance. Employees are also provided with appropriate training for better personal development and growth.