



# Chairman's Statement

## SUMMARY OF RESULTS



The Group's consolidated turnover and net profit increased by 10% and 3% to HK\$602.5 million (2001: HK\$547.0 million) and HK\$105.7 million (2001: HK\$102.5 million) respectively in 2002. Basic earnings per share decreased by 3% to 28.4 cents (2001: 29.2 cents) in 2002.

## DIVIDENDS

The Board of Directors have resolved to recommend a final dividend of 8 cents per share for the year ended 31st December, 2002. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 28th May, 2003, the final dividend will be payable on 3rd June, 2003 to shareholders whose names appear on the Register of Members of the Company on 28th May, 2003.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22nd May, 2003 to 28th May, 2003, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 21st May, 2003 in order to qualify for the final dividend mentioned above.

## BUSINESS REVIEW

### Original design manufacturing (ODM) division

As reported in the 2002 Interim Report, market sentiment of the Group's ODM division had been gradually improving since March 2002. Sales to ODM customers increased by 11% to HK\$534.7 million (2001: HK\$483.6 million) in 2002. US and Europe remained the major markets of this division and accounted for 45% and 44% respectively (2001: 44% and 44%) of the turnover of the Group's ODM division. This division experienced some downward pressure on the selling prices of its products, especially on sales to the medium-sized customers during the year. This was partially offset by the Group continued efforts of further diversifying into higher margin titanium frames. Metal frames, titanium frames, handmade plastic frames, injection moulded plastic frames and spare parts accounted for 40%, 28%, 26%, 4% and 2% respectively of the turnover of the Group's ODM business in 2002 (2001: 47%, 18%, 31%, 2% and 2%).

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## Distribution division

The global economic slowdown continued to affect the Group's distribution business. Sales of the Group's own-branded and licensed branded products (including both eyewear and lenses) decreased by 2% to HK\$33.9 million in 2002 (2001: HK\$34.5 million). Sales to Asia and Europe (mainly United Kingdom) accounted for 50% and 35% respectively of the turnover of the Group's distribution division in 2002 (2001: 58% and 30%). During the year, the Group acquired the remaining 49% interest in a subsidiary from the Group's British business partner, Rayner and Keeler Group, as part of the Group's integration plan of its distribution business.

## Retailing division

The Group continued to expand its retail chains of "ARTS 1000" and "SUNNY ARTS" in mainland China. It operated a total of 73 retail outlets in various major cities in mainland China including Beijing, Shanghai, Nanjing, Guangzhou and Shenzhen as at 31st December, 2002 (2001: 42 outlets). Turnover of the Group's retailing division increased by 17% to HK\$33.9 million in 2002 (2001: HK\$28.9 million). Amid deflationary economic development and keen competition in mainland China, business performances were mixed in different cities and no significant returns had been generated.

## Financial position and liquidity

During the year, the Group's operating activities generated a net cash inflow of HK\$135.3 million (2001: HK\$130.9 million). The placing of new shares to Templeton Strategic Emerging Markets Fund LDC in January 2002 raised HK\$31.2 million. As at 31st December, 2002, the Group had a net cash position (bank and cash balances plus pledged bank deposits net of any bank borrowings) of HK\$214.1 million (2001: HK\$156.9 million). The current ratio of the Group as at 31st December, 2002 was 4.3 to 1 (2001: 3.9 to 1) with HK\$441.0 million of current assets (2001: HK\$358.1 million) and HK\$102.7 million of current liabilities (2001: HK\$92.0 million). Because of the higher level of export sales recorded in the fourth quarter of the year as compared with the corresponding period of 2001, debtors turnover period (ratio of the total debtor and discounted bills balances to sales) increased from 66 days in 2001 to 80 days in 2002 whereas inventory turnover period (ratio of inventory balance to cost of sales) decreased from 90 days in 2001 to 68 days in 2002.



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As at 31st December, 2002, the Group had 374,410,000 shares (2001: 353,450,000 shares) in issue with a total shareholders' equity amounting to HK\$586.6 million (2001: HK\$507.4 million). Net asset value per share was HK\$1.57 (2001: HK\$1.44). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over shareholders' equity) were HK\$0.8 million (2001: HK\$7.3 million) and 0.1% (2001: 1.4%) respectively.

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions, including borrowings, were conducted in either United States dollars, Hong Kong dollars and Renminbi and the exchange rates movements between these currencies were relatively stable.

## Pledge of assets

At 31st December, 2002, leasehold properties with an aggregate net book value amounting to approximately HK\$14,236,000 (2001: HK\$14,821,000) and bank deposits of approximately HK\$10,895,000 (2001: HK\$8,981,000) were pledged to banks to secure short term banking facilities granted to the Group.

## Contingent liabilities

	The Group	
	2002 HK\$'000	2001 HK\$'000
Bills discounted with recourse	–	4,781

At 31st December, 2002, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$119,130,000 (2001: HK\$94,130,000) granted to its subsidiaries. The extent of facilities utilised by the subsidiaries at 31st December, 2002 amounted to approximately HK\$1,540,000 (2001: HK\$4,781,000).

In addition to the above, at 31st December, 2002, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (2001: RMB1,020,000) (approximately HK\$962,000 (2001: HK\$962,000)) in consideration of the guarantee given by this minority shareholder in favour of banks to secure general banking facilities to the extent of RMB2,000,000 (2001: RMB2,000,000) (approximately HK\$1,887,000 (2001: HK\$1,887,000)) granted to this subsidiary. No such facilities were utilised by the aforesaid subsidiary as at 31st December, 2001 as the respective bank borrowing was fully repaid during 2001.

## Employee and remuneration policies

As at 31st December, 2002, the Group employed approximately 5,800 (2001: 5,100) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performances, experiences and prevailing market salaries while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

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## PROSPECTS

### ODM division

The improvement of market sentiment since 2002 did not continue in the first quarter of 2003 and business visibility remains low. Concerns about the slow down of consumption market in the United States and the geopolitical tension and military confrontation in the Middle East overshadow the general export market and intensify the competition among the manufacturers. The management will continue its efforts to satisfy customers' rising demand for smaller order size, shorter delivery time and quality products with innovative designs at affordable prices. More cost containment measures will be implemented and further diversification of higher margin products will continue as the management anticipates that selling prices may be under pressure again if the consumption market remains subdued.

### Distribution division

The Group has obtained the exclusive right to manufacture and distribute the Italian fashion brand "Fiorucci" for the entire Asia excluding Japan. The licence is for a term of 5 years commencing in April, 2003. Sales of Fiorucci eyewear will commence in the second half of 2003. In addition, the management continues to explore other opportunities in strengthening its brand portfolio, either by way of acquisition or licensing more fashion brands.

### Retailing division

The Group has adjusted its pace of expanding the retailing network in mainland China in the first quarter of 2003. More business and operational consolidation work will be undertaken this year with the aim of strengthening the competitiveness of and building a solid earnings platform for this division. Shops that do not meet the Group's pre-determined financial targets will be relocated or closed and the two lines of chains, namely ARTS 1000 and SUNNY ARTS will be combined in some of the cities to enhance economies of scale. Capital expenditure in further expansion of the retailing division will continue to be closely monitored and no significant write-off is expected as a result of this consolidation review exercise.

### Summary

Looking ahead, 2003 is expected to be another challenging and difficult year for the global economy as well as the Group. Business environment is highly unpredictable and downside risks on the Group's financial performance is possible. Despite the economic uncertainties, the management believes that the Group's solid financial strength and earning power will remain its competitive advantages and the Group remains well-positioned to seek growth opportunities which will lay foundations for its further development.

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## APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere appreciation and thanks to our shareholders, customers, suppliers, bankers and staff for their effort and commitment.

**Ng Hoi Ying, Michael**

*Chairman*

Hong Kong, 9th April, 2003