# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS OF OPERATIONS

The Group's consolidated turnover for the nine months under review amounted to HK$888 million (year ended 31 March 2002: HK$1,114 million). Distribution business attributed to 61% of the Group's consolidated turnover. Europe continued to be the dominant market for the distribution business, which accounted for 55% of the Group's distribution turnover.

The gross profit for the nine months under review amounted to HK$534 million (year ended 31 March 2002: HK$603 million), representing 60% gross profit margin (year ended 31 March 2002: 54%). The Group's earnings before interest (excluding bank charges), tax, depreciation and amortisation (excluding interest income) amounted to HK$207 million (year ended 31 March 2002: HK$220 million) — reflecting strong operations and ample cash flow.

The profit after tax before minority interests for the nine months under review amounted to HK$101 million (year ended 31 March 2002: HK$120 million). Project to 12 months period would be HK$135 million. The management believes that the majority of restructuring costs have been reflected in the period under review and are unlikely to recur in the future. This is evidenced from the fact that restructuring costs have only increased from HK$10.2 million to HK$10.7 million since 30 September 2002 to 31 December 2002, and among the increase, part of the reasons is the exchange rate used for December was higher than that for September. The integration of its manufacturing and distribution arms has created substantial synergies resulting in increased European market share and tighter control of its distribution network. After the restructuring period, the business will continue to be supported by the strong fundamentals of the Group.

Based on the profit attributable to shareholders of HK$101 million and the weighted average number of 402,535,166 ordinary shares issued during the period, basic earnings per share were HK25.16 cents (year ended 31 Mar 2002 (restated): HK35.33 cents). The Board recommended the payment of a final dividend of HK4.4 cents. Together with the interim dividend of HK5.6 cents, total dividend for the nine months ended 31 December 2002 was HK10.0 cents. The dividend payout ratio was 39.7%.

## SEGMENTAL INFORMATION

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

The integrated manufacturing-distribution segment continued to experience stable growth of 19% from the corresponding nine months period last year, with turnover reaching HK$543 million. Revenue from this segment accounted for 61% of the Group's consolidated turnover, which is in line with the Group's long-term development strategy.

Turnover in the OEM/ODM segment increased 21% from the corresponding nine months period last year to HK$293 million, representing 33% of the Group's consolidated turnover. The Group intends to make the contribution from this segment below 30%, with over 70% coming from the integrated manufacturing-distribution segment and the PRC operations.

## SEGMENTAL INFORMATION *(continued)*

With the PRC economy still booming, turnover of the Group's PRC business grew 16% from the corresponding nine months period last year to HK$185 million. All OEM/ODM, distribution and retailing businesses in the PRC contributed to this growth. During the period, the Group retailing business achieved geographical breakthroughs with the opening of four retail stores outside Shanghai. The Group currently has 29 retail stores in the PRC. With the expansion of own stores and the launch of franchising programmes, management expects this segment will increase its contribution to the Group's bottom line in the coming years.

An analysis of turnover by product category indicates that 94% of turnover came from the sales of optical frames, and the rest from the trading of optical frame parts and components, lenses and contact lenses. Production of metal-based optical frame is the Group's strong area and this segment accounted for HK$675 million of sales, which represented 76% of the Group's consolidated turnover.

## FINANCIAL POSITION

The inventories of the Group were HK$393 million at 31 December 2002, the inventory level reduced by 12% when compared with the inventories of HK$449 million at 31 March 2002. The stock turnover period based on sales has significantly shortened from 147 days to 121 days. These significant improvements were mainly due to the set up of a special task force during the period under review to work on the Group's slow moving and obsolete inventories. In view of the achievements of the special task force and a better communication between procurement, design, marketing and sales teams across subsidiaries worldwide, management believes that the inventory level will be continuously reduced along with its existing extensive distribution network.

The trade receivables, net of provision, of the Group were HK$488 million at 31 December 2002, representing an increase of 3% when compared with the trade receivables, net of provision, of HK$472 million at 31 March 2002. The increase of trade receivables was mainly due to the Euro inflation during the reporting period. At 31 March 2002, the Group used an exchange rate of 6.81 to translate Euro into HK dollars. At 31 December 2002, the exchange rate became 8.16, a 20% inflation of Euro from March to December. If the Euro inflation effect is excluded, the trade receivables would be lower than that at 31 March 2002. The management is very concerned the trade receivables level and strikes to improve it through both internal close monitoring and external financing arrangement such as negotiation for factoring without recourse in the near future.

On 25 October 2002, the Group signed a loan agreement with a syndicate of 12 international banks and financial institutions to raise a HK$440 million equivalent revolving credit and term loan facility. The proceeds of the facility has been used (i) to refinance the outstanding amount for the HK$400 million equivalent syndicated loan facility signed on 22 February 2001 (the "Old Facility"), and after the full repayment and cancellation of the Old Facility, then (ii) to partially redeem the convertible notes amounting HK$101 million and (iii) to finance the working capital requirements of the Group.

## FINANCIAL POSITION *(continued)*

As at 31 December 2002, the Group had HK$350 million cash on hand (31 March 2002: HK$378 million). The total bank overdrafts and loans of the Group at 31 December 2002 was HK$1,150 million (31 March 2002: HK$1,099 million). The amount of bank overdrafts and loans repayable within one year was HK$500 million (31 March 2002: HK$495 million) and long-term bank loans was HK$650 million (31 March 2002: HK$604 million). During the period under review, and as shown on the previous paragraph, the Group partially redeemed the convertible notes of HK$101 million. As a result, the convertible notes reduced to HK$16 million at 31 December 2002 when compared with HK$117 million at 31 March 2002. The gearing ratio of net interest-bearing borrowings over equity improved from March 0.59 to December 0.56. The ratio was calculated by dividing net interest-bearing borrowings (including convertible notes) of HK$816 million (31 March 2002: HK838 million) by the total shareholder's equity of HK$1,446 million (31 March 2002: HK$1,423 million). With the sound operating results and strong capital base, management believes that the existing gearing ratio is at a comfortable level and the Group is maintained at an adequate capital structure.

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.

As at 31 December 2002, the Group had contingent liabilities amounted to HK$13 million for guarantees given in lieu of deposits for licensing arrangement.

## 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 period ended 31 December 2002, the Group recorded operating cash before working capital changes of HK$199 million (year ended 31 March 2002: HK$225 million) and cash generated from operations of HK$68 million (year ended 31 March 2002: HK$152 million). As at 31 December 2002, the current ratio of the Group was 2.3 (31 March 2002: 2.3).

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

## CAPITAL EXPENDITURES

Capital expenditures for the period amounted to HK$153 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 European subsidiaries, 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 maximise the profitability and the shareholders' return.

## INTEREST RATES AND FOREIGN CURRENCY EXPOSURE

The Group's funding reflects the capital structure of each business. All its financing and treasury activities are monitored by a Central Treasury at the corporate level of the Group. The Group structures to match the tenure of its borrowings with its corporate functions and manages its interest rates exposure in relation to the interest rates level and outlook. The Group continues to do most of its business in US dollar, Euro and Renminbi. Payments to vendors are mainly in Renminbi, Euro 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.

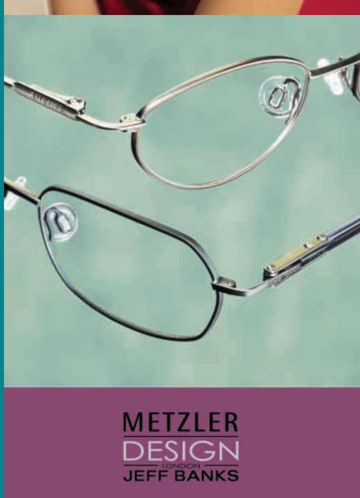
## EMPLOYEES AND SHARE OPTION SCHEME

As at 31 December 2002, the Group had around 4,700 employees worldwide. The remuneration policy and package for the Group's employees are based on their performance, experience and conditions prevailing in the industry. Discretionary bonuses, merit payments and the granting of share options to eligible staff are determined according to the financial results of the Group and the performances of individual employees. Employees are also provided with appropriate training for improved personal development and growth. With a view to bringing the Company's share option scheme in line with the new requirements of Chapter 17 of the Listing Rules, the operation of the old scheme was terminated upon the adoption of a new share option scheme on 6 September 2002. Upon the termination of the old scheme, no further options will be offered under the old scheme but the provisions of the old scheme will remain in full force and effect in respect of the existing options granted. Details of the new scheme are disclosed in note 34 to the financial statements.

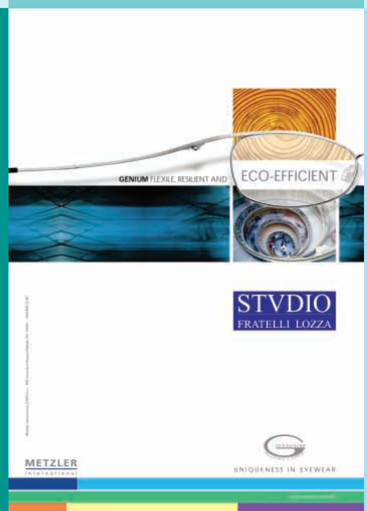
# Designer
## Labels


RED ROSE

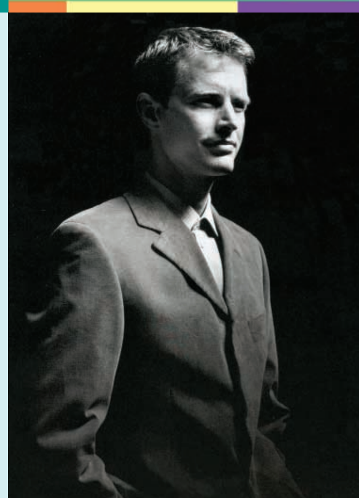

ELIZABETH ARDEN




METZLER DESIGN
JEFF BANKS




FRATELLI LOZZA



S.T. DUPONT


ENRICO COVERI