

# letter to shareholders

We are pleased to announce the results of the fifth full year of Sun Hing Vision Group Holdings Limited (the "Company") and its subsidiaries (the "Group") following our listing in May 1999. 2003 was no doubt a difficult year for every company including ourselves, but given our strong foundation and flexibility in response to the changing environment, we continued to achieve record turnover and profit during the year under review.

## **RESULTS**

For the year ended March 31, 2004, the Group had record performance in terms of turnover and profit attributable to shareholders. The Group's consolidated turnover and profit attributable to shareholders increased by 9% and 4% to HK\$514 million and HK\$92 million respectively. This marks the ninth consecutive years of encouraging consecutive growth for turnover and profit for the Group since 1996. Basic earnings per share decreased by 3% to HK37 cents due to the dilution effects of the exercise of bonus warrants by the warrant holders in the preceding year.

## **DIVIDENDS**

The Directors have resolved to recommend a final dividend of HK8.1 cents per share at the forthcoming annual general meeting scheduled on September 6, 2004 to shareholders whose names appear on the register of members on September 3, 2004. This final dividend, together with the interim dividend of HK4 cents per share and the interim special dividend of HK2.5 cents per share, represents a total dividend of HK14.6 cents per share (2003: HK14 cents) for the year, an increase of about 4% over last year. The final dividend is expected to be paid on or about September 28, 2004.


## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from September 1, 2004 to September 3, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates, must be lodged with the Company's share registrar 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 August 31, 2004.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The global business environment continued to be difficult in 2003. However, the Group's operating performance remained strong during the year under review, due to the steady growth of its original design manufacturing (ODM) business as well as the expansion of its distribution business for licensed branded products. The ODM business continued to



be the core contributor of the Group's business. The ODM business and the distribution business for licensed branded products accounted for 90% and 10% of the Group's turnover respectively.

During the year under review, the contribution from the increase in turnover was however partly offset by the higher raw material costs due to generally higher commodity prices and the depreciation of the United States dollar against the Euro. Increases in certain manufacturing overheads, in particular higher depreciation and amortization expenses as a result of larger fixed asset investments made in previous year, as well as higher taxation expenses also partly offset the contribution from the increase in turnover.

### **STEADY GROWTH IN THE ODM BUSINESS**

Turnover to the Group's ODM customers increased by 9% to HK\$461 million. The United States and Europe continued to be the major markets of the Group's products and accounted for 43% and 52% (2003: 56% and 40%) of the Group's turnover of its ODM business. Due to the slowing economy in the United States, the Group reported a decline of 16% for its ODM turnover to the United States, while the Group's ODM turnover to Europe and Asia increased by 41% and 55% respectively. The increase in turnover to the Group's customers in Europe and Asia has not only completely eliminated the adverse effect of decline in turnover to the United States, but it also contributed to the overall growth in the Group's ODM business. The Group's geographical diversification strategy proves to be very successful once again.

It should also be noted that the Group's ODM business in the United States obviously improved in the second half of the fiscal year, as the decline for the Group's ODM turnover to the United States has narrowed to 8% for the second half of the fiscal year from 22% for the first half of the fiscal year.

### **EXPANSION IN THE DISTRIBUTION FOR LICENSED BRANDED PRODUCTS**

Turnover contributed by the Group's distribution business increased by 13% to HK\$53 million. During the first half of the fiscal year, the Group's distribution business declined by about 31%, but the unfavorable situation completely reversed in the second half of the fiscal year, in which a significant increase of 64% was seen in the distribution business. The outbreak of severe acute respiratory syndrome ("SARS") during the first half of the fiscal year had significant adverse impact on the Group's distribution business, but with the gradual fading-out of SARS in Asia and the contribution from the newly launched Levi's® eyewear collection, the Group's distribution business significantly improved in the later part of the year under review.

## LIQUIDITY AND CAPITAL RESOURCES

During the period under review, the Group continued to benefit from the strong cash inflow from operations, which generated net operating cash inflow of HK\$90 million. As at March 31, 2004, net current assets and current ratio of the Group were approximately HK\$294 million and 3.4:1 respectively. As at March 31, 2004, the Group did not have any bank borrowings and had long-term bank deposits as well as bank and cash balances amounting to HK\$167 million. The total shareholders' equity of the Group increased to HK\$467 million as at March 31, 2004 from HK\$410 million at March 31, 2003. The Directors are confident that the financial position of the Group will remain strong, and the Group has sufficient liquidity and financial resources to meet its present commitments and future expansion plans.

During the year under review, the Group's dividend payout ratio as a percentage of its earnings was 39% (including the interim special dividend) and 32% (excluding the interim special dividend). The Directors will continue to monitor the dividend policy closely to ensure that the optimal balance can be achieved between the reinvestment and distribution of earnings in the Group and to the shareholders respectively.

Most of the Group's transactions were conducted in US dollars, Hong Kong dollars and Renminbi. In addition, the majority of the Group's assets were also kept in these currencies. No hedging for foreign exchange was used given that the Group's exposure to currency fluctuation was still relatively limited.

At March 31, 2004, the Company has guaranteed the bank facilities of its subsidiaries amounting to approximately HK\$46 million (2003: HK\$46 million).

## PROSPECTS

After a year of slow growth in year 2003, the Group has experienced a substantial increase in demand since the beginning of 2004. The Group's turnover for the first two months of 2004/2005 fiscal year was about 46% more than that of the corresponding two months in 2003. Although April and May 2003 were relatively weak selling months for the Group due to SARS and unstable economic situation at that time, this early positive development is very encouraging and the Directors are optimistic about the Group's performance for the fiscal year ahead.

The Group's ODM turnover to the Europe has continued to grow, and business from the United States customers has already stabilised. The Directors believe that more and more international eyewear customers are working with the Group due to its reputation and highly recognized design and manufacturing capabilities. The Group will continue to make investments to upgrade its production facilities and to increase the production capacity to cope with the increase in demand for the Group's products.



It is expected that the growth of the Group's distribution business will be encouraging in the fiscal year ahead. First, the Levi's® collection had contribution in the last three months only of the last fiscal year, while there will be a full year contribution from Levi's® collection to the Group's distribution business in the forthcoming fiscal year. Second, the Group distributed the Levi's® eyewear collection in a few Asian countries only in the last fiscal year, and with the positive feedbacks from these initial launches, the Group will gradually extend its coverage for Levi's® eyewear to other Asian countries in the year ahead. Third, given the improving economic condition, in particular in Asia, the growth of the existing lines of products is expected to be satisfactory. In the meantime, the Group is still identifying other licensing opportunities for prominent brand names to enrich its brand portfolio.

With the above positive developments in both the ODM and distribution business, the Directors are confident that the Group will continue to report satisfactory results.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### **AUDIT COMMITTEE**


The Company has established an audit committee since 1999 in accordance with paragraph 14 of the Code of Best Practice. The audit committee comprises of two members, Mr. Lo Wa Kei, Roy and Mr. Lee Kwong Yiu, both are independent non-executive directors. During the year, the audit committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the interim and annual financial statements of the Group.

### **CODE OF BEST PRACTICE**

The Company has complied throughout the year ended March 31, 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **APPRECIATION**

On behalf of the Board, I would like to thank our customers for their support during the year. I would also like to express our sincere appreciation to our shareholders, staff, suppliers, bankers for their efforts and commitments.



**Ku Ngai Yung, Otis**  
Chairman

**Ku Ka Yung**  
Deputy Chairman

Hong Kong, July 9, 2004