# LETTER TO SHAREHOLDERS

**We are pleased to announce the results of Sun Hing Vision Group Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2005.**

## RESULTS

For the year ended 31 March 2005, turnover of the Group increased by 14% to HK$585 million (2004: HK$514 million). However, the profitability of the Group was adversely affected by the negative operating environment for the year under review and the net profit of the Group decreased by 23% to HK$71 million (2004: HK$92 million). Basic earnings per share also decreased by 24% to HK28 cents (2004: HK37 cents).

## FINAL DIVIDEND

The Directors have resolved to recommend at the forthcoming annual general meeting the payment of a final dividend of HK8.1 cents per ordinary share for the year ended 31 March 2005. Such dividend will be satisfied in cash, with a scrip dividend alternative in-lieu-of cash payable to the shareholders of the Company whose names appear in the register of members of the Company at the close of business on 22 August 2005. This dividend, together with the interim dividend and special dividend of HK4.2 cents per share and HK2 cents per share already paid, will make a total distribution of HK14.3 cents per share for the full year.

The scrip dividend proposal mentioned above is subject to approval by shareholders at the coming annual general meeting scheduled to be held on 22 August 2005 and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of, and permission to deal in, the new shares to be issued pursuant thereto.

A circular containing details of the scrip dividend proposal will be dispatched to shareholders together with the form of election for scrip dividend on or about 30 August 2005. It is expected that share certificates for the new shares and/or cheques for cash dividend will be dispatched to shareholders on or about 28 September 2005.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 August 2005 to 22 August 2005, 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 17 August 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

During the year under review, the demand for the Group's products remained strong and healthy for both of its original design manufacturing (ODM) business as well as 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 89% and 11% of the Group's turnover respectively.

However, the Group's profitability was adversely affected by higher raw material costs and energy prices due to the depreciation of the United States dollars and the increased global demand as a result of the recovery of the economy. Surge in wage levels and other operating costs in China led to further increases in production costs for the Group. Higher proportion of lower margin plastic products sold and the additional operating expenses of the new production facility at He Yuan City as well as other new production lines also resulted in decline of profitability of the Group during the year under review.

### STEADY GROWTH IN THE ODM BUSINESS

Turnover to the Group's ODM customers increased by 13% to HK$519 million. During the period under review, the ODM turnover to Europe increased satisfactorily by 16%, while ODM turnover to the United States reversed its downward trend from last year and registered an increase of 11%. The Group's products have become more competitive due to the depreciation of the United States dollars against most major currencies during the period under review. In addition, the Group's reputation and highly recognized design and manufacturing capabilities in the industry have continued to attract new business from the best eyewear customers in the world.

Europe and the United States remained to be the major markets of the Group's products and accounted for 54% and 42% (2004: 52% and 43%) of the Group's turnover of its ODM business. Furthermore, sales of metal frames, plastic frames and other spare parts accounted for 66%, 32% and 2% respectively of the Group's ODM turnover (2004: 77%, 22% and 1%). Sales of plastic frames increased significantly by 66% due to the changing fashion cycle in favor of plastic products during the period under review.

### EXPANSION IN THE DISTRIBUTION FOR LICENSED BRANDED PRODUCTS

Turnover contributed by the Group's distribution business increased significantly by 25% to HK$66 million. This satisfactory result is due to the successful launch of Levi's® eyewear collection in Asia, including Japan, and the Moiselle eyewear collection in the Greater China area, as well as the strong performance of the other existing licensed brands in the Group's brand portfolio. Asia continued to be the major market of the Group's distribution business and accounted for 71% of the Group's distribution turnover (2004: 57%).

## LIQUIDITY AND CAPITAL RESOURCES

During the period under review, the Group's balance sheet remained solid and strong. As at 31 March 2005, net current assets and current ratio of the Group were approximately HK$429 million and 1:3.4 respectively. As at 31 March 2005, the Group did not have any bank borrowings and had long-term bank deposits as well as bank and cash balance amounting to HK$144 million. The total shareholders' equity of the Group increased to HK$509 million as at 31 March 2005 from HK$467 million at 31 March 2004. 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.

Given the Group's strong financial backing, during the year under review the Group's dividend payout ratio as a percentage of its earnings increased to 52% (including the interim special dividend) and 45% (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 Reminbi. 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.

As at 31 March 2005, the Company has guaranteed the bank facilities of its subsidiaries amounting to approximately HK$66 million (2004: HK$46 million).

As at 31 March 2005, the Group had contingent liabilities in respect of bills of exchange discounted with recourse amounting to approximately HK$8 million. (2004: Nil)

## PROSPECTS

The Directors expect that the demand for the Group's ODM products will continue to be satisfactory for the next fiscal year. The Group will continue to invest to upgrade its production facilities and to expand production capacity. The Group's new production facility at He Yuan City, Guangdong, has already commenced production and set the Group's foundation for further growth in the next fiscal year. However, the operating environment for the Group will remain challenging given the higher production costs in China. Every effort will be made in developing more innovative products with better margins, as well as streamlining our internal operations to become even more cost effective.

It is expected that the performance of the distribution business for licensed branded products will remain strong in the next fiscal year. The Levi's® eyewear collection has been very successful since initial launch in Asia, and the coverage for Levi's® eyewear will be gradually extended to serve territories outside Asia in the following financial year. The Directors are also pleased to announce that the Group has successfully obtained the exclusive right to distribute eyewear for the renowned sports brand "New Balance" in Asia and Australia. In addition, after years of expertise in brand management and research, the Group will launch its first in-house fashion eyewear brand "PUBLIC+" in the next fiscal year. Both of the Group's new eyewear collections, "New Balance" and "PUBLIC+" have so far received very positive market feedbacks and are expected to generate satisfactory returns. The Directors believe that the brand management and distribution business will provide more significant contribution to the Group's overall operating results in the future.

Despite the uncertainty on the production cost side, the Directors remain confident about the medium and long-term development and prospects of the Group. Extreme focus on the core business of ODM and brand management business, as well as financial prudence, are and will continue to be the top guiding principle for the Group's operation.

## 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 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. The members of the audit committee comprised the three independent non-executive directors of the Company, who are Mr. Lo Wa Kei, Roy, Mr. Lee Kwong Yiu and Mr. Wong Che Man, Eddy.

## CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except for all directors, other than the chairman of the board of directors of the Company, are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's bye-laws.

The Code was replaced by the Code on Corporate Governance Practices (the "New Code" ) which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with New Code.

## 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, 15 July 2005