CHAIRMAN'S STATEMENT

Overview

The loss from operations was $14.3 million for the year, compared with $6.4 million last year. This reflected the continuation of change to the Company's customer base, particularly in the USA and Europe, which has impacted negatively on sales and gross margins. However further substantial savings in selling and administrative expenses have been made.

As in previous years, the net result for year 2000 continued to be affected by significant exceptional and non-recurring items. The total loss of $102.3 million include the further provision of $35.0 million against the debt due from Hanmy Group. Whilst action is still being taken to recover the gross amount due, the Board considered it prudent not to attach any value to the land in the PRC which has been pledged by Hanmy as collateral security for its debt to the Group. In anticipation of the disposal of the Group's retailing operations in the PRC in March 2001, which shareholders were advised of in a circular on 30 March 2001, a book loss of approximately $14.0 million has been included in the results. Further provision was also made against the value of fixed assets on certain machinery amounting to $11.3 million and diminution in value in respect of an overseas associate and a PRC associate, totalling $2.4 million.

Business & Financial Review

Turnover and gross margin dropped mainly as a result of the continuing changes taking place in the customer and product portfolio. Rationalisation of customers in the USA, with a number in financial difficulty that resulted in mergers & acquisitions, had an effect on sales in year 2000 compared with the previous year.

The Group has maintained the transfer from large volume lower value product to higher end product in accordance with market trends. The consolidation of manufacturing facilities continued with the transfer of Zhuhai production to Shenzhen Henggang. The costs of this together with excess manufacturing capacity impacted on gross profit and margins in the year.

Savings of $9.6 million compared with 1999 were achieved in selling and administrative expenses mainly as a result of a lower headcount, reduced rentals and other overhead savings. Interest costs were $29.2 million lower compared to that of 1999 mainly due to a reduction in the Company's interest bearing indebtedness from approximately $1,102 million to $250 million after the completion of its debt restructuring on 1 June 1999.

Share of results of associates improved by $6.5 million mainly due to the improved performance of Dongguan Yueheng, the lens manufacturing company in which the Group owns 50% equity.

Future Prospects

Whilst the financial results for year 2000 are disappointing much hard work has been done in repositioning the operations of the Group. The development of higher quality product with new customers is succeeding but will take time to establish the strong relationships that are required to grow orders. Orders and shipments are holding up well. The Company's lens associate, Dongguan Yueheng is performing well with its products in great demand.

Personnel has been strengthened but at the same time overhead costs continue to be reduced. A new management information, accounting and control system has just been implemented which will provide a better tool to management in making the business more competitive and profitable in the future.

However, despite the good trading prospects the Group has been affected by the high level of bank indebtedness that it has to service compounded by the lack of any new financial facilities offered to the Company since its debt restructuring on 1 June 1999. As a result of the strain that has been placed on the Group's cash resources, the 27 Bank creditors have granted the Company a waiver of its non-payment of interest as an event of default in respect of the interest due on 1 March 2001 for a period up to 13 May 2001. The 27 Bank creditors own 51% of the Company through a special purpose vehicle company, Optiset Limited. Discussions continue between the Bank creditors and the Company in the matter of the overdue interest.

During the last eight months Optiset Limited has informed the Company from time to time that preliminary discussions were taking place between Optiset Limited and various parties interested in purchasing Optiset's majority shareholding in the Company. Public announcements have been made to shareholders to advise them of these preliminary discussions. At the present time the Company is not aware of any further developments in connection with these discussions.

Other Issues

Shareholders may note from the auditors' report that there are reservations made by the auditors about certain properties for which title ownership was imperfect. While this may be technically correct, the Board has commercial reasons to believe that the Group has the practical right to use the properties under the various joint venture and sales and purchase agreements. In view of the current business priorities relating to cash management, the Board has considered that it is not appropriate at the present time to pursue vigorously the efforts in perfecting the title.

By Order of the Board
Gerald Dobby
Chairman

Hong Kong, 23 April 2001