MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Summary of results

Following a robust year in 2000, the general business environment became more difficult in the first half of 2001. The Group has stated in its 2000 annual report that "2001 will be a year of consolidation for the businesses of the Group". The Group's consolidated turnover and net profit for the period under review decreased by 10% and 8% to HK$274.1 million and HK$62.7 million respectively as compared with the corresponding period in 2000. Basic earnings per share also decreased by 11% to 17.9 cents.

Original design manufacturing ("ODM") division

Sales to ODM customers dropped by 13% from HK$279.0 million in the first half of 2000 to HK$244.1 million during the period under review. United States and Europe continued to be the major markets for the ODM division of the Group and accounted for 45% and 42% (2000: 49% and 39%) respectively of the Group's turnover of its ODM business. Customers in the United States became more cautious in placing orders since the slowdown of the economy began in the second half of last year. The weakness of the Euro during the first half of this year has also adversely affected the demand of some European customers for the Group's products. Although the Group continued to further diversify into higher margin metal and titanium frames, this was offset by the negative impact from the reduction in overall demand for the Group's products during the period under review. Metal frames, handmade plastic frames, titanium frames, injection moulded plastic frames and spare parts accounted for 48%, 35%, 13%, 2% and 2% of the turnover of the ODM business during the six months ended 30th June, 2001 respectively (2000: 39%, 46%, 12%, 2% and 1%).

Distribution division

Despite a more difficult operating environment during the first half of 2001, the Group continued to strengthen the presence of its own-branded and license branded products in Asian and European markets. Turnover of the distribution division increased by 10% from HK$15.3 million in the first half of 2000 to HK$16.9 million in the corresponding period of 2001. The 51% owned joint venture company with the Rayner and Keeler Group contributed most of the increase in turnover of this division.

Retail division

Expansion of the Group's retail network in China continued during the period under review. As at 30th June, 2001, the Group operated a total of 25 retail shops in China (11 shops in Beijing, 8 shops in Shenzhen, 3 shops in Nanjing and 3 shops in Shanghai). As a result, turnover of the retail division increased by 28% to HK$13.1 million during the first half of 2001 as compared with the corresponding period last year. Improvement in business performance continued because of the effects of economies of scale and the relatively strong performance of the China economy.

Prospects

Summary

The management of the Group will continue to follow the guiding principles laid down in its 2000 annual report: enhancement of efficiency, further diversification of products and markets and maintenance of financial stability. The Group will continue to benefit from the healthy cashflow generated from its core businesses and strong financial position.

Outlook for the ODM business

Although the decline in orders has been stabilising, the management of the Group does not anticipate a significant rebound of the performance of the ODM business in the second half of the year in view of the recent development in the United States. The management will continue in its efforts to improve the operating efficiency of the Group so that it is well poised to capture the surge in demand for the Group's products when the full impact of interest rate cuts in the United States and the strengthening of the Euro are reflected.

Further consolidation of China businesses

The management of the Group believes that China's imminent entry into the World Trade Organisation will provide enormous opportunities for its distribution and retailing businesses. Further streamlining of its business operations in China is being undertaken. The Group has recently set up a wholly foreign owned enterprise in Shenzhen and transformed its sino-foreign cooperative joint venture in Zhongshan into a wholly foreign owned enterprise. Both of these companies have local sales rights in China and will facilitate the further expansion of the Group's business in the mainland.

Progress of further diversification

The Group's collaboration with Optical Dynamics Corporation of the United States for the manufacture and distribution of patented ophthalmic lens fabrication systems is progressing well. Commercial production is expected to commence by the end of this year and the system has been introduced in the optical fair in Beijing in September this year. Pursuant to the agreement with Optical Dynamics Corporation, the Group will also export these systems to Optical Dynamics Corporation for its distribution in North America and Europe. The management believes that further diversification within the optical industry will provide the Group with a solid and diversified base for recurring earnings growth in the future.

Financial Review

Financial position, liquidity and gearing

During the period under review, net cash inflow from operating activities amounted to HK$72.1 million. As at 30th June, 2001, the Group had a balance of cash and cash equivalent of HK$159.3 million (31st December, 2000: HK$132.4 million). The management of the Group continued to put strenuous efforts on working capital management and the current ratio of the Group improved from 2.9:1 at 31st December, 2000 to 3.7:1 at 30th June, 2001.

The consolidated net asset value of the Group as at 30th June, 2001 was HK$492.4 million or HK$1.40 per share as compared to HK$454.1 million or HK$1.29 per share as at 31st December, 2000. No new shares were issued during the period under review and the Group had 350,640,000 shares in issue on 30th June, 2001. Total long term liabilities and debt to equity ratio (expressed as a percentage of long term liabilities over shareholders' funds) were HK$7.3 million and 1.5% respectively as at 30th June, 2001 (31st December, 2000: HK$7.3 million and 1.6%).

The Group had limited exposure to fluctuations in foreign exchanges as most of its transactions and borrowings were conducted in United States dollars, Hong Kong dollars or Renminbi and the exchange rates between these currencies were relatively stable during the period under review.

Pledge of assets

At 30th June, 2001, leasehold properties with an aggregate net book value amounting to HK$15,113,000 (31st December, 2000: HK$15,405,000) and bank deposits of HK$8,886,000 (31st December, 2000: HK$11,293,000) were pledged to banks to secure general banking facilities granted to the Group.

Contingent liabilities

	30th June, 2001	**31st December, 2000**
	HK$'000	*HK$'000*
Bills discounted with recourse	3,220	12,148

Employee and remuneration policies

The Group employed approximately 4,900 full time staff as at 30th June, 2001. The Group remunerates its employees based on their performance, experience, qualifications and prevailing market price while performance bonuses are granted on a discretionary basis after considering individual performance and the operating results of the Group. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

Ng Hoi Ying, Michael
Chairman

Hong Kong, 12th September, 2001