

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Despite the more difficult general economic environment, the Group continued to report satisfactory performance during the period under review.

The Group's unaudited consolidated turnover and profit attributable to shareholders for the six months ended 30 September 2001 were HK\$168 million and HK\$37 million, representing an increase of 8% and 6% respectively over the corresponding period last year. Basic earnings per share also increased by 6% to 18 cents.

The Group's satisfactory performance during the period under review was mainly due to the rapid expansion of distribution business for licensed branded products as well as the steady growth of its original design manufacturing (ODM) business. The ODM business continued to be the major 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.

While the Group's pace of growth has slowed down due to the general sluggish economy, the Group managed to maintain its healthy profitability during the period under review. That was achieved through the Group's intensified efforts in the introduction of new, successful products and designs which could command higher margin.

Steady Growth in the ODM Business

Turnover to the Group's ODM customers increased by 2% to HK\$149 million. United States and Europe continued to be the major markets of the Group's products and accounted for 63% and 29% (2000: 76% and 21%) 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 43% and 331% 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 an overall growth in the Group's ODM business. The Group's geographical diversification strategy since 1999 has proven to be very successful and is one of the principal factors for the Group's continuous growth in the face of the adverse economic conditions.

Rapid Expansion in the Distribution for Licensed Branded Products

Turnover contributed by the Group's distribution business increased by 108% to HK\$19 million. This rapid expansion in turnover was mainly the result of the worldwide distribution of the Celine Dion and Cour Carre eyewear collection during the period under review, while the turnover for the corresponding period last year represented the distribution of the Celine Dion eyewear collection in the South East Asian countries only. It is expected that the Group's distribution business in the second half of the fiscal year will remain buoyant and will continue to be one of the principal driving forces for the Group's growth.