

BUSINESS REVIEW

It has been an uncertain year for the optical manufacturing industry due to the global economic slowdown and the resulting slack in demand for optical products from North American and European customers. Though the interest rates in North America and Europe have been lowered substantially during the period, there was no significant improvement in consumer buying sentiment. Since overseas customers adopted a conservative view in their sales projections for second half of 2001, they were cautious in placing new orders with substantial volume during the period under review. In addition, because of uncertain economic climate, overseas customers gave preference to suppliers offering special and unique design, and shortened production time for repeating orders to quickly adapt to changing market. Thus, the Group is modifying the existing manufacturing system to add greater flexibility to better serve changing demand of customer.

Despite continual competition and a slowdown in general market demand, the Group was able to minimise the impact of unfavourable factors on its gross profit margin by its vertical integrated manufacturing system, which manages to produce most of the parts and components. The gross profit margin of the Group can maintain at a satisfactory level of 43.1% compared with 42.5% of the same period in 2000. However, owing to computer related expenses of approximately HK\$2,400,000 incurred for the implementation of enterprise resources planning system during the period concerned, profit from operating activities has been reduced by 13.5%.

As in previous years, the US and Europe remained our largest markets, accounting for 41.2% and 30.4% of the Group's turnover respectively.