INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Results

This is the first interim result announcement following Probest's acquisition of the Group in March this year. Because of the acquisition, the Group's results included results for: pre-restructuring period (January and February), and post-restructuring period (March to June).

In general, we are very pleased to report that the Group has made a good turnaround in the post-restructuring period, being able to generate good operating profit, as opposed to operating loss for the same period last year. Thanks to the external balance sheet restructuring, the Group has benefited much from the change in majority shareholding in March. As a result of the change, HK$300 million convertible notes were converted into ordinary shares along with Probest taking over the majority shareholding from the banks. The Group could then concentrate on rebuilding the Group's profit generation ability.

Much turnaround work has been done in the past few months, which included streamlining the workforce to a more competitive level, restoring the executive leadership with a new set of strategic directions and revamping fundamental business processes. These have all resulted in a much stronger EBITDA, and a positive run rate in terms of operating profit in the post-restructuring period since March.

Although orders for the period were higher than the same period last year, these have not yet reflected in the turnover for the period. On a like-with-like basis, after excluding last year's China Retail sales (China Retail being spun off in March 2001) turnover this year of HK$128.5 million was 3% higher than last year. At the same time, the Group continued to experience changes in its customer base. This change, to some extent, has affected the Group's turnover as well as the gross profit margin, which dropped by 4% when compared with the same period of last year.

Selling and administrative expenses have decreased by 31%, dropped significantly from last period mainly due to savings in salaries as a result of reduced headcount, lower legal and professional fee and tight cost control exercised by the Group.

Other operating expenses have decreased by HK$4.8 million mainly attributable to lower provisions for inventories and doubtful debts. The improvements were attributable to better planning of inventory level as well as closer monitoring of its long outstanding debtors.

The Group's 50 percent-owned associate, Dongguan Yueheng Optical Co., Ltd. continued to make good profits due to higher sales for polycarbonate plastic lens as a result of good market demand and worldwide shortage of supply.

Finance cost comprises accrued interest on loans due to the banks and Probest. Lower finance cost was mainly due to low interest rates.

Major exceptional and non-recurring items recognised during the period included HK$16.9 million of write off of accrued interest on bank loans and bank overdraft. The interest represents interest due to the banks on bank loans that was not paid as at 1 March 2002 and was released and discharged by the banks following the acquisition of the Group by Probest in March 2002. The Group also recorded HK$8.0 million of restructuring cost for retrenchment cost and professional fees for financial and legal advice arising from the change of the Company's substantial shareholder.

Profit attributable to shareholders for the six months ended 30 June 2002 was HK$9.2 million as compared with a loss of HK$13.3 million in 2001. Significant improvement in profit for the period was boosted by the Group's initiatives to reduce operation costs, which resulted in significant savings in selling and administrative expenses, as well as lower finance cost and exceptional gain as a result of restructuring.

Prospects and Outlook

The external market conditions have been extremely competitive in the past few months due to unstable US economy and competition intensity. This situation is likely to persist in the near future. In the meantime, the eyewear industry is undergoing big evolution, with branding and distribution becoming extremely important.

As a re-emerged competitor, the Group has been repositioning itself internally. Much of the ground work in turning around the Group has been done in the past few months. In the next few months, we shall focus on completing the key initiatives in manufacturing to support the new alignment in sales organisation. When completed, we shall have a very focused manufacturing organisation capable of achieving competitive delivery lead time, and short time-to-market on product launches. Many of the product development and engineering documentation, and real-time tracking of products moving through the production lines, will be tracked on the Group's digital systems. These initiatives, when combined with the Group's new marketing focus on providing high value-added services to customers, will enable the Group to compete even more successfully in the market place.

Liquidity and Financial Review

The Group mainly finances its day to day operations with internally generated cash flow. As at 30 June 2002, the current ratio of the Group was 0.85 : 1. The low current ratio is due to HK$62.5 million of loan due to immediate holding company payable within one year.

During the period, the Group recorded a cash inflow from operating activities of HK$3.5 million. As at 30 June 2002, the Group has recorded an overdue interest of HK$4.4 million on loan due to Probest. The request for the payment of this overdue interest of HK$4.4 million will depend upon the performance of the Group and may or may not be waived by Probest. Taking into account the requirements under the loan agreement to make repayments to Probest on the HK$250 million loan due in years 2002 to 2006, the Group believes that financial support of Probest is absolutely essential.

The Group conducts its business transactions mainly in Hong Kong Dollars, US Dollars and RMB. The Group did not arrange any forward currency contracts for hedging purposes. Whilst most of the Group's cash is denominated in currencies directly and indirectly linked to the US Dollars, the exposure to exchange fluctuation, gains and losses, is minimal. The Group's loans bear interest at a rate per annum equivalent to 1% over prime payable quarterly in arrears. The Group's borrowings are mainly denominated in Hong Kong Dollars.

At 1 March 2002, the Company issued 1,500,000,000 ordinary shares of HK$0.20 each to the banks upon exercise of the conversion rights under the convertible notes. As at 30 June 2002, the gearing ratio (long term debts/(long term debts + shareholders fund of the Group)) was 1.91.

Charge on Group Assets and Contingent Liabilities

Following the acquisition of the HK$250 million bank loans by Probest, the debentures were released and discharged by the banks on 1 March 2002. At 30 June 2002, the Group had no contingent liabilities in respect of bills of exchange discounted with recourse.

Human Resources

As at 30 June 2002, the Group had 2,452 employees. Pursuant to the Company's New Share Option Scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. No share options have been granted during the period.

The remuneration policy and package of the Group's employees are based on their performance, experience, prevailing industry practice and market rates. In addition to the basic salaries and contributions to the provident fund, the Group also provides staff benefits including discretionary bonus to senior staff and medical insurance scheme. The Group also provides appropriate training for the employees' better personal development and growth.