



CHAIRMAN'S STATEMENT



SUMMARY OF RESULTS

The Group's consolidated turnover and net profit decreased by 14% and 22% to HK\$519.4 million (2002: HK\$602.5 million) and HK\$82.3 million (2002: HK\$105.7 million) respectively in 2003. Basic earnings per share decreased by 23% to 21.9 cents (2002: 28.4 cents) in 2003.

DIVIDENDS

The Directors have resolved to recommend a final dividend and a second special dividend of 8 cents and 7 cents per share respectively for the year ended 31st December, 2003. Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on 27th May, 2004, the final dividend and the second special dividend will be payable on 7th June, 2004 to shareholders whose names appear on the Register of Members of the Company on 27th May, 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24th May, 2004 to 27th May, 2004, both days inclusive, during which period no transfer of shares will be effected. All transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 21st May, 2004 in order to qualify for the proposed final dividend and second special dividend mentioned above.

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BUSINESS REVIEW

Original design manufacturing (ODM) division

The financial performance of the ODM division remained subdued in 2003 because of the adverse effects of the military confrontation in the Middle East and the relatively poor consumer sentiment in the Groups' major markets. Sales to ODM customers decreased by 14% to HK\$460.6 million (2002 : HK\$534.7 million) in 2003. United States and Europe remained the major markets of this division and accounted for 49% and 42% respectively (2002: 45% and 44%) of the turnover of this division. The market began to show signs of recovery since the middle of 2003 and the recovery gained momentum in the last quarter of the year. As a result, the percentage decline in sales decreased from 17% in the first half to 11% in the second half of the year as compared with the corresponding period of 2002. Metal frames, plastic frames and spare parts accounted for 70%, 28% and 2% respectively of the Group's turnover of ODM business in 2003 (2002: 68%, 30% and 2%). Average unit selling prices remained fairly stable throughout the year.

Distribution division

Sales of the Group's own-branded and licensed branded products (including both optical frames and lenses) decreased by 11% to HK\$30.1 million in 2003 (2002: HK\$33.9 million). Sales to Europe and Asia accounted for 43% and 27% respectively of the turnover of the Group's distribution division in 2003 (2002: 35% and 50%). Europe surpassed Asia as the single largest market as a result of the successful launching of the Group's house brand "STEPPER" in several European countries and the negative impact of the outbreak of severe acute respiratory syndrome ("SARS") in Asia during the year. Some of the house brands and licensed brand that did not meet the predetermined financial target of the Group were gradually phased out. The Group also started the launching of the licensed Italian fashion label "FIORUCCI" in certain Asian countries in the last quarter of the year.



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Retailing division

The Group consolidated its retailing operations and combined its two retail chains of "ARTS 1000" and "SUNNY ARTS" in 2003. Total number of shops dropped from 73 at 31st December, 2002 to 27 at 31st December, 2003. As a result of this consolidation exercise and the impact of SARS in the second quarter of the year, turnover of the retailing division decreased by 15% to HK\$28.7 million in 2003 (2002: HK\$33.9 million). No significant write-offs were made for the consolidation scheme.

Financial position and liquidity

During the year, the Group's operating activities generated a net cash inflow of HK\$113.8 million (2002: HK\$133.4 million). Capital expenditure was closely monitored by the management. Despite the payment of substantial amount of cash dividends during the year, the Group still managed to maintain a satisfactory net cash position throughout the year. At 31st December, 2003, the Group had a net cash position (bank and cash balances plus pledged bank deposits net of any bank borrowings) of HK\$192.2 million (2002: HK\$214.1 million). The Group did not have any bank borrowings at 31st December, 2003 (2002: HK\$1.5 million).

The current ratio of the Group at 31st December, 2003 was 4.1 to 1 (2002: 4.3 to 1) with HK\$432.0 million of current assets (2002: HK\$441.0 million) and HK\$105.8 million of current liabilities (2002: HK\$102.7 million). Due to the granting of longer credit periods to a selected group of key customers, debtors turnover period (ratio of the total of debtor and discounted bills balances to sales) increased from 80 days in 2002 to 99 days in 2003. Inventory turnover period (ratio of inventory balance to cost of sales) also increased from 68 days in 2002 to 88 days in 2003 because of the substantial increase in work in progress balance at the end of 2003 as a result of the increase in production activity in order to satisfy the strong sales orders received in the last quarter of the year.

As at 31st December, 2003, the Group had 376,870,000 shares (2002: 374,410,000 shares) in issue with a total shareholders' funds amounting to HK\$578.0 million (2002: HK\$580.0 million). Net asset value per share was HK\$1.53 (2002: HK\$1.55). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over shareholders' funds) were HK\$8.0 million (2002: HK\$7.4 million) and 1.4% (2002: 1.3%) respectively.

The Group had limited exposure to foreign exchange rate fluctuations as most of its transactions were conducted in either United States dollars, Hong Kong dollars and Renminbi and the exchange rates movements between these currencies were relatively stable during the year.

Contingent Liabilities

| | The Group | |
|--------------------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Bills discounted with recourse | 3,310 | — |

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At 31st December, 2003, the Group had given a corporate guarantee in favour of a financial institution to secure general credit facilities to the extent of HK\$9,750,000 (2002: Nil). The extent of facilities utilised at 31st December, 2003 amounted to approximately HK\$9,750,000 (2002: Nil).

In addition to the above, at the balance sheet dates, the Group had given a corporate guarantee in favour of a minority shareholder of a subsidiary to the extent of RMB1,020,000 (approximately HK\$962,000) in consideration of the guarantee given by this minority shareholder in favour of banks to secure general banking facilities to the extent of RMB2,000,000 (approximately HK\$1,887,000) granted to this subsidiary. No such facilities were utilised by the aforesaid subsidiary at 31st December, 2002 and 2003.

At 31st December, 2003, the Company had given corporate guarantees in favour of banks to secure general banking facilities to the extent of HK\$111,130,000 (2002: HK\$119,130,000) granted to its subsidiaries. Other than the bills discounted with recourse amounting to HK\$3,310,000 as stated above, there was no outstanding balance of banking facilities utilised by the subsidiaries at 31st December, 2003 (2002: HK\$1,540,000).

Pledge of Assets

At 31st December, 2003, leasehold properties with an aggregate net book value amounting to approximately HK\$12,252,000 (2002: HK\$14,236,000) and bank deposits of approximately HK\$18,037,000 (2002: HK\$10,895,000) were pledged to banks to secure short term banking facilities granted to the Group.

Employee and Remuneration Policies

At 31st December, 2003, the Group employed approximately 6,400 (2002: 5,800) full time staff in mainland China, Hong Kong and Europe. The Group remunerates its employees based on their performances, experiences and prevailing market salaries while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidised educational and training programmes, mandatory provident fund scheme as well as a share option scheme.

PROSPECTS

ODM division

The pick up in demand for the Group's products since the middle of last year continues in the first quarter of 2004. The Group registered satisfactory growth in sales of this division in the first three months of 2004. Although business visibility remains low and customers' buying sentiment seems to be changing more frequently, the management is confident that this division should show a recovery of performance in 2004. Increase in proportion of sales of higher margin products, strict containment on unit production costs, coupled with anticipated volume growth, have facilitated the improvement in gross margin of this division.

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Distribution division

The Group will continue to restructure its brands portfolio and focus on selected brands more sharply. Meanwhile, active negotiations are being undertaken with its ODM customers and other professional middleman for the feasibility of enlarging its brands portfolio by means of acquisition or licensing arrangements. More distributors will be appointed globally for the cross-selling of the Group's house branded and licensed branded products.

Retailing division

The consolidation scheme implemented in 2003 enhanced the competitiveness and strengthened the earnings potential of the retailing division of the Group. Beijing and Shenzhen will be the focuses for further expansion of the retail chain because of the relatively sophisticated regulatory infrastructure in these two cities. Keen competition remains the major challenge of this business division and a long term and cautious approach will continue to be adopted in any further expansion of this division.

Summary

Despite the difficulties and challenges encountered in 2003, the Group still managed to maintain strong financial stability and liquidity. The management is optimistic of the macro-economic environment as well as the financial performance of the Group in 2004. It will continue to adopt the guiding principles of taking a proactive approach to business development and diversification with particular emphasis on financial prudence, balance sheet management and cash earnings. The Group is well-positioned to capture any business opportunities under the above solid fundamentals.

APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere appreciation and thanks to our shareholders, customers, suppliers, bankers and staff for their effort and commitment.

Ng Hoi Ying, Michael

Chairman

Hong Kong, 16th April, 2004