BUSINESS REVIEW

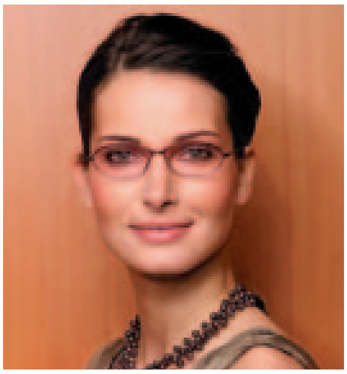
Summary of results

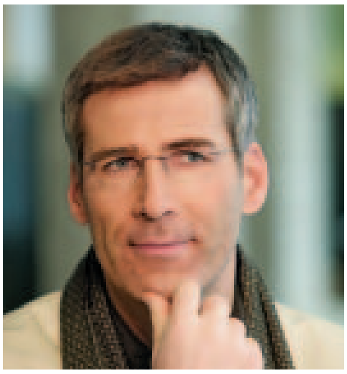
The Group's consolidated turnover increased by 16% to HK$791.6 million (2004: HK$685.0 million) whereas its profit attributable to the equity holders of the Company declined by 6% to HK$96.0 million (2004: HK$102.4 million) in 2005. Basic earnings per share also decreased by 7% to 25.2 cents (2004: 27.1 cents) in 2005.

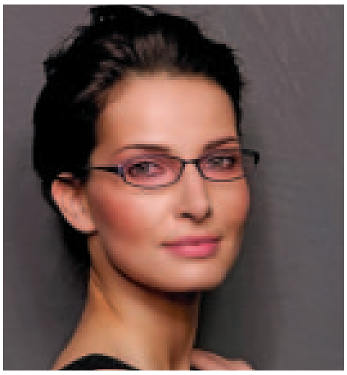
As reported in the interim results, the positive effects generated from the economies of scale were fully offset by the increases in production costs arising from higher raw material costs, labour wages and record energy prices. Increase in proportion of sales of sunglasses and handmade plastic frames in 2005 and appreciation of Renminbi since the second half of year had also adversely affected our gross margin. Gross profit margin declined by 5.2% to 28.1% (2004: 33.3%) in 2005. Although the management managed to cut the total expenses to sales ratio by 2.3% to 16.1% (2004: 18.4%), net profit margin (ratio of profit attributable to the equity holders of the Company to turnover) still decreased by 2.9% to 12.1% (2004: 15.0%) in 2005.

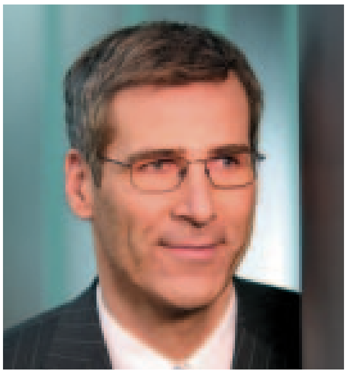
Original design manufacturing (ODM) division

Sales to ODM customers increased by 17% from HK$616.8 million in 2004 to HK$719.7 million in 2005. Sales to Europe, United States, Asia and other regions accounted for 61%, 32%, 5% and 2% respectively of the sales of this division in 2005 (2004: 53%, 39%, 5% and 3% respectively). Sales to Europe registered a satisfactory growth rate of 34% to HK$438.0 million (2004: HK$326.2 million) as more customers sourced their demand from the Fast East following the gradual closing down of eyewear production facilities in Europe. Sales to the United States declined by 6% to HK$228.0 million (2004: HK$243.2 million) as a result of consolidation of the retailing and distribution sectors of the American eyewear market in recent years. The strong demand for sunglasses, especially those made of acetate plastic materials, continued throughout 2005. Sales of prescription frames recorded a marginal growth rate of 6% to HK$413.9 million (2004: HK$390.1 million) whereas sales of sunglasses registered a strong growth rate of 34% in 2005 to HK$287.8 million (2004: HK$214.4 million). Sales of metal frames, plastic frames and spare parts accounted for 52%, 46% and 2% respectively of the Group's turnover of ODM business in 2005 (2004: 59%, 39% and 2% respectively).









Distribution division

Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) increased by 14% to HK$53.1 million in 2005 (2004: HK$46.5 million). Sales to Europe, Asia, North America and other regions accounted for 49%, 20%, 14% and 17% respectively of the Group's turnover of distribution division in 2005 (2004: 48%, 14%, 20% and 18% respectively). STEPPER, the German brand wholly owned by the Group with more than 30 distributors appointed globally, continued to be the best selling brand and key driver to the growth of this business division.

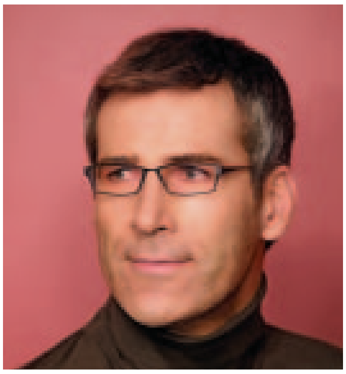
Retailing division

Turnover of the retailing division decreased by 13% to HK$18.8 million in 2005 (2004: HK$21.7 million). Retail operations in Nanjing and Shanghai were closed in 2004 and no longer had any contribution in 2005. The Group operated a total of 18 shops (2004: 17 shops), including 10 shops in Beijing and 8 shops in Shenzhen, at 31st December, 2005.

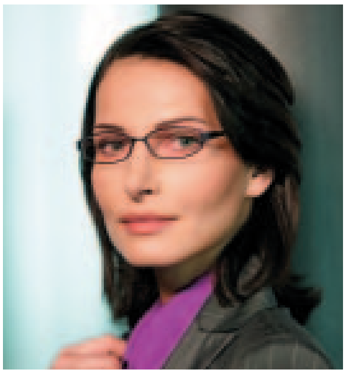
Financial position and liquidity

The current ratio of the Group as at 31st December, 2005 was 2.8 to 1 (2004: 3.4:1) with HK$479.2 million of current assets (2004: HK$443.3 million) and HK$170.6 million of current liabilities (2004: HK$129.8 million). To meet the anticipated increase in delivery requirements in the first quarter of 2006, production activity was substantially increased in the last quarter of 2005 and inventory balance increased to HK$162.3 million as at 31st December, 2005 (2004: HK$119.4 million). Inventory turnover period (ratio of inventory balance to cost of sales) also increased from 95 days in 2004 to 104 days in 2005. Debtors turnover period (ratio of the total of debtor and discounted bills balances to sales) increased slightly from 105 days in 2004 to 108 days in 2005.

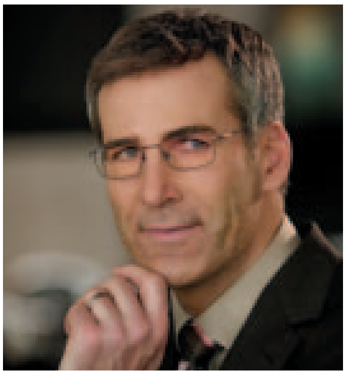
The Group generated HK$109.1 million net cash inflow from it operating activities in 2005 (2004: HK$84.0 million). A relatively higher level of capital expenditure of HK$92.5 million (2004: HK$69.8 million) was incurred during 2005 for the expansion of the production capacity and upgrading of the equipment. Dividend payments amounted to HK$68.7 million were also made during the year (2004: HK$90.7 million). As a result of the above factors, the net cash position of the Group (bank and cash balance plus pledged bank deposit less bank borrowing, if any) decreased from HK$110.5 million at 31st December, 2004 to HK$65.0 million at 31st December, 2005. The Group did not have any interest bearing borrowings at the end of both years of 2004 and 2005.



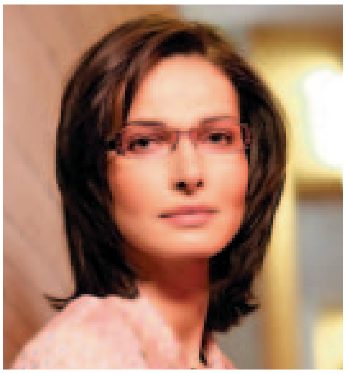
As at 31st December, 2005, the Group had 383,650,000 shares (2004: 379,130,000 shares) in issue with an equity attributable to equity holders of the Company amounting to HK$623.2 million (2004: HK$592.3 million). Net asset value attributable to equity holders of the Company per share was HK$1.62 (2004: HK$1.56). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity were HK$13.3 million (2004: HK$10.0 million) and 2.1% (2004: 1.7%) 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, except for the one-off appreciation of Renminbi against United States dollars in July 2005.



Details of contingent liabilities and pledge of assets are set out in notes 32 and 33 respectively to the financial statements.



Employees and remuneration policies

As at 31st December, 2005, the Group employed approximately 9,500 (2004: 7,700) 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

Although the pace of rising of the cost elements seemed to have slowed down in the second half of 2005, there is no indication that they will be coming down in the near future. The management believes that the upward trend on cost burden will continue in 2006. The strengthening of Renminbi against other currencies continues to put additional pressure on our cost control efforts. Although the Group has adjusted the selling prices of its products since late 2005, the effects will be modest and only reflected in the second half of 2006. On the demand side, our customers remain bullish about the business outlook and this division currently has four months sales orders on hands. To enhance the competitiveness of the Group, substantial capital investment for expansion of production capacity and upgrading of equipment has been made in 2005 and the management expects that this will continue in 2006.

Distribution division

The management will continue to focus on the expansion of distribution network for its house brand STEPPER and licensed brand FIORUCCI. Some new licensed and house brands for the Asian markets may be added to strengthen the brand portfolio of this division in the second half of 2006.

Retailing division

The operational performance of this division has been improving since the Group decided to focus on the cities of Beijing and Shenzhen two years ago. Some non-performing shops will be relocated and the overall scale of operations in these two cities should remain fairly stable in 2006.

Summary

Although the demand for the Group's products remains fairly strong, the substantial capital investment required for maintaining competitiveness, the pressure on gross margin and the increase in working capital requirements have increased the operational and financial risks of the Group's business and affected the operational cash-flow. The management will continue to adopt the guiding principles of financial prudence when executing the expansion plan and carefully monitor the impact of the above factors on cash-flow management and dividend payment capability.

DIVIDENDS

The directors of the Company (the "Directors") have resolved to recommend a final dividend of 7 cents per share for the year ended 31st December, 2005. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 25th May, 2006, the final dividend will be payable on 20th June, 2006 to shareholders whose names appear on the register of members of the Company on 25th May, 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22nd May, 2006 to 25th May, 2006, 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 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 19th May, 2006 in order to qualify for the proposed final dividend mentioned above.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Thursday, 25th May, 2006. For details of the annual general meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 24th April, 2006.

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, 11th April, 2006