Management
Discussion and Analysis

RESULTS AND BUSINESS REVIEW

The Group reported a net profit of approximately HK$38.7 million, compared to a net loss of approximately HK$7.6 million (restated) last year. The Group recorded a turnover of approximately HK$147.0 million, representing a decrease of 16.0% compared with last year. Sales orders for the current year were approximately HK$144.8 million, versus approximately HK$174.9 million of the previous year. The gross profit margin decreased from 10.9% last year to 4.2% this year.

The Group experienced a squeeze in gross margin due to the increasing prices in oil, raw materials and components and the lower capacity utilization. Selling and administrative expenses increased from approximately HK$28.5 million in 2004 to approximately HK$32.7 million this year due to an impairment of approximately $1.5 million for long outstanding doubtful debts in this year. Other income included a gain of approximately HK$3.0 million on a deregistration of a subsidiary. Other operating expenses increased from approximately HK$1.0 million last year to approximately HK$3.8 million this year due to the impairment for obsolete stock of HK$1.9 million and retrenchment cost of approximately HK$800,000 incurred this year. Finance costs in 2005 comprised of the interest on a promissory note and the loan due to a shareholder, Probest Holdings Inc. ("Probest"). A gain of approximately HK$67.7 million represented the waiver of the loan principal, accrued interests and default interests of the promissory note due to Probest after completion of loan restructuring agreement as described below under the section "Change of shareholdings and Corporate Transactions".

The shared profit before tax from the Group's 50% owned associate, Dongguan Yueheng Optical Company Limited, was approximately HK$8.3 million, versus approximately HK$2.8 million recorded last year. The increase in profit was mainly due to the increased demand for lenses in the second half of the year.

FUTURE OUTLOOK

The global optical market in the year ahead will continue to be active and vibrant as the world of fashion and brandings demand good quality products in both eyeglasses and sunglasses.

The Group will continue fortifying its corporate structure to streamline workflow, to enhance design, new product development, manufacturing and production capabilities to retain growth and our leading position in the optical industry. The focus is to become a major "one-stop shop" manufacturing partner in sunglasses, eyeglasses, lens and accessories for international brand holders, reputable wholesalers and retail chains globally.

To improve operational performance and fulfill customer interests, the Group intends to invest in building a stronger and committed management team by recruiting more high caliber optical professionals with experience in manufacturing, China distribution and regional wholesales.

FUTURE OUTLOOK (cont'd)

The design and engineer teams with the support of advanced prototype equipment and technologies will focus on the establishment of a state-of-the-art Design and Prototype Center to offer functional and stylistic eyewear designs and samples in reduced lead-time.

Expansion of OEM/ODM/OBM client base globally is one of the Group's key strategies to improve sales growth. Participation in international optical fairs, top management sales visits and presentations to the key optical wholesalers, national retail chains and international brands will be carefully planned during the entire course of the coming year.

Consolidation of manufacturing and production resources in Shenzhen and Dongguan will be continued in the coming year to further enhance operating cost efficiency and improve productivity.

Following the successful distribution launch of 2 license brands, "S. Oliver" and "Camel Active" from Germany in the China market, the Group will launch a new OBM brand in the China market in the coming year. The Group will continue to foster new licensing opportunities to expand its brands portfolio and new market share in China and Asia in the years ahead.

The Board considers the newly introduced agency services business has assisted in broadening the income base of the Group and in enhancing profitability. The Board will continue to search for opportunities in other business ventures to further broaden and diversify its current business profile so as to enhance profitability.

LIQUIDITY AND FINANCIAL REVIEW

The Group mainly finances its day to day operations with internally generated cash flow. As at 31 December 2005, the current ratio of the Group, measured as total current assets to total current liabilities, was 2.08:1.

During the year, the Group recorded a cash outflow from operations of approximately HK$6.6 million. The Group also recorded an amount of approximately HK$4.0 million in dividends received from associates. As at 31 December 2005, the Group recorded approximately HK$167.0 million due to Probest, and of this approximately HK$167.0 million, accrued interest of approximately HK$11.2 million is overdue.

The Group conducts its business transactions mainly in Hong Kong dollars, US dollars, Euros and Renminbi. 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 dollar, the exposure to exchange fluctuation in gains and losses is minimal. The Group's promissory note and Profitown Loan due to Probest bear interest at a rate equivalent to 1% over Hong Kong prime rate per annum. The Group's borrowings are mainly denominated in Hong Kong dollars.

Management
Discussion and Analysis

GEARING RATIO

The gearing of the Group, measured as total debts to total assets, was 93.5% as at 31 December 2005, as compared to 127% as at 31 December 2004.

CHANGE OF SHAREHOLDINGS AND CORPORATE TRANSACTIONS

On 20 January 2005, amongst others, China Time Investment Holdings Limited ("China Time") entered into the sale and purchase agreement (the "S&P Agreement") with Probest Holdings Inc. ("Probest"), a subsidiary of Tomorrow International Holdings Limited ("Tomorrow") and subsidiaries of SW Kingsway Group pursuant to which China Time conditionally agreed, inter alia, to acquire 1,437,396,440 and 437,521,250 shares of the Company's shares representing approximately 46% and 14% of the existing issued share capital of the Company from Probest and SW Kingsway Group respectively for a total consideration of approximately HK$56 million (i.e. equivalent to HK$0.03 per Share).

Upon completion of the S&P Agreement ("Completion"), China Time was obliged under Rule 26 of the Code on Takeovers and Mergers to make a mandatory cash offer to acquire all the issued shares of the Company (other than those already owned by China Time and parties acting in concert with it). On 4 July 2005, the board of directors of China Time announced the Offer was closed. Upon which, valid acceptance was received under the Offer in respect of 162,035 Shares (representing approximately 0.01% of the entire issued share capital of the Company at the date of the announcement). After taking into account the valid acceptances of 16,035 Shares including valid acceptances of 160,035 Shares' legal titles of which have been transferred to China Time, China Time together owns 1,875,079,680 Shares (representing approximately 60% of the entire issued share capital of the Company).

Subsequent to the closing of the Offer, the registered office of the Company changed to Suite 1102, 11/F., ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong with effect from 5 July 2005.

For details of the above transactions, please refer to the announcements dated 18 April 2005 and 4 July 2005.

On 20 January 2005, the Company, Probest and Profitown Investment Corporation ("Profitown") entered into the conditional loan restructuring agreement (the "Loan Restructuring Agreement"). Pursuant to the terms of the Loan Restructuring Agreement, upon completion, Profitown issued a new promissory note in favour of Probest, in consideration of Probest waiving a portion of the outstanding loan due and owing by the Company to Probest under the existing promissory note and releasing the Company from all future obligations and liabilities under the existing promissory note, and the Company also issued a guarantee to guarantee Profitown's obligations in respect of interest payments under the new promissory note.

Management
Discussion and Analysis

CHANGE OF SHAREHOLDINGS AND CORPORATE TRANSACTIONS (cont'd)

On 3 June 2005 upon the completion (the "Completion Date") of the Loan Restructuring Agreement, the Company, Probest, Tomorrow and Profitown entered into a shareholders agreement (the "Shareholders Agreement"), the principal terms of which include unanimous board approval on material issues regarding Profitown, a put option exercisable by the Company in respect of its shares in Profitown, upon which the Company has the right to require Probest or an independent third party procured by Probest to purchase all (but not part only) of its shares, being approximately 70% of all the issued shares of Profitown, in Profitown exercisable at the time before the expiry of 30 months from the Completion Date at a price equal to the net tangible asset value of Profitown as at the date of exercise of such put option attributable to such shares and such purchaser will assume all the liabilities due from the Company to any member of the Profitown Group incurred prior to the date of the Shareholders Agreement at nil consideration. The Shareholders Agreement also includes an indemnity by Probest in favour of Profitown in the event of deficit in the net tangible asset value of Profitown during the 30-month period from the Completion Date. On Completion, Probest and Tomorrow also executed a deed in favour of China Time. Under certain events, Probest indemnifies China Time.

An agency agreement was entered into between Anchorage Trading Limited ("Anchorage"), a wholly-owned subsidiary of the Company, and an associate of China Time ("Nominee") upon the Completion Date and commenced from the Completion Date and will expire on 31 December 2007 (the "Agency Agreement"). Pursuant to the terms of the Agency Agreement, Anchorage provides agency services to the Nominee in relation to the sale of chemical products including phosphorus and related products to Italy, Japan and Korea. As Anchorage is wholly-owned by the Company and China Time being the controlling shareholder of the Company, the Nominee as an associate of China Time is a connected person of the Company under the Rules Governing the Listing of Securities on the Stock Exchange Hong Kong Limited (the "Listing Rules") upon Completion. Transactions between the Nominee and the Group constitutes continuing connected transactions for the Company under the Listing Rules.

For details of the above transactions, please refer to the announcement dated 18 April 2005.

CAPITAL COMMITMENT, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no material capital commitment, charge on group assets and contingent liabilities.

Management
Discussion and Analysis

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2005, the Group had 1,861 employees. The Group's remuneration policy is primarily based on the individual performance and experience of employees, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes to benefit employees' better personal development and growth.

Messrs. Wang An Kang, Zhao Jun (Chairman) and Li Wei (C.E.O.) and Ms. Zhou Jing were appointed as executive directors of the Company, effective from 5 July 2005. Messrs. Choi Tze Kit, Sammy ("Mr. Choi") and Wu Bin were appointed as independent non-executive directors of the Company effective from 5 July 2005. Mr. Yau Tak Wah, Paul, Ms. Louie Mei Po, Ms. Wong Shin Ling, Irene, Mr. Tam Wing Kin and Mr. Cheung Wah Hing resigned as the executive directors of the Company, effective from 5 July 2005. Mr. Hahn Ka Fai, Mark, Ms. Shum Wai Ting, Rebecca, and Mr. Wu Wang Li resigned as the independent non-executive directors of the Company, effective from 5 July 2005.

Effective from 24 August 2005, Mr. Tam King Ching, Kenny ("Mr. Tam") was appointed as independent non-executive director of the Company. On the same day, Mr. Tang Suk Ngao, Raymond and Mr. Choi were appointed as the authorized representatives of the Company for the purpose of rule 3.05 of the Listing Rules. Messrs. Choi, Wu Bin and Tam were appointed as the members of the Audit Committee of the Company and Mr. Wu Bin as the chairman of the audit committee effective from 24 August 2005.

Effective from 27 September 2005, the Company formed a Remuneration Committee consisting of five members including two executive directors, namely, Messrs Zhao Jun and Li Wei and three independent non-executive directors, namely, Messrs Wu Bin, Choi and Tam. Mr. Zhao Jun was appointed Chairman of the Remuneration Committee.

Pursuant to the Company's 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 option was outstanding as at 31 December 2005.

On behalf of the Board

Zhao Jun
Chairman

Hong Kong, 24 April 2006