CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Summary of results

The consolidated revenue of the Company and its subsidiaries (the "Group") and profit attributable to the equity holders of the Company increased by 39% and 73% to HK$1,099.0 million and HK$166.5 million respectively (2005: HK$791.6 million and HK$96.0 million respectively) in the year ended 31st December 2006. The Group also recorded a net gain of HK$18.1 million from the disposal of two pieces of vacant land in Shenzhen during the year ended 31st December 2006. The profit attributable to equity holders of the Company would have increased by 55% to HK$148.4 million if this one-off gain of land disposal was excluded. Basic earnings per share increased by 72% to 43.4 HK cents (2005: 25.2 HK cents) in 2006.

The Group's gross margin was still under severe pressure arising from adverse trends in its various cost factors including higher raw material costs, labour wages, record energy prices and gradual appreciation of Renminbi. Despite the above challenges, the trend of declining gross profit margin percentage (ratio of gross profit to revenue) since 2003 was reversed in 2006, primarily due to the positive effects of the economies of scale. The output volume of the Group's products had increased by 28% in 2006. Gross profit margin percentage improved by 0.6% from 28.1% in 2005 to 28.7% in 2006. Net profit margin percentage (ratio of profit attributable to the equity holders of the Company to revenue) also increased by 3.0% from 12.1% in 2005 to 15.1% (or by 1.4% to 13.5% after excluding the above one-off gain of land disposal) in 2006.

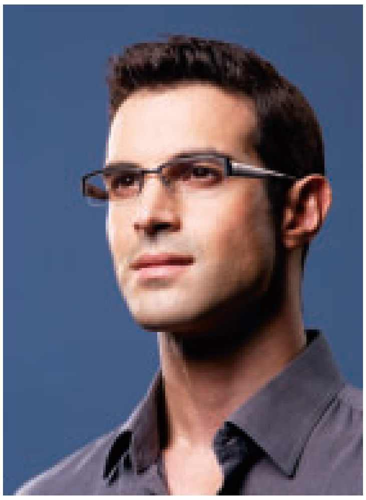
Original design manufacturing (ODM) division

To cope with the demand for the Group's products and meet the challenge from an industry which is increasingly fashion-focused, substantial capital expenditure had been incurred by the Group since 2004 for the expansion of the production capacity and upgrading of the product quality. As a result, sales to ODM customers increased by 38% from HK$719.7 million in 2005 to HK$996.6 million in 2006. Sales to Europe and the United States registered a satisfactory growth rates of 51% and 25% and increased to HK$661.8 million and HK$285.7 million respectively (2005: HK$438.0 million and HK$228.0 million respectively) in 2006. On a geographical basis, sales to Europe, United States, Asia and other regions accounted for 66%, 29%, 3% and 2% respectively of the sales of this division in 2006 (2005: 61%, 32%, 5% and 2% respectively). The strong market demand for sunglasses with fashion labels, especially those made of acetate plastic materials with trendy designs, continued in 2006. Sales of sunglasses registered a strong growth rate of 54% in 2006 to HK$444.0 million (2005: HK$287.8 million). Meanwhile, sales of prescription frames also recorded a satisfactory growth rate of 29% to HK$534.9 million (2005: HK$413.9 million). Sales of metal frames, plastic frames and spare parts accounted for 49%, 49% and 2% respectively in 2006 (2005: 52%, 46% and 2% respectively).

CHAIRMAN'S STATEMENT

Distribution and retailing divisions

The Group's distribution division continued to report encouraging results in 2006. Sales of the Group's own-branded and licensed branded products (including both spectacles and lenses) recorded a strong growth of 63% to HK$86.4 million in 2006 (2005: HK$53.1 million). Sales to Europe, Asia, North America and other regions increased by 67%, 131%, 25% and 3% respectively and accounted for 50%, 28%, 11% and 11% respectively of the Group's turnover of distribution division in 2006 (2005: 49%, 20%, 14% and 17% respectively). Leveraging on an extensive global distribution network of over 30 distributors, STEPPER eyewear, the German brand owned by the Group, remained as the best selling brand and key growth engine among the brand portfolio of this division. FIORUCCI eyewear, the licensed Italian fashion brand, also recorded strong business growth in both Europe and Asia. The Group also launched a new house brand, OOPZ eyewear, targeting at the youth market in Asia in the last quarter of 2006.



As a result of the closure of some non-performing shops in both Beijing and Shenzhen and temporary closure of its flagship shop in Shenzhen for renovation works, turnover of the retailing division decreased by 15% to HK$16.0 million in 2006 (2005: HK$18.8 million). As at 31st December, 2006, the Group operated a total of 13 shops (31st December, 2005: 18) including 8 shops in Beijing and 5 shops in Shenzhen (31st December, 2005: 10 and 8 respectively).

Financial position and liquidity

The Group generated HK$162.6 million net cash inflow from its operating activities in 2006 (2005: HK$109.1 million). Capital expenditure which was wholly financed by the Group's internal resources had increased substantially to HK$146.7 million in 2006 (2005: HK$92.5 million). Dividend payments amounted to HK$53.7 million were also made during the year (2005: HK$68.7 million). The net cash position of the Group (bank and cash balance less bank borrowing, if any) increased from HK$65.0 million as at 31st December, 2005 to HK$69.1 million as at 31st December, 2006. The Group did not have any interest bearing borrowings at the end of both years of 2006 and 2005.

The current ratio of the Group as at 31st December, 2006 was 2.5 to 1 (2005: 2.8:1) with HK$605.7 million of current assets (2005: HK$479.2 million) and HK$244.8 million of current liabilities (2005: HK$170.6 million). As a result of the strenuous efforts made by the management including internal streamlining of the operations and installations of more advanced semi-automatic equipment, the inventory turnover period (ratio of inventory balance to cost of sales) decreased from 104 days in 2005 to 86 days in 2006. Such a reduction in delivery lead time was crucial in maintaining the competitive edge of the Group in this industry. Debtors turnover period (ratio of the total of debtor and discounted bills balances, if any, to revenue) increased slightly by 3 days to 111 days in 2006 (2005 : 108 days).

The Group had 383,650,000 shares in issue as at both 31st December, 2006 and 31st December, 2005 with an equity attributable to equity holders of the Company amounting to HK$754.2 million and HK$623.2 million as at 31st December, 2006 and 31st December, 2005 respectively. Net asset value per share (equity attributable to equity holders of the Company divided by the total number of shares in issue) as at 31st December, 2006 was HK$1.97 (31st December, 2005: HK$1.62). Total long term liabilities and debt to equity ratio (expressed as a percentage of total long term liabilities over equity attributable to equity holders of the Company) were HK$13.7 million (31st December, 2005: HK$13.3 million) and 1.8% (31st December, 2005: 2.1%) 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 to the extent of the gradual continuous appreciation of Renminbi against both the United States dollars and Hong Kong dollars.

Details of contingent liabilities are set out in note 34 to the consolidated financial statements.

Employees and remuneration policies

As at 31st December, 2006, the Group employed approximately 11,300 (2005: 9,500) 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 primary challenges that the Group will be facing include:

(a) fluctuating commodity prices and shortage of skilful labour in China which push up the cost structure of the Group's products on a long term basis;

(b) risks of slowdown in the American economy as the United States is the single largest export market of the Group and its key customers; and

(c) changes in the government policies including tax reforms and specific regulations applicable to this industry, particularly in mainland China and Hong Kong.

In view of the above challenges, the key focus of the management for 2007 will be:

(a) identification of opportunities for cost reduction including continual internal operational review and diversification of procurement sources;

(b) pro-active improvement in its product quality, reduction of the delivery lead time and better integration with the customers' supply chain so as to maintain its competitive edge in this industry; and

(c) commencement of commercial production of its new factory in Heyuan for assembling production processes in late 2007 while its factories in Shenzhen and Zhongshan will be focusing on higher value added production processes as well as research and development.

Export performance in the first quarter of 2007 is satisfactory and within the management's expectation. The Group currently has three months sales orders on hand and still needs to make substantial capital investment in 2007 for its expansion plan. Such capital investment will be primarily funded by internal resources and the management will carefully execute the plan with close monitoring of its impact on the cashflow management.

Distribution and retailing divisions

The organic growth of established sales network of distributors and continued expansion of the network provide a platform to further grow the sales of both STEPPER and FIORUCCI eyewear. The Group has also secured the global licensing rights for an American brand, PANTONE UNIVERSE eyewear, and its commercial launch will begin in the middle of 2007. OOPZ eyewear, the house brand launched in 2006, will provide further growth momentum to the distribution division.

The flagship shop in Shenzhen has been recording satisfactory sales performance after the completion of renovation work in late 2006. The Group intends to maintain the current scale of operations in both Beijing and Shenzhen and will open new shops only for strategic purposes.

Summary

It has been 10 years since the shares of the Company were listed in 1996. Both the revenue and profitability of the Group have increased substantially over this period and this has demonstrated the success of its guiding principles of financial prudence when executing the expansion plan with emphasis on balance sheet management and cash earnings. Despite the challenges discussed above, the directors of the Company (the "Directors") are still optimistic about the financial performance of the Group in 2007.

DIVIDENDS

The Directors have resolved to recommend a final dividend of 7 HK cents per share for the year ended 31st December, 2006. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 23rd May, 2007, the final dividend will be payable on 20th June, 2007 to shareholders whose names appear on the register of members of the Company on 23rd May, 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21st May, 2007 to 23rd May, 2007, 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 18th May, 2007 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 Wednesday, 23rd May, 2007. 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 27th April, 2007.

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, 17th April, 2007