

## Directors' Report

The directors are pleased to present their first annual report and the audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31st December, 2005.

### Corporate Reorganisation

The Company was incorporated with limited liability in the Cayman Islands on 13th October, 2004.

Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 16th November, 2005.

Details of the group reorganisation are set out in note 1 to the financial statements and are more fully explained in the paragraph headed "Group reorganisation" (the "Group Reorganisation") in Appendix VI to the prospectus of the Company dated 26th January, 2006 (the "Prospectus").

The shares of the Company were listed on the Main Board of the Stock Exchange with effect from 10th February, 2006.

### Principal Activities

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 26 to the financial statements.

### Results

The results of the Group for the year are set out in the consolidated income statement on page 23.

### Dividends

During the year, a dividend totalling US\$4,522,000 was declared by the Company and was paid in December 2005.

The Board has resolved not to recommend the payment of any dividend in respect of the year ended 31st December, 2005. However, the Board has resolved to recommend a special interim dividend of HK\$0.047 (approximately US\$0.60 cents) per ordinary share amounting to approximately HK\$39,010,000 (approximately US\$5,001,000) for the year ending 31st December, 2006 and the special interim dividends is expected to be paid on or around 20th July, 2006 to those shareholders whose names appear on the register of members of the Company on 20th June, 2006.

### Trading Results and Published Profit Estimate

The Group's consolidated profit for the year of US\$20,030,000, represents an excess of US\$730,000 over the profit estimate as set out in Appendix II to the Prospectus.

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### Share Capital

Details of the movements in the issued share capital of the Company during the year are set out in note 19 to the financial statements.

### Reserves

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 25.

At 31st December, 2005, the Company's reserve available for distribution to its shareholders comprises contributed surplus amounted to approximately US\$85,842,000.

### Investment Properties

Details of the investment properties of the Group during the year are set out in note 10 to the financial statements.

### Properties, Plant and Equipment

Details of the movement in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

### Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's largest customer and five largest customers taken together accounted for 32 percent and 71 percent of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 10 percent and 32 percent of the Group's total purchase for the year.

Save and except for Asia Optical International Ltd. and Asia Promotion Optical Inc., none of the Directors, their respective associates or, so far as the Directors are aware, any Shareholder who owns more than 5% of the issued share capital of the Company has any interest in any of the other top five customers and suppliers of the Group for the year.

## Directors' Report

### Directors and Directors' Service Contracts

The directors of the Company during the year and up to the date of this report were:

#### Executive directors:

Mr. Cheng Wen-Tao ( <i>CEO</i> )	(appointed on 8th November, 2004)
Mr. Tong Ching-Hsi ( <i>Chairman</i> )	(appointed on 22nd July, 2005)
Mr. Liao Kuo-Ming	(appointed on 22nd July, 2005)

#### Non-executive directors:

Mr. Lai I-Jen	(appointed on 20th December, 2005)
Ms. Wu Shu-Ping	(appointed on 20th December, 2005)

#### Independent non-executive directors:

Mr. Chiang Hsiang-Tsai	(appointed on 20th December, 2005)
Mr. Chou Chih-Ming	(appointed on 20th December, 2005)
Mr. Lai Chung-Hsiung	(appointed on 20th December, 2005)

The biographical details of the directors are set out on page 10 to page 11 of this annual report.

Each of the executive directors has entered into a service contract with the Company for a term of 3 years commencing from the Listing Date. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive and independent non-executive directors has been appointed for a term of one year commencing on 20th December, 2005. In addition, the appointment of each of the non-executive and independent non-executive directors is subject to retirement by rotation in accordance with the Company's Articles of Association.

Other than disclosed above, none of the directors has entered or has proposed to enter into any service contract with the Company or any of its subsidiaries which is not expiring or determinable by the employing company within one year without payment of compensation other than statutory compensation.

The Company had received confirmation from each of the independent non-executive directors of their independence and considered all independent non-executive directors to be independent. In accordance with the provisions of the Company's Articles of Association and the respective letters of appointment, Mr. Cheng Wen-Tao, Mr. Tong Ching-Hsi, Mr. Liao Kuo-Ming, Mr. Lai I-Jen, Ms. Wu Shu-Ping, Mr. Chiang Hsiang-Tsai, Mr. Chou Chih-Ming and Mr. Lai Chung-Hsiung will retire from the Board at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election. Detail of directors' emoluments on a named basis are set out in note 6 to the financial statements on page 35 of this annual report.

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### Directors' Interests in Shares

As at 31st December 2005, the Company had not received any notice of interests to be recorded under Section 352 of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong ("SFO") as the Company had not been listed on the Stock Exchange as at that date.

### Directors' Interest in Contracts of Significance

Save as disclosed in note 24 to the financial statements, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Directors' Rights to Acquire Shares

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

### Substantial Shareholders

As at 31st December 2005, the Company had not received any notice of interests to be recorded under Section 336 of the SFO as the Company had not been listed on the Stock Exchange as at that date.

### Share Option Scheme

A share option scheme (the "**Share Option Scheme**") was conditionally adopted by the shareholders' written resolution of the Company dated 18th January, 2006.

Since the Share Option Scheme had only become unconditional upon the listing of the Company's shares on the Stock Exchange on 10th February, 2006, no share options were granted, exercised or cancelled by the Company under the share option scheme during the year and there are no outstanding share options under the Share Option Scheme as at 31st December 2005.

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debentures of the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or any had exercised any such right.

### Summary of principal terms of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to employees, senior executive or officer, manager and directors of the Company or any of its subsidiaries and outside third parties who, in the sole discretion of the board of directors of the Company, have contributed or will contribute to the growth and development of the Group.

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The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall be 83,000,000 Shares, representing 10% of the issued share capital of the Company as at the date of this annual report.

The total number of Shares issued and to be issued upon exercise of options granted and to be granted to each grantee under the Share Option Scheme in any 12-month period shall not exceed 1% of the issued share capital of the Company from time to time.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the board of directors of the Company is empowered to impose its discretion any such minimum period at the time of grant of any particular option. The period during which the options may be exercised will be notified by the Board to each grantee upon grant of each option, provided that it shall commence on a date not earlier than the date of the grant of an option and not be more than ten (10) years from the date of grant of the option. An offer of grant of an option must be accepted being a date not more than fourteen (14) days after the date of grant. The amount payable on acceptance of an option is HK\$1.00.

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant; and (iii) the nominal value of the Shares.

### Connected Transactions

During 2005, the Company was not listed and did not have any connected transactions which were subject to the requirements of the Listing Rules.

### Management Contracts

Except for the connected transactions as stated in this directors' report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### Directors' Remuneration

The director's fees, basic salaries and other allowances are disclosed in note 6 to the financial statements.

The contributions to pension schemes for directors and past directors for the financial year are disclosed in note 6 to the financial statements.

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There were no compensation paid during the financial year or receivable by directors or past directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

### Pension Schemes

The pension schemes of the Company and its subsidiaries are primarily in form of contributions to the China statutory public welfare fund.

### Sufficiency of Public Float

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

### Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31st December, 2005. The Company did not have any listed securities before its shares were listed on the Stock Exchange on 10th February, 2006.

### Post Balance Sheet Event

Details of significant events occurring after the balance sheet date are set out in note 25 to the financial statements.

### Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under company laws in the Cayman Islands.

### Auditors

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be submitted at the annual general meeting of the Company.

On behalf of the Board

**TONG Ching-Hsi**  
*Chairman*

13 April 2006