



Report of the Directors

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. For the year under review, the Group's principal activities consisted of the design, manufacture and sale of optical products. There were no changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 30 to 76.

The directors do not recommend the payment of any dividend in respect of the year under review.

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SUMMARY FINANCIAL INFORMATION

A summary of the results of the Group for the last five financial reporting years and of its assets, liabilities and minority interests at the respective financial reporting year end dates, as extracted from the published audited financial statements of the Group, is set out below.

	Year ended 31 December				
	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
RESULTS					
TURNOVER	146,983	174,890	192,236	242,097	241,671
(LOSS)/PROFIT AFTER FINANCE COSTS	(37,216)	(10,373)	(10,128)	1,337	(64,168)
Waiver of debt and accrued interest under a Loan Restructuring Agreement	67,662	–	–	–	–
Share of profits less losses of associates	8,271	2,791	1,727	9,426	5,353
PROFIT/(LOSS) BEFORE TAXATION	38,717	(7,582)	(8,401)	10,763	(58,815)
Taxation	–	–	(151)	(1,000)	(295)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	38,717	(7,582)	(8,552)	9,763	(59,110)
Minority interests	7,221	2,323	1,498	378	221
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	45,938	(5,259)	(7,054)	10,141	(58,889)

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SUMMARY FINANCIAL INFORMATION (cont'd)

	As at 31 December				
	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS					
PROPERTY, PLANT AND EQUIPMENT	88,277	93,997	107,291	120,360	133,164
INTERESTS IN ASSOCIATES	35,825	37,220	35,581	30,894	31,530
OTHER NON-CURRENT ASSETS	–	–	–	455	–
CURRENT ASSETS	101,671	109,295	110,691	114,908	98,074
TOTAL ASSETS	225,773	240,512	253,563	266,617	262,768
CURRENT LIABILITIES	48,935	141,036	84,380	122,415	89,065
LONG TERM BORROWINGS	161,988	121,594	181,058	187,500	525,000
OTHER NON-CURRENT LIABILITIES	176	379	490	712	1,000
TOTAL LIABILITIES	211,099	263,009	265,928	310,627	615,065
MINORITY INTERESTS	36,561	44,582	47,670	45,932	46,310
	(21,887)	(67,079)	(60,035)	(89,942)	(398,607)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 17 to the financial statements.

Report of the Directors

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options during the year, together with the reasons therefore, are set out in notes 31 and 32 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company had no retained profits available for cash distribution and/or distribution in specie. In addition, the Company's share premium account, in the amount of approximately HK\$723,462,000, is governed by Section 48B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 48% of the total sales for the year and sales to the largest customer included therein amounted to 23% of the total sales. Purchases from the Group's five largest suppliers accounted for approximately 44% of the total purchases for the year and purchases from the largest supplier included therein amounted to 18% of the total purchases.

As far as the directors are aware, neither the directors, their associates (as defined in the Listing Rules) nor those shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers or suppliers.

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DIRECTORS

The directors of the Company during the year were:

Executive directors:

Zhao Jun (Chairman) (appointed on 5 July 2005)
Li Wei (C.E.O.) (appointed on 5 July 2005)
Wang An Kang (appointed on 5 July 2005)
Zhou Jing (appointed on 5 July 2005)
Yau Tak Wah, Paul (resigned on 5 July 2005)
Louie Mei Po (resigned on 5 July 2005)
Wong Shin Ling, Irene (resigned on 5 July 2005)
Tam Wing Kin (resigned on 5 July 2005)
Cheung Wah Hing (resigned on 5 July 2005)

Independent non-executive directors:

Choi Tze Kit, Sammy (appointed on 5 July 2005)
Wu Bin (appointed on 5 July 2005)
Tam King Ching, Kenny (appointed on 24 August 2005)
Hahn Ka Fai, Mark (resigned on 5 July 2005)
Shum Wai Ting, Rebecca (resigned on 5 July 2005)
Wu Wang Li (resigned on 5 July 2005)

In accordance with the specific director service contracts and article 103(A) of the Company's articles of association, all the independent non-executive directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 11 to 12 of the Annual Report.

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DIRECTORS' SERVICE CONTRACTS

Mr. Zhao Jun was appointed as the Chairman of the Board and an executive director on 5 July 2005 and has entered a service contract with the Company for a term of three years and is subject to rotation and re-election in accordance with the memorandum and the articles of association of the Company. The annual director remuneration is HK\$600,000.

Mr. Li Wei was appointed as the C.E.O. and an executive director on 5 July 2005 and has entered a service contract with the Company for a term of three years and is subject to rotation and re-election in accordance with the memorandum and the articles of association of the Company. The annual director remuneration is HK\$480,000.

Mr. Wang An Kang was appointed as an executive director on 5 July 2005 and has entered a service contract with the Company for a term of three years and is subject to rotation and re-election in accordance with the memorandum and the articles of association of the Company. The annual director remuneration is HK\$480,000.

Mr. Zhou Jing was appointed as an executive director on 5 July 2005 and has entered a service contract with the Company for a term of three years and is subject to rotation and re-election in accordance with the memorandum and the articles of association of the Company. The annual director remuneration is HK\$480,000.

Mr. Wu Bin was appointed as an independent non-executive director on 5 July 2005 and has entered a service contract with the Company for a term of a period starting from the date of his appointment to the Company's forthcoming annual general meeting and is subject to rotation and re-election in accordance with the memorandum and the articles of association of the Company. The annual director fee is HK\$ 180,000.

Mr. Choi Tze Kit, Sammy was appointed as an independent non-executive director on 5 July 2005 and has entered a service contract with the Company for a term of a period starting from the date of his appointment to the Company's forthcoming annual general meeting and is subject to rotation and re-election in accordance with the memorandum and the articles of association of the Company. The annual director fee is HK\$ 180,000.

Mr. Tam King Ching, Kenny was appointed as an independent non-executive director on 24 August 2005 and has entered a service contract with the Company for a term of a period starting from the date of his appointment to the Company's forthcoming annual general meeting and is subject to rotation and re-election in accordance with the memorandum and the articles of association of the Company. The annual director fee is HK\$ 180,000.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year under review or at any time during the year under review.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

Interests in the Company

One of the directors who resigned on 5 July 2005 had the following interests in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Director	Nature of interest	Number of shares
Mr. Cheung Wah Hing	Personal	358,400

As at the date hereof, the interests or short positions of each Director and the Company's chief executive in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to the Company and the Stock Exchange are as follows:

Director	Nature of interest	Number of Shares	Approximate Percentage
Mr. Wang An Kang	Corporate	1,875,079,680	60%

Save as disclosed above, as at the date hereof, none of the Directors and chief executive of the Company was interested, or deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company had a share option scheme approved on 28 May 2002 under which the directors might grant options to eligible participants to subscribe for up to 10% of the nominal amount of the issued share capital of the Company. As at 31 December 2005, the Company has no share options outstanding to any of its directors.

Save as disclosed herein, none of the directors or their associates held any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

(a) Interest in Shares of the Company

At 31 December 2005, the following interests of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
China Time Investment Holdings Limited	1,874,917,645 (note 1)	60
Mr. Wang An Kang ("Mr. Wang")	1,875,079,680 (note 1)	60
Ms. Mu Yucun	1,875,079,680 (note 2)	60
Choi Koon Shum, Jonathan ("Mr. Choi")	188,702,795 (note 3)	6
Kwan Wing Kum, Janice ("Ms Kwan")	188,702,795 (note 3)	6
Lam William Ka Chung ("Mr. Lam")	188,702,795 (note 3)	6
Lam Wong Yuk Sin, Mary ("Mrs. Lam")	188,702,795 (note 3)	6
Kingsway International Holdings Limited ("Kingsway International")	188,702,795 (note 3)	6
Innovation Assets Limited ("Innovation")	188,702,795 (note 3)	6
World Developments Limited ("World Developments")	188,702,795 (note 3)	6
SW Kingsway Capital Holdings Limited ("SW Kingsway")	188,702,795 (note 3)	6
Festival Developments Limited ("Festival Developments")	156,202,795 (note 3)	5
Rich Global Investments Limited ("Rich Global")	156,202,795 (note 3)	5

Report of the Directors

SUBSTANTIAL SHAREHOLDERS (cont'd)

(a) Interest in Shares of the Company (cont'd)

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Chan Yuen Ming ("Mr. Chan")	156,202,790 (note 4)	5
Winspark Venture Limited ("Winspark Venture")	156,202,790 (note 4)	5
Tomorrow International Holdings Limited ("TIHL")	156,202,790 (note 4)	5
Fortune Dynamic Group Corp. ("Fortune Dynamic")	156,202,790 (note 4)	5
Probest Holdings Inc. ("Probest")	156,202,790 (note 4)	5

Notes:

1. Mr. Wang is the sole shareholder of China Time Investment Holdings Limited.
2. Ms Mu Yucun is Mr. Wang's spouse and she is deemed to be interested in Mr. Wang's interest in the Shares.
3. Mr. Choi and his spouse Ms. Kwan were deemed to be interested in 188,702,795 ordinary shares in the Company (including the 32,500,000 pledged shares) by virtue of their 46% shareholding in Kingsway International. Mr. Lam and his spouse Mrs. Lam were deemed to be interested in 188,702,795 ordinary shares in the Company (including the 32,500,000 pledged shares aforementioned) by virtue of their 40% shareholding in Kingsway International. Kingsway International, in turn, held 100% shareholding in Innovation. Innovation, in turn, held 100% shareholding in World Developments. World Developments, in turn, held 74% shareholding in SW Kingsway. SW Kingsway, in turn, held 100% direct shareholdings in each of Festival Developments and SW Kingsway Capital Group Limited. 32,500,000 shares of the Company was pledged to Kingsway Financial Services Group Limited, which in turn is wholly owned by SW Kingsway Capital Group Limited. Festival Developments held 100% shareholding in Rich Global, which in turn, held 156,202,795 shares of the Company.
4. Winspark Venture was deemed to be interested in 156,202,790 ordinary shares in the Company by virtue of its 61.5% shareholding in TIHL, which in turn, held 100% shareholding in Fortune Dynamic. Fortune Dynamic held 100% shareholding in Probest, which in turn, held 156,202,790 shares of the Company. The entire issued share capital of Winspark Venture is beneficially owned by Mr. Chan.

Save as disclosed above, the directors of the Company are not aware of any person who is, directly or indirectly, interested in 5% or more of the issued share capital of the Company, has short positions on the shares or underlying shares, or has any rights to subscribe for shares in respect of such capital.

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SUBSTANTIAL SHAREHOLDERS (cont'd)

(b) Substantial shareholders of other members of the Group

As at the date hereof, so far as is known to the directors of the Company, the following are parties, other than a director of the Company, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in general meetings of any other member of the Group.

Name of Subsidiary	Name of Substantial Shareholders	% of existing issued share capital
Profitown Investment Corporation	Probest Holdings Inc.	30%
Global Origin Limited	Trade Bargain Limited	10%
Profit Trend International Limited	Wischance Investments Limited	50%
Shenzhen Henggang Swank Optical Industrial Co. Ltd.	Henggang Zheng Stock Investment Co. Ltd.	19%

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during financial year ended 31 December 2005.

CONNECTED PARTY TRANSACTIONS

Details of the connected party transactions are set out in note 35 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 36 to the financial statements.

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CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of its Code on Corporate Governance Practices ("the Code") during the year ended 31 December 2005 except that two retired independent non-executive directors of the Company who resigned on 5 July 2005, namely Mr. Hahn Ka Fai, Mark, and Ms. Shum Wai Ting, Rebecca, were not appointed for specific terms as required by paragraph 7 of the Code. Mr. Wu Wang Li, the independent non-executive director of the Company who resigned on 5 July 2005, has entered into a service contract with the Company for a term of one year from 27 September 2004. All the existing independent non-executive directors of the Company, namely Messrs. Choi Tze Kit, Sammy, Wu Bin and Tam King Ching, Kenny were appointed for specific terms and are subject to retirement by rotation and re-election at the annual general meeting of the Company.

Further information on the Company's corporate governance practices is set out in the "Corporate Governance Report".

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of the Directors, all of the Directors have complied with, for any part of the accounting period covered by this Annual Report, the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors to be independent.

PUBLIC FLOAT

As at the date of this Report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

Report of the Directors

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises the three independent non-executive directors of the Company.

The Audit Committee has reviewed both the interim results for the period of six months ended 30 June 2005 and the final results for the year ended 31 December 2005.

REMUNERATION COMMITTEE

The Company has a Remuneration Committee which was established in accordance with the requirements of the Code, for the purposes of considering and making recommendations to the Board the Group's remuneration policy and structure and to review and determine the remuneration packages of the executive directors and senior management

AUDITORS

CCIF CPA Limited retire and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhao Jun

Chairman

Hong Kong, 24 April 2006