

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and trading of optical frames, sunglasses and optical cases. There was no change in the nature of the principal activities of the Group during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 84.

An interim dividend of HK2.5 cents per share was paid on 19 January 2006. The directors recommend the payment of a final dividend of HK5.0 cents per share in respect of the year, to shareholders on the register of members on 30 August 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out below. This summary does not form part of the audited financial statements.

Results

	Year ended 31 March				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
REVENUE	432,164	405,477	327,733	383,984	370,389
PROFIT FOR THE YEAR	27,896	35,645	20,265	57,348	83,311
Attributable to:					
Equity holders of the parent	31,987	36,800	18,951	55,721	79,335
Minority interests	(4,091)	(1,155)	1,314	1,627	3,976
	27,896	35,645	20,265	57,348	83,311

SUMMARY FINANCIAL INFORMATION (continued)

Assets, liabilities and minority interests

	31 March				
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
TOTAL ASSETS	645,248	606,055	547,502	558,671	516,676
TOTAL LIABILITIES	(177,551)	(134,204)	(80,810)	(75,024)	(54,844)
MINORITY INTERESTS	(16,797)	(20,004)	(21,159)	(19,845)	(18,218)
	450,900	451,847	445,533	463,802	443,614

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of the Company's share capital and share option scheme are set out in notes 30 and 31 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity set out on page 29 of this annual report, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2006, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$163,418,000 of which HK\$16,182,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$56,831,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$812,000.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Hui Leung Wah (Chairman and Managing Director)
Poon Sui Hong
Leung Shu Sum

Non-executive directors

Mario Pietribiasi
Massimiliano Tabacchi

Independent non-executive directors

Poon Kwok Fai, Ronald
Wong Chung Mat, Ben
Tam Hok Lam, Tommy (appointed on 20 April 2005)

In accordance with the Company's bye-laws, Messrs. Hui Leung Wah, Poon Sui Hong and Poon Kwok Fai, Ronald will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Messrs. Poon Kwok Fai, Ronald, Wong Chung Mat, Ben and Tam Hok Lam, Tommy and as at the date of this report still considers them to be independent.

Detailed terms of the appointment of the non-executive directors have been disclosed in the Corporate Governance Report.

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 8 to 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Poon Sui Hong and Mr. Leung Shu Sum have each entered into a renewed service agreement with the Company for a term of three years commencing on 17 February 2005. The service agreements continue after the expiry of their existing terms, subject to termination by either party giving not less than three months' notice.

Save as disclosed above, 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.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, the interests and short positions of the directors in the shares capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of ordinary shares held			Percentage of the issued share capital of the Company
	Directly beneficially owned	Beneficiary of a trust	Total	
Hui Leung Wah	8,136,000	141,316,000 (note)	149,452,000	46.18
Poon Sui Hong	6,900,000	–	6,900,000	2.13
Leung Shu Sum	6,000,000	–	6,000,000	1.85
Mario Pietribiasi	100,000	–	100,000	0.03
	<u>21,136,000</u>	<u>141,316,000</u>	<u>162,452,000</u>	<u>50.19</u>

Note: 141,116,000 shares are held by Best Quality Limited and 200,000 shares are held by Deluxe Concept Limited. The entire issued share capital of both Best Quality Limited and Deluxe Concept Limited are held by Wahyee Limited as trustee for a unit trust which, in turn, is beneficially owned by a discretionary trust, the beneficiaries of which include the spouse and children of Mr. Hui Leung Wah (Mr. Hui himself is not a beneficiary of the discretionary trust).

Long positions in ordinary shares of Company's subsidiaries:

Mr. Hui Leung Wah is beneficially interested in 200,000 non-voting deferred shares in the capital of Elegance Optical Investments Limited. The rights and restrictions of such non-voting deferred shares are set out in note 17 to the financial statements.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries of the Group held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 March 2006, none of the directors had any interest or short position in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosures set out in note 31 to the financial statements, at no time during the year was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company, their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

Other than as disclosed above under the section headed "Directors' interests and short positions in shares and underlying shares", so far as is known to the directors of the Company, as at 31 March 2006, the following interests in the shares and underlying shares of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Long positions:

Name	Number of issued ordinary shares held	Nature of interest	Percentage of the issued share capital of the Company
Poon Yuk Yee	149,452,000 (note)	Beneficially owned	46.18
Ansbacher (BVI) Limited	141,316,000	Beneficiary of a trust	43.66
Wahyee Limited	141,316,000	Beneficiary of a trust	43.66
Safilo Far East Limited	74,599,123	Beneficially owned	23.05

Note: Mdm. Poon Yuk Yee is the wife of Mr. Hui Leung Wah and is deemed to be interested in shares held by and shares taken to be interested by Mr. Hui Leung Wah.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed securities by the Company or by any of its subsidiaries during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's largest customer and the Group's five largest customers accounted for 49.72% and 65.49% of the Group's total sales, respectively. The Group's largest customer, the Safilo S.p.A. group of companies, owned 23.05% of the Company's issued share capital at the balance sheet date. Details of the sales to the Safilo S.p.A. group of companies are included in note 37 to the financial statements.

During the year under review, the Group's largest supplier and the Group's five largest suppliers accounted for 12.51% and 41.62% of the Group's total purchases, respectively.

Other than as detailed above, none of the directors of the Company or any of their associates or any shareholders, which to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

- (I) Pursuant to a special general meeting held on 31 March 2004 by the independent shareholders, an ordinary resolution was passed which approved the sale of optical frames, sunglasses and related products (the "Sales") by the Company and its subsidiaries to the Safilo S.p.A. group of companies for the three years ending 31 March 2007 subject to certain conditions. According to the resolution, the aggregate value of the Sales shall not exceed HK\$230 million, HK\$255 million and HK\$280 million for each of the three years ending 31 March 2005, 2006 and 2007, respectively.

This resolution replaces the waiver granted by the SEHK to the Company on 29 October 2001, which expired on 31 March 2004. Further details are set out in the circular to the Company's shareholders dated 15 March 2004.

The directors, including the independent non-executive directors, confirm that the Sales to the Safilo S.p.A. group of companies were approved by the board of directors and were:

- (a) entered into in the ordinary and usual course of business of the Group;
- (b) conducted on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than the terms available to or from independent third parties as appropriate;
- (c) entered into in accordance with the relevant terms and conditions governing such transactions, which are fair and reasonable so far as the shareholders of the Company were concerned and in the interest of the Group as a whole; and
- (d) did not exceed HK\$255 million for the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (continued)

(I) (continued)

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 37 to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Further details of the Sales to the Safilo S.p.A. group of companies are set out in note 37 to the financial statements.

- (II) In addition to the transactions with the Safilo S.p.A. group of companies set out above, during the year, the Company executed guarantees in respect of banking facilities granted to certain non-wholly-owned subsidiaries, namely Gold Strong Industrial Limited and Grand Artic Limited.

Details of such guarantees are set out below:

Name of non-wholly-owned subsidiaries to which banking facilities were granted	Extent of guarantees given by the Company
Gold Strong Industrial Limited	Corporate guarantee to the extent of HK\$3 million
Grand Artic Limited	Corporate guarantee to the extent of HK\$2 million

Certain non-wholly-owned subsidiaries of the Group also owed certain of the Group's wholly-owned subsidiaries amounts arising from their ordinary and usual course of business during the year. The amounts due are unsecured, interest-free and are repayable in accordance with normal trading terms. Details of the amounts outstanding at the respective balance sheet dates are set out below:

	31 March 2006 HK\$'000	31 March 2005 HK\$'000
Gold Strong Industrial Limited	30,144	11,066
Grand Artic Limited	1,688	2,210
Leader Up Limited	4,347	3,818
	36,179	17,094

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 39 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Hui Leung Wah

Chairman

Hong Kong
14 July 2006