

REPORT OF THE DIRECTORS

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the design, manufacture and sales of optical products.

RESULTS AND APPROPRIATIONS

The results and appropriations of the Group for the year ended 31 March 2005 are set out in the consolidated income statement on page 20 to the financial statements.

An interim dividend of 4.2 Hong Kong cents per share amounting to HK\$10,796,000 and a special dividend of 2 Hong Kong cents per share amounting to HK\$5,141,000 were paid to the shareholders of the Company during the year. The directors now recommend a final dividend of 8.1 Hong Kong cents per share amounting to approximately HK\$20,820,000. Such dividend will be satisfied in cash, with a scrip dividend alternative in lieu of cash, payable to the shareholders of the Company whose names appear on the register of members at the close of business on 22 August 2005 and the retention of the remaining profit for the year of approximately HK\$34,087,000.

The scrip dividend proposal mentioned above is subject to approval by shareholders at the coming annual general meeting scheduled to be held on 22 August 2005 and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of, and permission to deal in, the new shares to be issued pursuant thereto.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 45% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 12% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year were less than 24% of the total purchases.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital had any interest in the share capital of any of the Group's five largest customers.

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's land and buildings were revalued at 31 March 2005. The revaluation resulted in a surplus over their carrying amount of approximately HK\$2,272,000 which has been credited to the consolidated income statement.

During the year, the Group acquired property, plant and equipment at a cost of approximately HK\$58,138,000 to increase production capacity. Details of this and other movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 18 to the financial statements.

DIRECTORS

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

Executive directors:

Ku Ngai Yung, Otis (*Chairman*)
Ku Ka Yung (*Deputy Chairman*)
Ku Ling Wah, Phyllis
Tsang Wing Leung, Jimson
Cheung Chiu Hung
Chan Chi Sun
Ma Sau Ching

Non-executive directors:

Ku Yiu Tung

Independent non-executive directors:

Lo Wa Kei, Roy
Lee Kwong Yiu
Wong Che Man, Eddy

(appointed on 21 September 2004)

In accordance with Articles 86(2) and 87 of the Company's bye-laws, Messrs. Ku Ling Wah, Phyllis, Tsang Wing Leung, Jimson, Lo Wa Kei, Roy and Wong Che Man, Eddy will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

The term of office of each non-executive and independent non-executive director is the period up to his retirement by rotation in accordance with the Company's bye-laws.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company. Each of Messrs. Ku Ngai Yung, Otis, Ku Ka Yung, Tsang Wing Leung, Jimson, Cheung Chiu Hung and Ms. Ku Ling Wah, Phyllis has entered into a service agreement with the Company for an initial term of two years commencing on 1 May 1999 and continuing thereafter until terminated by not less than three months' written notice served by either party.

Each of Mr. Chan Chi Sun and Ms. Ma Sau Ching has entered into a service agreement with the Company for an initial term of two years commencing on 14 December 2001 and continuing thereafter until terminated by not less than three months' written notice served by either party.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

SHARE OPTIONS

Pursuant to a resolution passed on 6 September 2004, the Company's share option scheme adopted on 4 May 1999 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted in order to comply with the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to share option schemes. Particulars of the New Share Option Scheme are set out in note 19 to the financial statements.

The following table discloses movements in the Company's share options which were granted under the Old Share Option Scheme to directors and employees during the year:

Directors	Option grant date	Number of share options			
		Outstanding at 1 April 2004	Granted during the year	Exercised during the year (Note 1)	Outstanding at 31 March 2005
Ku Ngai Yung, Otis	3 March 2000	3,600,000	–	(3,600,000)	–
Ku Ka Yung	3 March 2000	3,600,000	–	(3,600,000)	–
Ku Ling Wah, Phyllis	3 March 2000	2,600,000	–	(2,600,000)	–
Ma Sau Ching	14 December 2001	500,000	–	–	500,000
		10,300,000	–	(9,800,000)	500,000
Employees	2 April 2004 (Note 2)	–	1,850,000	–	1,850,000
		10,300,000	1,850,000	(9,800,000)	2,350,000

Notes:

1. The closing price of the Company's shares immediately before 28 December 2004, the date on which the options were exercised, was HK\$3.7.
2. The closing price of the Company's shares immediately before 2 April 2004, the date of grant of such share options granted during the year, was HK\$3.50.

The directors are of the view that the value of the theoretical value of the options granted during the year depends on a number of variables which are either difficult to ascertain or can only be ascertained on a number of theoretical basis and speculative assumptions. Accordingly, the directors of the Company believed that any calculation of the value of the options will not be meaningful and may be misleading to shareholders in the circumstances.

SHARE OPTIONS *(continued)*

Details of each category of options are as follows:

Category	Date of grant	Exercisable period	Exercise price HK\$
2000 – directors	3 March 2000	3 March 2000 – 2 March 2005 (Note 1)	0.75
2001 – directors	14 December 2001	14 December 2001 – 13 December 2006 (Note 1)	0.92
2004 – employees	2 April 2004	2 April 2004 – 1 April 2009 (Note 2)	3.50

Notes:

1. All the options have been vested.
2. Each grantee might only exercise his/her option to subscribe for up to 35% of the total number of shares pursuant to the option granted to him/her after 2 April 2005. The remaining balance, together with the balance (if any) that he/she had not exercised previously, would be exercisable by him/her after 2 April 2007.

At the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Old Share Option Scheme was 2,350,000, representing approximately 0.9% of the shares of the Company in issue. No further share options can be granted upon termination of the Old Share Option Scheme.

Under the New Share Option Scheme, the maximum number of shares available for issue is 10% of the issued shares capital. No share options have been granted under the New Share Option Scheme since its adoption.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2005, the interests and short positions of the Directors and chief executives, and their associates, of the Company in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

1. Shares in the Company (Long Position)

Director	Number of shares			Percentage of issued share capital
	Personal interest	Other interest	Total	
Ku Ngai Yung, Otis	3,600,000	128,848,000 <i>(Note)</i>	132,448,000	51.53%
Ku Ka Yung	3,600,000	128,848,000 <i>(Note)</i>	132,448,000	51.53%
Ku Ling Wah, Phyllis	3,600,000	128,848,000 <i>(Note)</i>	132,448,000	51.53%
Tsang Wing Leung, Jimson	1,636,000	–	1,636,000	0.64%
Cheung Chiu Hung	1,000,000	–	1,000,000	0.39%
Chan Chi Sun	1,526,000	–	1,526,000	0.59%
Ma Sau Ching	200,000	–	200,000	0.08%

Note: 128,848,000 ordinary shares were held by United Vision International Limited, which is ultimately and wholly-owned by The Vision Trust, a discretionary trust settled by Mr. Ku Ngai Yung, Otis and Mr. Ku Ka Yung, the discretionary objects of which include Mr. Ku Ngai Yung, Otis and his spouse, Mr. Ku Ka Yung and his spouse, Ms. Ku Ling Wah, Phyllis and their respective children who are under the age 18.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

2. Underlying Shares in the Company (Share Options)

Details of the share options held by the Directors and chief executive of the Company are shown in the preceding section under the heading "Share Options".

Save as disclosed above, as at 31 March 2005, none of the Director or chief executive, and their associates, had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV 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 and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share options disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company 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

No contracts of significance to which the Company, its holding 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, the following parties (other than those disclosed under the heading "Directors' Interests in Shares, Underlying Shares and Debentures" above) were recorded in the register required to be kept by the Company under Section 336 of the SFO as being directly or indirectly interested in 5% or more of the issued share capital of the Company:

Name	Number of Shares	Percentage of Issued Share Capital
Value Partners Limited	20,772,000 <i>(Note)</i>	8.08%
J.P. Morgan Chase & Co.	16,384,000	6.63%

Notes: As at 31 March 2005, Value Partners Limited was controlled by Mr. Cheah Cheng Hye to the extent of approximately 31.82% of the issued capital of the Company and under the SFO, Mr. Cheah was therefore deemed to be interested in the shares held by Value Partners Limited.

All the interests stated above represent long position. Save as disclosed above, as at 31 March 2005, the register maintained by the Company pursuant to Section 336 of the SFO recorded no other interests or short positions in shares or underlying shares of the Company.

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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice (the Code) as set out in Appendix 14 of the Listing Rules, except for all directors, other than the chairman of the board of directors of the Company, are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's bye-laws.

The Code was replaced by a new Code on Corporate Governance Practices (the New Code) which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions have been taken by the Company for compliance with the requirements contained in the New Code.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with paragraph 14 of the Code throughout the accounting period covered by this report. The audit committee comprises three members, Messrs. Lo Wa Kei, Roy, Lee Kwong Yiu and Wong Che Man, Eddy, all of whom are independent non-executive directors. During the year, the audit committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the interim and annual financial statements of the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2005.

JOINT AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu and KLL Associates CPA Limited as joint auditors of the Company.

On behalf of the Board

CHAIRMAN

Ku Ngai Yung, Otis

Hong Kong, 15 July 2005