

Report of the Directors

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

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 2006 are set out in the consolidated income statement on page 24.

An interim dividend of HK4.2 cents per share amounting to HK\$11,024,000 and a special dividend of HK1.5 cents per share amounting to HK\$3,937,000 were paid to the shareholders of the Company during the year. The directors now recommend a final dividend of HK8.1 cents per share amounting to approximately HK\$21,285,000. Such dividend will be satisfied in cash payable to the shareholders of the Company whose names appear on the register of members at the close of business on 28 August 2006 and the retention of the remaining profit for the year of approximately HK\$36,706,000.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution to shareholders at 31 March 2006 amounted to approximately HK\$58,981,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 46% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 16% of the Group's total sales.

The aggregate purchases attributable to the Group's five largest suppliers during the year were approximately 25% 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 2006. The revaluation resulted in a surplus over their carrying amount of approximately HK\$1,116,000 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\$69,850,000 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 12 to the financial statements.

RESERVES

Details of movements in reserves of the Group during the year are set out in consolidated statement of changes in equity on page 27.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 20 to the financial statements.

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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

(Resigned on 1 August 2005)

Chan Chi Sun

Ma Sau Ching

Non-executive director:

Ku Yiu Tung

Independent non-executive directors:

Lo Wa Kei, Roy

Lee Kwong Yiu

Wong Che Man, Eddy

In accordance with Bye-Laws 87(1) and 90 (in the case of Mr. Ku Ngai Yung, Otis) of the Company's bye-laws, Mr. Ku Ngai Yung, Otis, Mr. Ku Ka Yung, Mr. Lee Kwong Yiu and Mr. Ku Yiu Tung 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 not more than three years and subject to 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 Mr. Ku Ngai Yung, Otis, Mr. Ku Ka Yung, Mr. Tsang Wing Leung, Jimson, Mr. Cheung Chiu Hung (who resigned on 1 August 2005), 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' prior 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' prior written notice served by either party.

Mr. Ku Yiu Tung has entered into a service agreement with the Company for a term of three years commencing from 6 September 2004. His appointment may be terminated by either party giving to the other not less than three months' prior written notice.

Each of the independent non-executive directors, namely Mr. Lo Wa Kei, Roy, Mr. Lee Kwong Yiu and Mr. Wong Che Man, Eddy, has entered into a service agreement with the Company for a term of three years. The term of Mr. Lo Wa Kei, Roy commenced from 20 September 2004 and continuing thereafter until terminated by not less than three months' prior written notice served by either party. The term of Mr. Lee Kwong Yiu commenced from 4 September 2003 for a term of three years and his appointment may be terminated by either party giving to the other not less than three months' prior written notice. The term of Mr. Wong Che Man, Eddy commenced from 21 September 2004 for a term of three years and continuing thereafter until terminated by not less than three months' prior written notice served by either party.

DIRECTORS' SERVICE CONTRACTS *(continued)*

All of the independent non-executive directors have signed their respective confirmation letters to the Company confirming their independence as set out in rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 Listing Rules in relation to share option schemes. Particulars of the New Share Option Scheme are set out in note 21 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:

Grantees	Option grant date	Number of share options				
		Outstanding at 1 April 2005	Granted during the year	Exercised during the year <i>(Note)</i>	Forfeited during the year	Outstanding at 31 March 2006
Director, Ma Sau Ching	14 December 2001	500,000	-	(200,000)	-	300,000
Employees	2 April 2004	1,850,000	-	-	(500,000)	1,350,000
		2,350,000	-	(200,000)	(500,000)	1,650,000

Note: The closing price of the Company's shares immediately before 29 July 2005, the date on which the options were exercised, was HK\$2.45.

Category	Date of grant	Exercisable period	Exercise price HK\$
2001-directors	14 December 2001	14 December 2004-13 December 2006 <i>(Note 1)</i>	0.92
2004-employees	2 April 2004	2 April 2004-1 April 2009 <i>(Notes 1 & 2)</i>	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 1,650,000, representing approximately 0.6% 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 share capital. No share option has been granted under the New Share Option Scheme since its adoption.

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DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2006, 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 Issuers were as follows:

1. Shares in the Company (Long Position)

Directors	Number of shares			Percentage of issued share capital
	Personal interest	Other interest	Total	
Ku Ngai Yung, Otis	3,737,223	137,359,382 (Note)	141,096,605	53.76%
Ku Ka Yung	3,737,223	137,359,382 (Note)	141,096,605	53.76%
Ku Ling Wah, Phyllis	–	137,359,382 (Note)	137,359,382	52.33%
Tsang Wing Leung, Jimson	1,636,000	–	1,636,000	0.62%
Chan Chi Sun	1,526,000	–	1,526,000	0.58%
Ma Sau Ching	400,000	–	400,000	0.15%

Note: 137,359,382 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.

2. Underlying Shares in the Company (Share Options)

Details of the shares options held by the directors and chief executives of the Company are shown in the preceding section under the heading "Share Options".

Save as disclosed above, as at 31 March 2006, none of the directors or chief executives, 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 Issuers.

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. In addition, other than as disclosed above, none of the directors, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

REMUNERATION POLICY

The remuneration policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The remuneration of the directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. The Remuneration Committee would then make recommendation on the remuneration of directors and senior management to the Board. None of the directors, or any of their respective associates, and senior executives of the Company is involved in determining his/her own remuneration.

The Company has adopted share option schemes as an incentive to directors and eligible employees. The details of the schemes are set out in note 21 to the financial statements and under the heading "Share Options".

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 2006, 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
United Vision International Limited	137,359,382 (Note 1)	52.33%
Marshvale Investments Limited	137,359,382 (Note 1)	52.33%
HSBC International Trustee Limited	138,177,382 (Notes 1 & 2)	52.64%
Value Partners Limited	20,532,000 (Note 3)	7.82%
OCM Emerging Markets Fund, L.P.	18,824,000 (Note 4)	7.17%

Notes:

- As at 31 March 2006, United Vision International Limited ("UVI") is wholly-owned by Marshvale Investments Limited ("Marshvale"). By virtue of UVI's interests in the Company, Marshvale is deemed to be interested in 137,359,382 shares. Marshvale is wholly-owned by HSBC International Trustee Limited ("HSBC Trustee"). By virtue of Marshvale's indirect interests in the Company, HSBC Trustee is deemed to be interested in 137,359,382 shares.
- HSBC Trustee is the trustee of The Vision Trust, the discretionary trust settled by Mr. Ku Ngai Yung, Otis and Mr. Ku Ka Yung mentioned above. Of the 138,177,382 shares held by HSBC Trustee, 137,359,382 shares were held indirectly through UVI as mentioned in Note (1) above and 818,000 shares were held as trustee.
- As at 31 March 2006, Value Partners Limited was controlled by Mr. Cheah Cheng Hye. Mr. Cheah was therefore deemed to be interested in the shares held by Value Partners Limited under the SFO.
- As at 31 March 2006, OCM Emerging Markets Fund, L.P. was controlled by Oaktree Capital Management, LLC. Oaktree Capital Management, LLC was therefore deemed to be interested in the shares held by OCM Emerging Markets Fund, L.P. under the SFO.

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SUBSTANTIAL SHAREHOLDERS (continued)

All the interests stated above represent long position. Save as disclosed above, as at 31 March 2006, 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 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.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2006.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 14 to 16.

AUDITORS

During the year, KLL Associates CPA Limited, Certified Public Accountants, due to the combination of its certain practice with BDO McCabe Lo Limited, Certified Public Accountants, resigned as one of the two joint auditors of the Company. BDO McCabe Lo Limited was appointed as one of the joint auditors of the Company following the resignation of KLL Associates CPA Limited.

Deloitte Touche Tohmatsu, Certified Public Accountants, resigned as one of the two joint auditors of the Company during the year. BDO McCabe Lo Limited, being the other of the Company's joint auditors, remain in office as the sole auditors of the Company. Save as disclosed herein, there have been no other changes of auditors in the past three years.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint BDO McCabe Lo Limited as auditors of the Company.

On behalf of the Board

Ku Ngai Yung, Otis

Chairman

Hong Kong, 14 July 2006