Notes to the Financial Statements

For the year ended 31 March 2006

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in Bermuda under The Companies Act 1981 of Bermuda (as amended) on 5 February 1999. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 25 May 1999. Both its parent and ultimate holding company is United Vision International Limited, a company incorporated in the British Virgin Islands. The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Group is principally engaged in the design, manufacture and sales of optical products.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention as modified for the revaluation of the land and buildings in Hong Kong.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. The changes in presentation have been applied retrospectively.

The applicable HKFRSs are set out below and the 2005 financial statements have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement

Notes to the Financial Statements

For the year ended 31 March 2006
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation *(continued)*

HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKAS-INT 4	Leases – Determination of the Length of Leases Term in respect of Hong Kong Land Leases
HKAS-INT 15	Operating Leases – Incentives

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 27, 32, 33, 36, 37, HKFRS 3, HKAS-INT 4 and HKAS-INT 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the income statement, balance sheet, and statement of changes in equity.
- HKASs 8, 16 and 21 affect certain disclosure of the financial statements.
- HKASs 2, 7, 10, 12, 14, 18, 19, 27, 33, 36, 37, HKFRS 3, HKAS-INT 4 and HKAS INT-15 do not have any impact as the Group's accounting policies already comply with the standards.
- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

The impacts of adopting the other HKFRSs are summarised as follows:

HKFRS 2

- In the current year, the Group has applied HKFRS 2 which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Group determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted after 1 April 2005. In accordance with the relevant transitional provisions, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 April 2005. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 April 2005. Comparative figures have been restated (see Note 2(c) for the financial impact).

HKAS 32, HKAS 39 and HKAS 39 Amendments

- In the current year, the Group has applied HKAS 32 and HKAS 39. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

  Classification and measurement of financial assets and financial liabilities
  From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of the new HKAS 39 has had no material effect on the financial statements for the current or prior accounting periods.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation *(continued)*

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets from 1 April 2005 onwards. As a result, the Group's bills receivable discounted with full recourse which were derecognised prior to 1 April 2005 have not been restated. This change in accounting policy has had no material effect on results for the current year.

HKAS 17

- In previous years, owner-occupied leasehold land and buildings in Hong Kong and in the People's Republic of China (the "PRC") were included in property, plant and equipment and measured using the revaluation model and cost model respectively. Under HKAS 17 "Leases" the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. The consideration paid is allocated between the land and buildings elements unless impracticable. The leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively (see Note 2(c) for the financial impact).

(c) Summary of the effects of the changes in accounting policies

The effect of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2006 HK$'000	2005 HK$'000
Increase in employee benefits expense included in administrative expenses arising from adoption of HKFRS 2	**215**	232
Increase/(decrease) in cost of sales arising from reclassification of land use rights to prepaid lease payments upon adoption of HKAS 17		
– Increase in amortisation of prepaid lease payments	**91**	91
– Decrease in depreciation of property, plant and equipment	**(91)**	(91)

Notes to the Financial Statements

For the year ended 31 March 2006
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Summary of the effects of the changes in accounting policies *(continued)*

The cumulative effects of the application of the new HKFRSs as at 31 March 2005 are summarised below:

	As at 31/03/2005 (originally stated)	Retrospective adjustments		As at 31/03/2005 (Restated)
		Effect of HKFRS 2	Effect of HKAS 17	
	HK$'000	HK$'000	HK$'000	HK$'000
Balance sheet items				
Property, plant and equipment	189,243	–	(4,320)	184,923
Prepaid lease payments	–	–	4,320	4,320
	189,243	–	–	189,243
Accumulated profits	396,904	(232)	–	396,672
Share option reserve	–	232	–	232
	396,904	–	–	396,904

The application of the new HKFRSs has no financial effects on the Group and the Company's equity as at 1 April 2004.

The application of the new HKFRSs has no financial effects on the Company's balance sheet and equity as at 31 March 2005 except that the accumulated profits and the share option reserve as at 31 March 2005 were decreased by HK$232,000 and increased by HK$232,000 respectively.

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

(e) Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(f) Investment in a subsidiary

A subsidiary is an entity in which the Company is able to exercise its control on it. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investment in a subsidiary is included in the Company's balance sheet at cost less any identified impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment

Land held under operating leases and buildings thereon in Hong Kong, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease, are stated in the balance sheet at their revalued amount. The revalued amount of the land and buildings represents the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and any impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of leasehold land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Construction in progress, representing building, plant and machinery under construction or pending installation, is stated at cost, less any impairment loss recognised. Cost comprises construction expenditure and other direct costs attributable to such projects. Construction in progress is not depreciated or amortised until the completion of construction. The cost of completed construction work is transferred to an appropriate category of property, plant and equipment.

Other property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and any impairment losses.

Depreciation is provided to write off the cost or valuation of property, plant and equipment other than construction in progress over their estimated useful lives after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Buildings	Over the term of leases
Leasehold improvements	10%-20%, or over the lease term, whichever is shorter
Plant and machinery	10%-20%
Furniture and fixtures	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the year in which they are incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

(h) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Notes to the Financial Statements

For the year ended 31 March 2006
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of non-financial assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

(j) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(k) Foreign currencies

Transactions entered into by group entity in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

2. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(k) Foreign currencies *(continued)*

On consolidation, the results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve").

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal, as appropriate.

(l) Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the terms of the relevant leases. Benefits received or receivable, if any, as an incentive to enter into an operating lease are recognised as a rental expense over the lease term on a straight line basis.

(m) Share based payment transactions

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

(n) Employee benefits

(i) Defined contribution pension plan

Obligations for contributions to defined contribution retirement plan are recognised as an expense in the income statement as incurred.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iii) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(o) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

Notes to the Financial Statements

For the year ended 31 March 2006
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified as loans and receivables which include trade and other receivables and bank deposits. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets with the time frame established by regulation or convention in the marketplace.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

The Group's financial liabilities, which include trade and other payables, are initially measured at fair values and are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the carrying amount of the financial asset and the sum of the consideration received and cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

(p) Prepaid lease payments

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified as prepaid lease payments under operating leases, which are stated at cost and amortised over the period of the lease term on a straight line basis to the income statement.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors. Final dividends proposed by directors are recognised as a liability when they are approved by the shareholders.

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not yet applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact on the financial statements of the Group except for HKAS 39 and HKFRS 4 (Amendment)-Financial guarantee contracts which requires financial guarantee contracts within the scope of HKAS 39 to be initially recognised at fair value for which the directors are still in the process of assessing the impact.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS – Interpretation 4	Determining whether an Arrangement Contains a Lease
HKFRS – Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Interpretation 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC) – Interpretation 7	Applying the Restatement Approach under HKAS 29 – Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Interpretation 8	Scope of HKFRS 2
HK(IFRIC) – Interpretation 9	Reassessment of Embedded Derivatives

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 2, management have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Inventories

Note 2(h) describes that inventories are stated at the lower of cost and net realisable value.

The Group has a provision policy on inventories based on their aging. Management review the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value to ascertain whether allowance is required to be made for any obsolete and slow-moving items. In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified.

Trade and other receivables

Note 2(o) describes that trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate impairment losses for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

The Group adopts a prudent approach in selecting its customers in order to minimise its credit risk. All customers' credit terms are reviewed regularly by the finance department in areas including credit history, sales amount, etc for the purpose of making an assessment of the payment term or assigning a credit limit if applicable.

The Group has implemented a credit policy with an aim to maintain the accounts receivable at a low level. The level of accounts receivable will be reviewed by the Group's senior management of the finance department on a regular basis. Impairment losses will be made by the Group's senior management of the finance department when the recoverability of the outstanding debts is uncertain.

Notes to the Financial Statements

For the year ended 31 March 2006

(continued)

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting the Group has determined that geographical segments are its primary reporting format.

(a) Business segments

The Group is principally engaged in the design, manufacture and sales of optical products. No business segment analysis is presented as management considers this as one single business segment.

(b) Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the PRC.

Segment information of the Group by location of customers is presented as below:

For the year ended 31 March 2006

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Turnover	**343,939**	**223,674**	**73,400**	**16,241**	**657,254**
Results					
Segment results	**68,672**	**46,659**	**6,910**	**2,477**	**124,718**
Interest income					**2,558**
Surplus arising on revaluation of land and buildings					**1,116**
Unallocated corporate expenses					**(47,437)**
Profit before taxation					**80,955**
Income taxes					**(8,003)**
Net profit for the year					**72,952**

As at 31 March 2006

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Assets					
Segment assets	104,914	49,405	26,878	2,810	184,007
Unallocated corporate assets					537,380
Consolidated total assets					721,387
Liabilities					
Unallocated corporate liabilities					163,523

5. SEGMENT INFORMATION *(continued)*

(b) Geographical segments *(continued)*

For the year ended 31 March 2005

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000 (Restated)
Turnover	288,127	222,958	61,900	12,414	585,399
Results					
Segment results	59,155	48,029	8,422	2,062	117,668
Interest income					2,711
Surplus arising on revaluation of land and buildings					2,272
Unallocated corporate expenses					(43,750)
Profit before taxation					78,901
Income taxes					(8,289)
Net profit for the year					70,612

As at 31 March 2005

	Europe HK$'000	United States HK$'000	Asia HK$'000	Other regions HK$'000	Consolidated HK$'000
Assets					
Segment assets	89,051	47,885	25,860	2,441	165,237
Unallocated corporate assets					480,246
Consolidated total assets					645,483
Liabilities					
Unallocated corporate liabilities					136,223

In addition to the analysis by the geographical location of its customers, the following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located which could not be allocated by the geographical location of the customers.

	Carrying amounts of segment assets		**Additions to property, plant and equipment**	
	2006 HK$'000	2005 HK$'000 (Restated)	**2006 HK$'000**	2005 HK$'000 (Restated)
Hong Kong	**332,390**	325,669	**5,436**	4,822
The PRC	**388,997**	319,814	**64,414**	53,316
	721,387	645,483	**69,850**	58,138

6. TURNOVER

Turnover represents the net amounts received and receivable for goods sold to outside customers during the year.

Notes to the Financial Statements

For the year ended 31 March 2006
(continued)

7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2006 HK$'000	2005 HK$'000 (Restated)
Other staff costs, including directors' emoluments	**139,589**	114,010
Retirement benefits scheme contributions, net of forfeited contribution of HK$21,000 (2005: HK$18,000)	**3,272**	3,022
Share based payment expenses	**215**	232
Total staff costs	**143,076**	117,264
Auditors' remuneration	**630**	698
Allowances for obsolete inventories	**3,234**	3,080
Impairment losses on trade and other receivables	**4,528**	2,474
Depreciation of property, plant and equipment	**38,013**	35,099
Amortisation of prepaid lease payments	**91**	91
Loss on disposal of property, plant and equipment	**10**	120

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to the directors of the Company are as follows:

	Year ended 31 March 2006				
	Fees HK$'000	Basic salaries, allowances and benefits in kinds HK$'000	Performance related bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors					
Ku Ngai Yung, Otis	–	511	–	12	523
Ku Ka Yung	–	479	–	7	486
Ku Ling Wah, Phyllis	–	388	–	15	403
Tsang Wing Leung, Jimson	–	492	110	23	625
Cheung Chiu Hung	–	188	–	9	197
Chan Chi Sun	–	524	110	24	658
Ma Sau Ching	–	575	150	26	751
	–	3,157	370	116	3,643
Non-executive director					
Ku Yiu Tung	196	–	–	–	196
Independent non-executive directors					
Lo Wa Kei, Roy	120	–	–	–	120
Lee Kwong Yiu	120	–	–	–	120
Wong Che Man, Eddy	120	–	–	–	120
	360	–	–	–	360
	556	3,157	370	116	4,199

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

	Year ended 31 March 2005				
	Fees HK$'000	Basic salaries, allowances and benefits in kinds HK$'000	Performance related bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors					
Ku Ngai Yung, Otis	–	511	30	18	559
Ku Ka Yung	–	419	30	7	456
Ku Ling Wah, Phyllis	–	388	30	8	426
Tsang Wing Leung, Jimson	–	486	110	22	618
Cheung Chiu Hung	–	576	170	26	772
Chan Chi Sun	–	476	110	22	608
Ma Sau Ching	–	593	150	26	769
	–	3,449	630	129	4,208
Non-executive director					
Ku Yiu Tung	226	–	–	–	226
Independent non-executive directors					
Lo Wa Kei, Roy	120	–	–	–	120
Lee Kwong Yiu	120	–	–	–	120
Wong Che Man, Eddy	60	–	–	–	60
	300	–	–	–	300
	526	3,449	630	129	4,734

(b) Employees' emoluments

The five highest paid individuals for the year ended 31 March 2006 included three (2005: four) executive directors of the Company, whose emoluments are set out in (a) above. The emoluments of the remaining individual(s) for the years ended 31 March 2006 and 2005 are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**1,089**	633
Retirement benefits scheme contributions	**37**	26
	1,126	659

The five highest paid individuals for the year ended 31 March 2006 included two employees (2005: one employee) and the emoluments of each of them in both years were less than HK$1,000,000.

During the years ended 31 March 2006 and 2005, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office. None of the directors has waived any emoluments during the years ended 31 March 2006 and 2005.

Notes to the Financial Statements

For the year ended 31 March 2006
(continued)

9. INCOME TAXES

	2006 HK$'000	2005 HK$'000 (Restated)
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**7,728**	6,688
Underprovision of Hong Kong Profits Tax in the prior years	**–**	552
	7,728	7,240
PRC Enterprise Income Tax	**101**	66
	7,829	7,306
Deferred taxation *(Note 23)*	**174**	983
	8,003	8,289

Hong Kong Profits Tax is calculated at 17.5% of the estimated profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the directors, that portion of the Group's profit is not at present subject to taxation in any other jurisdictions in which the Group operates.

Details of the deferred taxation are set out in note 23.

The tax expense for the year can be reconciled to the profit before taxation per the income statement as follows:

	2006 HK$'000	2005 HK$'000 (Restated)
Profit before taxation	**80,955**	78,901
Tax at the Hong Kong Profits Tax rate of 17.5%	**14,167**	13,808
Tax effect of expenses that are not deductible in determining taxable profit	**986**	1,227
Tax effect of income that is not taxable in determining taxable profit	**(445)**	(917)
Tax effect of underprovision in prior years	**–**	670
Effect of Hong Kong Profits Tax on concessionary rate (Note)	**(7,460)**	(6,439)
Effect of different tax rates of operation in other jurisdictions	**714**	23
Effect of tax exemption granted to PRC subsidiaries	**–**	(83)
Others	**41**	–
Tax expense for the year	**8,003**	8,289

Note: For Hong Kong Profits Tax purposes, one of the Company's subsidiaries has been claiming that 50% of its assessable profits are attributable to its manufacturing operation in the PRC and are therefore offshore in nature and non-taxable.

10. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Final, paid – 8.1 Hong Kong cents per share for 2005 (2005: 8.1 Hong Kong cents per share for 2004)	**20,837**	20,026
Interim, paid – 4.2 Hong Kong cents per share for 2006 (2005: 4.2 Hong Kong cents per share for 2005)	**11,024**	10,796
Special, paid – 1.5 Hong Kong cents per share for 2006 (2005: 2 Hong Kong cents per share for 2005)	**3,937**	5,141
	35,798	35,963
Final, proposed – 8.1 Hong Kong cents per share for 2006 (2005: 8.1 Hong Kong cents per share for 2005)	**21,285**	20,820
	57,083	56,783

The final dividend in respect of 2006 of 8.1 Hong Kong cents (2005: 8.1 Hong Kong cents) per share has been proposed by the directors and is subject to approval by the shareholders in the general meeting. The amount of final dividend proposed was calculated based on the number of ordinary shares in issue at the date of approval of the financial statements.

During the year ended 31 March 2006, scrip dividend alternative was offered in respect of the 2005 final dividend declared totaling HK$20,837,000, of which HK$11,133,000 was attributable to scrip dividend elected by shareholders.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2006 HK$'000	2005 HK$'000 (Restated)
Earnings for the purposes of basic and diluted earnings per share – Net profit for the year	**72,952**	70,612

	Number of shares	
	2006	2005
Weighted average number of ordinary shares for the purpose of basic earnings per share	**259,815,068**	253,038,652
Effect of dilutive potential ordinary shares in respect of share options granted	**222,837**	3,591,237
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**260,037,905**	256,629,889

The changes in accounting policies during the year as mentioned in note 2 to the financial statements did not have material impact on results for the years ended 31 March 2006 and 2005 and have not affected the amounts reported for earnings per share expressed in nearest Hong Kong cents for both years.

Notes to the Financial Statements

For the year ended 31 March 2006

(continued)

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong under medium-term leases HK$'000	Buildings in the PRC under medium-term leases HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
The Group								
Cost or valuation								
At 1 April 2005	5,800	49,149	36,400	161,594	55,342	3,967	22,581	334,833
Additions	–	19,676	4,608	33,830	7,763	2,626	1,347	69,850
Surplus on revaluation	1,000	–	–	–	–	–	–	1,000
Transfers	–	16,929	–	134	–	–	(17,063)	–
Disposals	–	–	–	(365)	–	(1,103)	–	(1,468)
At 31 March 2006	6,800	85,754	41,008	195,193	63,105	5,490	6,865	404,215
Depreciation								
At 1 April 2005	–	3,237	20,981	87,781	35,218	2,693	–	149,910
Provided for the year	116	1,002	5,285	22,499	8,153	958	–	38,013
Eliminated on revaluation	(116)	–	–	–	–	–	–	(116)
Eliminated on disposals	–	–	–	(222)	–	(682)	–	(904)
At 31 March 2006	–	4,239	26,266	110,058	43,371	2,969	–	186,903
Net book value								
At 31 March 2006	6,800	81,515	14,742	85,135	19,734	2,521	6,865	217,312

An analysis of cost or valuation of property, plant and equipment is as follows:

	Leasehold land and buildings in Hong Kong under medium-term leases HK$'000	Buildings in the PRC under medium-term leases HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Comprising								
At cost	–	85,754	41,008	195,193	63,105	5,490	6,865	397,415
At valuation-2006	6,800	–	–	–	–	–	–	6,800
At 31 March 2006	6,800	85,754	41,008	195,193	63,105	5,490	6,865	404,215

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Leasehold land and buildings in Hong Kong under medium-term leases HK$'000	Buildings in the PRC under medium-term leases HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
The Group								
Cost or valuation								
At 1 April 2004								
as originally stated	3,600	53,724	29,628	135,103	48,078	3,868	5,437	279,438
Effect on changes in								
accounting policy	–	(4,575)	–	–	–	–	–	(4,575)
As restated	3,600	49,149	29,628	135,103	48,078	3,868	5,437	274,863
Additions	–	–	478	20,086	7,264	467	29,843	58,138
Surplus on revaluation	2,200	–	–	–	–	–	–	2,200
Transfers	–	–	6,294	6,405	–	–	(12,699)	–
Disposals	–	–	–	–	–	(368)	–	(368)
At 31 March 2005	5,800	49,149	36,400	161,594	55,342	3,967	22,581	334,833
Depreciation								
At 1 April 2004								
as originally stated	–	2,418	16,061	67,394	27,078	2,194	–	115,145
Effect on changes in								
accounting policy	–	(164)	–	–	–	–	–	(164)
As restated	–	2,254	16,061	67,394	27,078	2,194	–	114,981
Provided for the year	72	983	4,920	20,387	8,140	597	–	35,099
Eliminated on revaluation	(72)	–	–	–	–	–	–	(72)
Eliminated on disposals	–	–	–	–	–	(98)	–	(98)
At 31 March 2005	–	3,237	20,981	87,781	35,218	2,693	–	149,910
Net book value								
At 31 March 2005	5,800	45,912	15,419	73,813	20,124	1,274	22,581	184,923

An analysis of cost or valuation of property, plant and equipment is as follows:

	Leasehold land and buildings in Hong Kong under medium-term leases HK$'000	Buildings in the PRC under medium-term leases HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Comprising								
At cost	–	49,149	36,400	161,594	55,342	3,967	22,581	329,033
At valuation–2005	5,800	–	–	–	–	–	–	5,800
At 31 March 2005	5,800	49,149	36,400	161,594	55,342	3,967	22,581	334,833

The leasehold land and buildings located in Hong Kong are carried at valuation. They were valued at 31 March 2006 by BMI Appraisals Limited, an independent property valuer, on an open market existing use basis. The surplus on revaluation of HK$1,116,000 (2005: surplus of HK$2,272,000) has been credited to the income statement.

Notes to the Financial Statements

For the year ended 31 March 2006
(continued)

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

If the leasehold land and buildings located in Hong Kong had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation at approximately HK$6,683,000 (2005: HK$6,843,000).

The buildings located in the PRC were not assigned a commercial value by the valuer as they were not fully transferable and, accordingly, they are carried at cost less depreciation and any impairment loss. The directors consider that the buildings located in the PRC are worth at least their carrying amount.

13. PREPAID LEASE PAYMENTS

Prepaid lease payments represent land use rights held under medium term lease in the PRC. They are analysed for reporting purposes as:

	The Group	
	2006 HK$'000	2005 HK$'000
Non-current asset	**4,138**	4,229
Current asset	**91**	91
	4,229	4,320

14. INVESTMENT IN A SUBSIDIARY

	The Company	
	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**111,968**	111,968

Particulars of the principal subsidiaries of the Company at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company *(Note b)*	Principal activities
101 Studio Limited	Hong Kong	HK$9	100%	Sales of optical frames and related products
New Prosperity Optical Manufactory Limited	The British Virgin Islands/PRC	US$1	100%	Property holding
Sun Hing Optical International Group Limited *(Note b)*	The British Virgin Islands	HK$106	100%	Investment holding
Sun Hing Optical Manufactory Limited	Hong Kong	HK$2	100%	Manufacture and sales of optical frames and related products

14. INVESTMENT IN A SUBSIDIARY *(continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company *(Note b)*	Principal activities
Yorkshire Holdings Limited	Hong Kong	HK$10	100%	Property holding
東莞恆生眼鏡制造有限公司 *(Note a)*	PRC	HK$2,500,000	100%	Manufacture and sales of optical frames and related products
紫金縣新基眼鏡五金配件限公司 *(Note a)*	PRC	HK$50,000,000	100%	Manufacture and sales of optical frames and related products
紫金縣新泰工業園發展有限公司 *(Note a)*	PRC	HK$4,000,000	100%	Inactive

Notes:

(a) The subsidiaries established in the PRC are registered as wholly foreign owned enterprises.

(b) Sun Hing Optical International Group Limited is directly held by the Company and all other subsidiaries are indirectly held.

The directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the above list contains only the particulars of the subsidiaries which principally affect the results or assets and liabilities of the Group.

None of the subsidiaries had any debt securities subsisting at the balance sheet date or at any time during the year.

15. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts are unsecured, interest free and are repayable on demand.

16. TIME DEPOSITS

The balances represent bank deposits of the Group denominated in United States dollar with an initial term of six years to ten years and carry interests determined by a formula with reference to the London Inter-bank Offer Rate. The balances included a deposit of HK$15,600,000 (2005: HK$15,727,000) callable by a bank at its discretion at the end of each quarter during the six-year period.

	The Group	
	2006 HK$'000	2005 HK$'000
Analysis of maturity for reporting purpose:		
Balances mature after one year	**11,700**	27,344
Balance matures within one year	**15,600**	–
	27,300	27,344

Notes to the Financial Statements

For the year ended 31 March 2006
(continued)

17. INVENTORIES

	The Group	
	2006 HK$'000	2005 HK$'000
Raw materials	**50,957**	43,678
Work in progress	**86,527**	65,149
Finished goods	**39,889**	24,664
	177,373	133,491

18. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade debtors. An aged analysis of trade debtors is as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
Trade debtors		
Current	**151,582**	127,123
Overdue up to 90 days	**26,314**	31,801
Overdue more than 90 days	**6,111**	6,313
	184,007	165,237
Other receivables	**6,939**	13,087
	190,946	178,324

19. TRADE AND OTHER PAYABLES

An aged analysis of trade creditors is as follows:

	The Group	
	2006 HK$'000	2005 HK$'000
Trade payables		
Current and overdue up to 90 days	**114,693**	101,185
Overdue more than 90 days	**2,577**	4,879
	117,270	106,064
Other payables	**34,872**	21,581
	152,142	127,645

20. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 31 March 2004, 2005, 2006	500,000,000	50,000
Issued and fully paid:		
At 1 April 2004	247,239,200	24,724
Issue of shares upon exercise of share options at the issue price of HK$0.75 each	9,800,000	980
At 31 March 2005	257,039,200	25,704
Issue of shares in lieu of cash dividends	5,239,086	524
Issue of shares upon exercise of share options at the issue price of HK$0.92 each	200,000	20
At 31 March 2006	262,478,286	26,248

21. 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 scheme.

Old Share Option Scheme

The Company's Old Share Option Scheme was adopted for the primary purpose of providing incentives to eligible employees and expired on 6 September 2004. Under the Old Share Option Scheme, the board of directors of the Company may at their discretion grant options to eligible full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Old Share Option Scheme is not permitted to exceed 10% of the issued share capital of the Company at any point in time but excluding shares issued pursuant to the Old Share Option Scheme. No employee shall be granted a share option which, if exercised in full, would result in such employee becoming entitled to subscribe for more than 25% of the aggregate number of shares for the time being issued and issuable under the Old Share Option Scheme.

Options granted must be taken up before the date specified in the offer and the expiry of the Old Share Option Scheme, whichever is the earlier, upon payment of HK$10 per grant of options. Options may generally be exercised at any time from the date of grant to the earlier of the fifth anniversary of the date of grant and the tenth anniversary of the date of adoption of the Old Share Option Scheme. No option may be exercised by an individual until he or she shall have completed half year's full-time service with the Company or its subsidiaries. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the shares of the Company and 80% of the average closing price of the shares for the five trading days immediately preceding the date of grant. No further share options can be granted upon termination of the Old Share Option Scheme but the existing outstanding share options will continue to be valid and exercisable in accordance with the provisions of the Old Share Option Scheme.

Notes to the Financial Statements

For the year ended 31 March 2006
(continued)

21. SHARE OPTIONS *(continued)*

Old Share Option Scheme *(continued)*

The following tables disclose details of the Company's share options which were granted under the Old Share Option Scheme held by directors and employees during the years ended 31 March 2006 and 2005:

	Number of options				
Option type	**Outstanding at 1 April 2005**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding at 31 March 2006**
2001-directors	500,000	–	(200,000)	–	300,000
2004-employees	1,850,000	–	–	(500,000)	1,350,000
	2,350,000	–	(200,000)	(500,000)	1,650,000
	HK$	HK$	HK$	HK$	HK$
Weighted average exercise price	2.95	–	0.92	3.5	3.03

During the year ended 31 March 2006, no share option was granted by the Company to any director and employee, and a total of 200,000 share options had been exercised by a director of the Company. In addition, 500,000 share options had been forfeited upon resignation of certain grantees during the year.

	Number of options				
Option type	**Outstanding at 1 April 2004**	**Granted during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding at 31 March 2005**
2000-directors	9,800,000	–	(9,800,000)	–	–
2001-directors	500,000	–	–	–	500,000
2004-employees	–	1,850,000	–	–	1,850,000
	10,300,000	1,850,000	(9,800,000)	–	2,350,000
	HK$	HK$	HK$	HK$	HK$
Weighted average exercise price	0.76	3.5	0.75	–	2.95

During the year ended 31 March 2005, 1,850,000 share options were granted to employees of the Group and a total of 9,800,000 share options were exercised by directors of the Company.

Details of specific categories 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 2)*	0.92
2004-employees	2 April 2004	2 April 2004-1 April 2009 *(Note 3)*	3.50

Notes:

1. All the options have been vested and exercised during the year ended 31 March 2005.

2. All the options have been vested.

3. 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.

21. SHARE OPTIONS *(continued)*

Old Share Option Scheme *(continued)*

As mentioned in note 2 to the financial statements, the Group applies HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 April 2005. Accordingly, the fair value of the 1,850,000 share options granted to employees on 2 April 2004 will be recognised as expenses over their vesting period. The estimated fair value of the 1,850,000 share options is HK$906,500 which was calculated using the Black-Scholes pricing model. The inputs into the model are as follows:

Weighted average share price	HK$3.5
Exercise price	HK$3.5
Expected volatility	25.63%
Expected life	2.33 years
Risk-free rate	4%
Expected dividend yield	4%

Total consideration received during the year ended 31 March 2005 for taking up the options granted amounted to HK$130.

The fair value of the Company's share at the date of issue for the exercise of share options during the year ended 31 March 2006 was HK$2.38 (2005: HK$3.61) per share.

The Group recognised the total expenses of HK$215,000 for the year ended 31 March 2006 (2005: HK$232,000) in relation to share options granted by the Company.

New Share Option Scheme

The purpose of the New Share Option Scheme is to attract and retain high caliber employees, and to motivate them towards higher levels of performance. Under the New Share Option Scheme, the board of directors of the Company shall be entitled to, in its absolute discretion, grant options to eligible employees of the Company, or any of its subsidiaries, to subscribe for shares in the Company at a price which shall be the highest of (i) the closing price of the Company's shares quoted on the Stock Exchange on the date of offer of the share options; (ii) the average of the closing prices of the Company's shares quoted on the Stock Exchange on the five business days immediately preceding the date of offer of the share options; and (iii) the nominal value of the shares. The New Share Option Scheme will expire on 5 September 2014.

An option may be exercised at any time during the period to be determined and notified by the board of directors to the grantee. Such period may commence on the date after the date of acceptance of such option to the tenth anniversary from the date of acceptance of that option. A consideration of HK$1 is payable upon acceptance of the offer.

The maximum number of shares in respect of which options may be granted under the New Share Option Scheme and any other share option scheme established by the Company, if any, is 24,723,920, representing 10% of the issued share capital of the Company at the date of approval of the New Share Option Scheme. The total maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme, if any, shall not exceed 10% of the issued share capital of the Company from time to time.

No share options have been granted, exercised, cancelled or lapsed under the New Share Option Scheme since its adoption.

Notes to the Financial Statements

For the year ended 31 March 2006
(continued)

22. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
The Company					
At 1 April 2004	61,638	111,768	–	21,421	194,827
Issue of shares upon exercise of share options	6,370	–	–	–	6,370
Recognition of equity-settled share based payment	–	–	232	–	232
Net loss for the year (Restated)	–	–	–	(1,762)	(1,762)
Dividends paid *(Note 10)*	–	(35,963)	–	–	(35,963)
At 31 March 2005	68,008	75,805	232	19,659	163,704
Issue of shares upon exercise of share options	164	–	–	–	164
Issue of shares in lieu of cash dividends	10,609	–	–	–	10,609
Share issue expenses	(82)	–	–	–	(82)
Recognition of equity-settled share based payment	–	–	215	–	215
Net loss for the year	–	–	–	(685)	(685)
Dividends paid *(Note 10)*	–	(35,798)	–	–	(35,798)
At 31 March 2006	78,699	40,007	447	18,974	138,127

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of shares issued by the Company pursuant to a group reorganisation.

Under the laws in Bermuda, the contributed surplus account of a company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to shareholders as at 31 March 2006 are represented by its accumulated profits and contributed surplus totaling HK$58,981,000 (2005: HK$95,464,000).

23. DEFERRED TAXATION

The following are the major deferred tax liabilities/(assets) recognised by the Group and movements thereon during the years ended 31 March 2006 and 2005:

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1 April 2004	8,079	(662)	–	7,417
Charge to income for the year	585	398	–	983
At 31 March 2005	8,664	(264)	–	8,400
Charge/(credit) to income for the year	539	175	(540)	174
At 31 March 2006	9,203	(89)	(540)	8,574

There was no material unrecognised deferred taxation of the Group and the Company as at the balance sheet date.

24. MAJOR NON-CASH TRANSACTIONS

(a) During the year, the Group issued 5,239,086 shares (2005: Nil) of HK$0.1 each at total subscription price of approximately HK$11,133,000 in lieu of cash dividends; and

(b) During the year, construction in progress of approximately HK$17,063,000 (2005: HK$12,699,000) was completed and was transferred to respective categories of property, plant and equipment.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments are bank balances and cash, time deposits, trade and other receivables, trade and other payables, which arise from its operations. The directors consider that the fair values of the Group's financial assets (other than the time deposits) and financial liabilities approximate their respective carrying amounts due to their short maturities or bearing interest rates not materially different from those of the market.

The fair value of the Group's time deposits as at 31 March 2006 amounted to HK$21,847,000 (2005: HK$22,083,000).

The main risks arising from the Group's financial instruments are foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management policy focuses on minimising all potential financial risks of the Group.

(a) Foreign exchange risk

The Group's products are principally sold to Europe, the United States and Asia with the majority of its sales and accounts receivable denominated in United States dollar. Purchases of goods, raw materials and services of the Group are mainly denominated in Hong Kong dollar, Renminbi and United States dollar. As Hong Kong dollar is pegged to United States dollar, Renminbi is managed pegged to United States dollar, and transactions denominated in currencies other than Hong Kong dollar, Renminbi and United States dollar are relatively less significant, the directors of the Company consider the foreign exchange exposure of the Group is limited.

The Group does not use foreign exchange forward contracts or other means to hedge its foreign exchange risk.

The Group's bank balances and bank deposits are mainly kept in either Hong Kong dollar or United States dollar to minimise the foreign exchange risk.

Notes to the Financial Statements

For the year ended 31 March 2006

(continued)

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Credit risk

The Group has stringent policies in place to manage its credit risk. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover over due debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

(c) Liquidity risk

The Group maintains sufficient bank balances and cash, and the availability of funding through an adequate amount of committed credit facilities from the Group's bankers.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities other than its bank balances and bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

26. OPERATING LEASE COMMITMENTS

The Group as lessee

	2006 HK$'000	2005 HK$'000
Minimum lease payments paid in respect of rented premises under operating leases during the year	**6,260**	4,885

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006 HK$'000	2005 HK$'000
Within one year	**6,668**	6,414
In the second to fifth year inclusive	**12,450**	9,002
Over five years	**654**	1,026
	19,772	16,442

Operating lease payments represent rental payable by the Group for certain of its office and other premises. Leases are negotiated for an average term of two to seven years and rentals are fixed over the leases terms.

The Company has no operating lease commitments at the balance sheet date.

27. CAPITAL AND OTHER COMMITMENTS

At the balance sheet date, the Group had the following significant capital and other commitments:

	2006 HK$'000	2005 HK$'000
Capital expenditure contracted for but not provided in the financial statements		
– Acquisition of plant and machinery	**2,073**	17,819
– Factory under construction	**652**	599
	2,725	18,418
Capital expenditure authorised but not contracted for		
– Acquisition of plant and machinery	**–**	1,430
– Factory under construction	**5,591**	–
	5,591	1,430
Commitments for license fee in respect of brand names contracted for but not provided in the financial statements.	**6,098**	9,128
	14,414	28,976

The Company did not have any capital commitments at the balance sheet date.

28. RETIREMENT BENEFITS SCHEME

Prior to 1 December 2000, the Group operated a defined contribution retirement benefit scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there were employees who left the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effective from 1 December 2000, the Group has also joined a Mandatory Provident Fund Scheme ("MPF Scheme") for its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The employees employed for the Group's subsidiaries in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. These subsidiaries are responsible to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect of the retirement benefits schemes is to make the required contributions under the schemes.

As at 31 March 2006 and 31 March 2005, the Group did not have any forfeited contributions to offset future contributions.

Notes to the Financial Statements

For the year ended 31 March 2006

(continued)

29. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

	2006 **HK$'000**	2005 HK$'000
Bills discounted with recourse	–	7,716

In October 2005, the creditor trustee of a customer of the Group, which is under a voluntary petition for bankruptcy relief under the United States Bankruptcy Code and applicable state law ("State Law"), commenced an adversary proceeding against the Group. The creditor trustee seeks to recover from the Group an amount of approximately HK$4,300,000 which is alleged to be preferential transfers under the State Law. The directors of the Company, based on the advice from their legal counsel, are of the view that the Group has meritorious defences to the claim and accordingly, no provision for this claim has been made in the financial statements.

At 31 March 2006, the Company has given guarantees to banks for credit facilities granted to its subsidiaries amounting to approximately HK$66,000,000 (2005: HK$66,000,000).

30. RELATED PARTY TRANSACTIONS

Other than those key management compensation as set out in note 8 to the financial statements, the Group has no material related party transactions during the year.

31. COMPARATIVE AMOUNTS

Certain expenses amounting to HK$1,994,000 for the year ended 31 March 2005 were re-classified from administrative expenses to cost of sales to conform with current year's presentation.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 14 July 2006.