



SUN HING VISION GROUP HOLDINGS LIMITED

INTERIM REPORT 2004-2005



OPERATING RESULTS

The Board of Directors (the "Board") of Sun Hing Vision Group Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004, together with the comparative figures for the corresponding previous period as follows:

Condensed Consolidated Income Statement For the six months ended 30 September 2004

	NOTES	Six months ended	
		30.9.2004 HK\$'000 (Unaudited)	30.9.2003 HK\$'000 (Unaudited)
Turnover	3	292,938	236,560
Cost of sales		<u>(194,314)</u>	<u>(149,863)</u>
Gross profit		98,624	86,697
Other operating income		343	400
Distribution costs		(4,179)	(3,361)
Administrative expenses		<u>(43,245)</u>	<u>(36,890)</u>
Profit from operations	4	51,543	46,846
Interest income		<u>1,330</u>	<u>1,339</u>
Profit before taxation		52,873	48,185
Taxation	5	<u>(4,626)</u>	<u>(4,970)</u>
Net profit for the period		<u>48,247</u>	<u>43,215</u>
Dividend paid	6	<u>20,026</u>	<u>19,779</u>
Earnings per share	7		
Basic		<u>HK20 cents</u>	<u>HK18 cents</u>
Diluted		<u>HK19 cents</u>	<u>HK17 cents</u>

Condensed Consolidated Balance Sheet
As at 30 September 2004

	NOTES	30.9.2004 HK\$'000 (Unaudited)	31.3.2004 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	178,574	164,293
Long-term bank deposits		27,300	15,727
		<u>205,874</u>	<u>180,020</u>
CURRENT ASSETS			
Inventories		128,442	115,338
Trade and other receivables	9	161,258	149,582
Bank balances and cash		136,706	150,804
		<u>426,406</u>	<u>415,724</u>
CURRENT LIABILITIES			
Trade and other payables	10	116,549	110,537
Tax liabilities		12,748	10,761
		<u>129,297</u>	<u>121,298</u>
NET CURRENT ASSETS		<u>297,109</u>	<u>294,426</u>
		502,983	474,446
CAPITAL AND RESERVES			
Share capital	12	24,724	24,724
Reserves		470,526	442,305
		495,250	467,029
NON-CURRENT LIABILITIES			
Deferred tax liabilities	11	7,733	7,417
		<u>502,983</u>	<u>474,446</u>



**Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 September 2004**

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	24,684	61,310	18,644	305,434	410,072
Exercise of share options	40	328	-	-	368
Net profit for the period	-	-	-	43,215	43,215
Dividend paid	-	-	-	(19,779)	(19,779)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2003	24,724	61,638	18,644	328,870	433,876
Net profit for the period	-	-	-	49,224	49,224
Dividend paid	-	-	-	(16,071)	(16,071)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	24,724	61,638	18,644	362,023	467,029
Net profit for the period	-	-	-	48,247	48,247
Dividend paid	-	-	-	(20,026)	(20,026)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2004	<u>24,724</u>	<u>61,638</u>	<u>18,644</u>	<u>390,244</u>	<u>495,250</u>

Condensed Consolidated Cash Flow Statement
For the six months ended 30 September 2004

	Six months ended	
	30.9.2004 <i>HK\$'000</i> <i>(Unaudited)</i>	30.9.2003 <i>HK\$'000</i> <i>(Unaudited)</i>
Net cash from operating activities	49,043	41,385
Net cash used in investing activities	(43,115)	(65,485)
Net cash used in financing activities	<u>(20,026)</u>	<u>(19,411)</u>
Net decrease in cash and cash equivalents	(14,098)	(43,511)
Cash and cash equivalents at the beginning of the period	<u>150,804</u>	<u>156,728</u>
Cash and cash equivalents at the end of the period, representing bank balances and cash	<u><u>136,706</u></u>	<u><u>113,217</u></u>



Notes to the Condensed Financial Statements

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost conventions as modified for the revaluation of land and buildings.

The accounting policies adopted are consistent with those adopted by the Group in its financial statements for the preparation of the condensed financial statements for the year ended 31 March 2004.

3. SEGMENTAL INFORMATION

The Group is principally engaged in the design, manufacture and sales of optical products. Accordingly, the Group reports its primary segment information based on geographical market. No business segment analysis is presented as management considers this as one single business segment.

	Six months ended			
	30.9.2004	30.9.2004	30.9.2003	30.9.2003
	Revenue	Results	Revenue	Results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Europe	142,536	35,165	107,530	28,619
United States	122,719	31,903	109,173	30,990
Asia	21,081	4,067	13,543	2,650
Others	6,602	1,418	6,314	1,809
	<u>292,938</u>	<u>72,553</u>	<u>236,560</u>	<u>64,068</u>
Unallocated				
corporate expenses		(21,353)		(17,622)
Other operating income		343		400
Profit from operations		<u>51,543</u>		<u>46,846</u>

4. PROFIT FROM OPERATIONS

	Six months ended	
	30.9.2004	30.9.2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	17,177	14,727

5. TAXATION

	30.9.2004	30.9.2003
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax	4,310	4,279
Deferred taxation (<i>Note 11</i>)		
Current period	316	58
Attributable to the change in tax rate in Hong Kong	–	633
	4,626	4,970

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period.

In 2003, the Inland Revenue Department (the "IRD") had tax disputes with certain subsidiaries of the Group for prior years and had issued notices of additional assessments in respect of the year of assessment 1997/98 to those subsidiaries. The Group has objected against such assessment and the matter has not yet been finalized with the IRD. The directors of the Company reviewed the tax disputes in the year ended 31 March 2004 and a provision of approximately HK\$2,335,000, being the directors' best estimate of the additional tax liability and potential surcharge on the tax disputes, was made in the financial statements in the second half of that year. During the period, the Group paid approximately HK\$750,000 for tax reserve certificate at the IRD's request.

6. DIVIDEND PAID

On 28 September 2004, a dividend of HK8.1 cents per share (2003: HK8 cents) was paid to shareholders as final dividend for 2004.

The directors have determined that an interim dividend of HK4.2 cents per share and a special dividend of HK2 cents per share (2003: an interim dividend of HK4 cents per share and a special dividend of HK2.5 cents per share) will be paid to the shareholders of the Company whose names appear on the register of members on 14 January 2005.



7. EARNINGS PER SHARE

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

	Six months ended	
	30.9.2004	30.9.2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Earnings for the purposes of basic and diluted earnings per share	48,247	43,215
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	247,239,200	245,569,041
Effect of dilutive potential ordinary shares:		
– Share options	8,181,383	7,927,309
Weighted average number of shares for the purpose of diluted earnings per share	255,420,583	253,496,350

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$31,692,000 (six months ended 30 September 2003: HK\$18,207,000) on additions of property, plant and equipment and disposed of property, plant and equipment at net book value of HK\$270,000 (six months ended 30 September 2003: nil).

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables at the reporting date:

	30.9.2004	31.3.004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		
Current	119,394	115,829
Overdue up to 90 days	24,411	22,546
Overdue more than 90 days	8,862	5,068
	152,667	143,443
Other receivables		
	8,591	6,139
	161,258	149,582

10. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	30.9.2004 HK\$'000	31.3.2004 HK\$'000
Trade payables		
Current and overdue up to 90 days	93,744	81,375
Overdue more than 90 days	4,993	6,462
	<hr/>	<hr/>
	98,737	87,837
Other payables	17,812	22,700
	<hr/>	<hr/>
	116,549	110,537
	<hr/>	<hr/>

11. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 April 2003	7,366	(617)	6,749
Charge to income for the period	58	–	58
Effect of change in tax rate	691	(58)	633
	<hr/>	<hr/>	<hr/>
At 30 September 2003 (Credit)/charge to income for the period	8,115 (36)	(675) 13	7,440 (23)
	<hr/>	<hr/>	<hr/>
At 31 March 2004	8,079	(662)	7,417
Charge to income for the period	310	6	316
	<hr/>	<hr/>	<hr/>
At 30 September 2004	8,389	(656)	7,733
	<hr/>	<hr/>	<hr/>

12. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Issued and fully paid:		
At 30 September 2004 and at 1 April 2004	247,239,200	24,724
	<hr/>	<hr/>



13. COMMITMENTS

	30.9.2004 HK\$'000	31.3.2004 HK\$'000
Capital expenditure contracted for but not provided in the financial statements		
– Acquisition of plant and machinery	7,166	12,062
– Factory under construction	10,464	1,446
	<hr/>	<hr/>
	17,630	13,508
Capital expenditure authorised but not contracted for		
– Acquisition of plant and machinery	101	3,543
– Factory under construction	99	1,600
	<hr/>	<hr/>
	17,830	18,651
Commitments for license fee for brandnames contracted for but not provided in the financial statements	4,611	5,258
	<hr/>	<hr/>
	22,441	23,909
	<hr/>	<hr/>

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK4.2 cents and a special dividend of HK2 cents per share for the six months ended 30 September 2004. (2003: HK4 cents and HK2.5 cents) The interim dividend and the special dividend will be payable on or about 25 February 2005 to shareholders whose names appear on the register of members of the Company on 14 January 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 January 2005 to 14 January 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the abovementioned interim dividend and special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 11 January 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's unaudited consolidated turnover and profit attributable to shareholders for the six months ended 30 September 2004 were HK\$293 million and HK\$48 million, representing an increase of 24% and 12% respectively over the corresponding period last year. Basic earnings per share increased by 11% to HK20 cents.

During the period under review, the Group was very successful in growing both the original design manufacturing (ODM) business and the distribution business for licensed branded products. The ODM business continued to be the major contributor of the Group's business. The ODM business and the distribution business for licensed branded products accounted for about 91% and 9% of the Group's turnover respectively.

The contribution from the increase in turnover was however offset by the generally higher raw material costs, energy prices and other operating costs due to the depreciation of the United States dollars and the increased global demand as a result of the recovery of the macroeconomy during the period under review. Higher proportion of lower margin plastic products sold during the period also resulted in smaller increase in net profit than turnover.

Satisfactory Growth in the ODM Business

Turnover to the Group's ODM customers increased by 21% to HK\$266 million. During the period under review, the ODM turnover to Europe increased significantly by 32%, while ODM turnover to the United States reversed its downward trend from last year and registered an increase of 13%. The Group's products have become more competitive due to the depreciation of the United States dollars against most major currencies during the period under review. In addition, the Group's reputation and highly recognized design and manufacturing capabilities in the industry has continued to attract new business from the best eyewear customers in the world.

Europe and the United States remained to be the major markets of the Group's products and accounted for 52% and 46% (2003: 47% and 49%) of the Group's turnover of its ODM business. Furthermore, sales of metal frames, plastic frames and other spare parts accounted for 69%, 30% and 1% respectively of the Group's ODM turnover during the period under review (2003: 80%, 19% and 1%). Sales of plastic frames increased significantly by 97% due to the changing fashion cycle in favor of plastic products during the period under review.



Expansion in the Distribution for Licensed Branded Products

Turnover contributed by the Group's distribution business increased sharply by 55% to HK\$27 million. This satisfactory performance is due to the successful launch of the Levi's® eyewear collection in certain Asian countries, and the improved economic environment in Asia during the period under review in comparison to the corresponding period last year adversely affected by the outbreak of severe acute respiratory syndrome ("SARS").

LIQUIDITY AND CAPITAL RESOURCES

During the period under review, the Group continued to benefit from the strong cash inflow from operations, which generated net operating cash inflow of HK\$49 million. As at 30 September 2004, net current assets and current ratio of the Group were approximately HK\$297 million and 3:1 respectively. As at 30 September 2004, the Group had long-term bank deposits as well as bank and cash balance amounting to HK\$164 million and did not have any bank borrowings. The total shareholders' equity of the Group increased to HK\$495 million as at 30 September 2004 from HK\$467 million at 31 March 2004. The Directors are confident that the financial position of the Group will remain strong, and the Group has sufficient liquidity and financial resources to meet its present commitments and future expansion plans.

Given the Group's strong cash flows, once again the Directors have resolved to declare a special dividend of 2 cents per share on the top of the interim dividend of 4.2 cents per share for the six months ended 30 September 2004. The Directors will continue to monitor the dividend policy closely to ensure that the optimal balance can be achieved between the reinvestment and distribution of earnings in the Group and to the shareholders respectively.

Most of the Group's transactions were conducted in US dollars, Hong Kong dollars and Renminbi. In addition, the majority of the Group's assets were also kept in these currencies. No hedging for foreign exchange was used given that the Group's exposure to currency fluctuation was still relatively limited.

As at 30 September 2004, the Company has guaranteed the bank facilities of its subsidiaries amounting to approximately HK\$46 million (2003: HK\$46 million).

PROSPECTS

The Directors expect that the demand for the Group's ODM products will continue to be satisfactory for the second half of the fiscal year. It is expected that the growth of demand in the European market will continue, while the demand from the United States market will remain steady. The operating environment for the Group will continue to be challenging given the uncertainty brought by the depreciation of the United States dollars, as well as higher raw material costs, energy prices and increases in other operating costs. To defend our profitability, we will continue to make every effort to reduce costs through more price competitive sources of supply and improving our operations to be even more efficient. The Group will continue to invest to upgrade its production facilities and to expand production capacity. The Group's new production facility at He Yuan City, Guangdong, is expected to be completed in the first half of 2005 and set the Group's foundation for further growth.

It is expected that the performance of the distribution business for licensed branded products will remain strong in the second half of the year. The initial launch of the Levi's® eyewear collection in the selected Asian countries has received very favorable response and the coverage for Levi's® eyewear will be significantly extended to serve more major countries, including Japan, in the second half of the fiscal year. The Directors are also pleased to announce that the Group has successfully obtained the exclusive right to distribute eyewear for the renowned brand "Moiselle" in the Greater China area. The Group's new "Moiselle" collection has so far received very positive market feedbacks and is expected to generate satisfactory returns in the future. In the meantime, the Group is still identifying other licensing opportunities for prominent brand names to enrich its brand portfolio.

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

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.



SHARE OPTIONS

Pursuant to the Company's share option scheme (the "Scheme"), the Company granted share options in favour of certain Directors, the details of which are as follows:

Directors	Option grant date	Number of share options			
		Outstanding as at 1 April 2004	Exercised during the period	Outstanding as at 30 September 2004	Percentage of issued share capital
Ku Ngai Yung, Otis	3 March 2000	3,600,000	-	3,600,000	1.46%
Ku Ka Yung	3 March 2000	3,600,000	-	3,600,000	1.46%
Ku Ling Wah, Phyllis	3 March 2000	2,600,000	-	2,600,000	1.05%
Ma Sau Ching	11 June 2001	500,000	-	500,000	0.2%
				<u>10,300,000</u>	

Details of each category of share options are as follows:

Date of grant	Exercise period	Exercise Price HK\$
3 March 2000	3 March 2000 - 2 March 2005	0.75
11 June 2001	11 June 2001 - 10 June 2006	0.92

During the six month period ended 30 September 2004, no share option was granted by the Company to any Director, and a total of 1,850,000 share options had been granted to certain employees of the Company.

As at 30 September 2004, the number of shares in respect of which share options had been granted and remained outstanding under the Scheme was 12,150,000, representing 4.91% of the shares of the Company in issue.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2004, the interests and short position of the Directors and chief executives 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 of Hong Kong Limited (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)

Name of director	Number of shares			Percentage of issued share capital
	Personal interest	Other interest	Total	
Ku Ngai Yung, Otis	-	136,288,000 (Note)	136,288,000	55.12%
Ku Ka Yung	-	136,288,000 (Note)	136,288,000	55.12%
Ku Ling Wah, Phyllis	1,000,000	136,288,000 (Note)	137,288,000	55.53%
Cheung Chiu Hung	1,350,000	-	1,350,000	0.55%
Tsang Wing Leung, Jimson	1,636,000	-	1,636,000	0.66%
Chan Chi Sun	1,526,000	-	1,526,000	0.62%
Ma Sau Ching	200,000	-	200,000	0.08%

Note:

136,288,000 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, 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 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 30 September 2004, none of the Directors or chief executives 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHERS' INTERESTS

As at 30 September 2004, 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
J.P. Morgan Chase & Co.	14,638,000	5.92%
Value Partners Limited	18,098,000 (Note)	7.32%

Note:

As at 30 September 2004, Value Partners Limited was controlled by Mr. Cheah Cheng Hye. Therefore, Mr. Cheah was deemed to be interested in the shares held by Value Partners Limited under SFO.

All the interests stated above represent long position. Save as disclosed above, at 30 September 2004, 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.

AUDIT COMMITTEE

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 unaudited interim financials. The member of the audit committee comprised the three independent non-executive directors of the Company, who are Mr. Lo Wa Kei, Roy, Mr. Lee Kwong Yiu and Mr. Wong Che Man, Eddy.

CODE OF BEST PRACTICE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. All directors except for the chairman of the board and/or the managing director of the Company are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's bye-laws.

APPRECIATION

On behalf of the Board, I would like to thank our customers for their support during the year. I would also like to express our sincere appreciation to our shareholders, staff, suppliers, bankers for their efforts and commitments.

On behalf of the Board
Ku Ngai Yung, Otis
Chairman

Hong Kong, 17 December 2004

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF SUN HING VISION GROUP HOLDINGS LIMITED

新興光學集團控股有限公司

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 9.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants

KLL Associates CPA Limited
Certified Public Accountants
Law Fung Ha
Practising Certificate Number P03958

Hong Kong, 17 December 2004



SUN HING VISION GROUP HOLDINGS LIMITED
新興光學集團控股有限公司

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