

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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. Its ultimate holding company is United Vision International Limited, a company incorporated in The British Virgin Islands.

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

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 Business Combinations. The Group and the Company have not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31 March 2005.

The Group and the Company have commenced considering the potential impact of other new HKFRSs but is not in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong using the historical cost convention as modified for the revaluation of the land and buildings in Hong Kong. The principal accounting policies adopted are as follows:

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.

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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less depreciation, amortisation and accumulated impairment losses.

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined by using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of 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 retained profits.

Construction in progress 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.

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

Leasehold land and buildings	Over the term of leases
Leasehold improvements	10% – 20%, or over the lease term, whichever is shorter
Plant and machinery	10% – 30%
Furniture and fixtures	20%
Motor vehicles	20%

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.

Inventories

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

Impairment

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 Statement of Standard Accounting Practice (“SSAP”), in which case the impairment loss is treated as a revaluation decrease under that SSAP.

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 SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 all or 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.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on transaction are dealt with in the income statement.

On consolidation the assets and liabilities of the Group's operations which are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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.

Retirement benefit costs

The amount of the contribution payable in respect of the Group's defined contribution retirement scheme is charged to the income statement as they fall due.

4. 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 People's Republic of China (the "PRC").

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

For the year ended 31 March 2005

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
TURNOVER	288,127	222,958	61,900	12,414	585,399
RESULT					
Segment result	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					(43,518)
Profit before taxation					79,133
Taxation					(8,289)
Net profit for the year					70,844

BALANCE SHEET

	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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2005

4. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

For the year ended 31 March 2004

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
TURNOVER	250,779	202,455	48,192	12,663	514,089
RESULT					
Segment result	66,778	58,314	9,058	2,911	137,061
Interest income					3,272
Surplus arising on revaluation of land and buildings					72
Unallocated corporate expenses					(35,913)
Profit before taxation					104,492
Taxation					(12,053)
Net profit for the year					92,439

BALANCE SHEET

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	66,355	45,243	29,480	2,365	143,443
Unallocated corporate assets					452,301
Consolidated total assets					595,744
LIABILITIES					
Unallocated corporate liabilities					128,715

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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	453,439	324,563	8,656	3,315
The PRC	192,044	271,181	49,482	41,442
	645,483	595,744	58,138	44,757

5. TURNOVER

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

6. PROFIT BEFORE TAXATION

	2005 HK\$'000	2004 HK\$'000
Profit before taxation has been arrived at after charging:		
Staff costs, including directors' emoluments	114,010	91,998
Retirement benefits scheme contributions (<i>note 24</i>)	1,028	3,021
Total staff costs	115,038	95,019
Auditors' remuneration	698	700
Depreciation and amortisation of property, plant and equipment	35,190	30,223
Loss on disposal of property, plant and equipment	120	—

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2005 HK\$'000	2004 HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	226	187
Independent non-executive directors	300	240
	526	427
Other emoluments (executive directors)		
Salaries and other benefits	4,079	3,879
Retirement benefits scheme contributions	129	112
	4,208	3,991
Total emoluments	4,734	4,418

The emoluments of each of the directors were less than HK\$1,000,000.

(b) Employees' emoluments

The five highest paid individuals for the year ended 31 March 2005 and 2004 included four (2004: two) 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 2005 and 2004 are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	633	1,976
Retirement benefits scheme contributions	26	65
	659	2,041

The five highest paid individuals for the year ended 31 March 2005 included one (2004: three) employee(s) and the emoluments of each of them in both years were less than HK\$1,000,000.

During the years ended 31 March 2005 and 2004, 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 2005 and 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2005

8. TAXATION

	2005 HK\$'000	2004 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current taxation		
Current year	6,754	9,050
Underprovision in the prior years (note)	552	2,335
	7,306	11,385
Deferred taxation (note 21)		
Current year	983	35
Attributable to a change in tax rate	–	633
	8,289	12,053

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

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

Note: In 2003, the Inland Revenue Department (the "IRD") had tax disputes with certain subsidiaries of the Company for prior years and had issued notices of additional assessments in respect of the year of assessment 1997/98 to those subsidiaries. The directors of the Company reviewed the tax disputes in the year ended 31 March 2004 and a provision of approximately HK2,335,000, 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. As at 31 March 2005, the tax disputes had been settled and the corresponding tax payment had been made.

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 operate.

Details of the deferred taxation are set out in note 21.

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

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	79,133	104,492
Tax at the Hong Kong Profits Tax rate of 17.5%	13,848	18,286
Tax effect of expenses that are not deductible in determining taxable profit	1,187	407
Tax effect of income that is not taxable in determining taxable profit	(917)	–
Tax effect of underprovision in prior years	670	2,335
Tax effect of income not subject to tax under any jurisdictions	–	(9,655)
Effect of tax exemption granted to PRC subsidiaries	(83)	(25)
Effect of Hong Kong Profits Tax on concessionary rate (Note)	(6,439)	–
Increase in opening deferred tax liabilities resulting from an increase in tax rate	–	633
Effect of different tax rates of operation in other jurisdictions	23	72
Tax expense for the year	8,289	12,053

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.

9. DIVIDENDS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Final, paid – 8.1 Hong Kong cents per share for 2004 (2004: 8 Hong Kong cents per share for 2003)	20,026	19,779
Interim, paid – 4.2 Hong Kong cents per shares for 2005 (2004: 4 Hong Kong cents per share for 2004)	10,796	9,890
Special, paid – 2 Hong Kong cents per shares for 2005 (2004: 2.5 Hong Kong cents per share for 2004)	5,141	6,181
	35,963	35,850

The final dividend in respect of 2005 of 8.1 Hong Kong cents (2004: 8.1 Hong Kong cents) per share with a scrip dividend alternative has been proposed by the directors and is subject to approval by the shareholders in the general meeting.

10. EARNINGS PER SHARE

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Earnings for the purposes of basic and diluted earnings per share – Net profit for the year	70,844	92,439
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	253,038,652	247,079,200
Effect of dilutive potential ordinary shares: – Share options	3,591,237	7,938,969
Weighted average number of ordinary shares for the purpose of diluted earnings per share	256,629,889	255,018,169

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2005

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong under medium- term leases <i>HK\$'000</i>	Leasehold land and buildings in the PRC under medium- term leases <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP								
COST OR VALUATION								
At 1 April 2004	3,600	53,724	29,628	135,103	48,078	3,868	5,437	279,438
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	53,724	36,400	161,594	55,342	3,967	22,581	339,408
Comprising:								
At cost	–	53,724	36,400	161,594	55,342	3,967	22,581	333,608
At valuation – 2005	5,800	–	–	–	–	–	–	5,800
	5,800	53,724	36,400	161,594	55,342	3,967	22,581	339,408
DEPRECIATION AND AMORTISATION								
At 1 April 2004	–	2,418	16,061	67,394	27,078	2,194	–	115,145
Provided for the year	72	1,074	4,920	20,387	8,140	597	–	35,190
Eliminated on revaluation	(72)	–	–	–	–	–	–	(72)
Eliminated on disposals	–	–	–	–	–	(98)	–	(98)
At 31 March 2005	–	3,492	20,981	87,781	35,218	2,693	–	150,165
NET BOOK VALUES								
At 31 March 2005	5,800	50,232	15,419	73,813	20,124	1,274	22,581	189,243
At 31 March 2004	3,600	51,306	13,567	67,709	21,000	1,674	5,437	164,293

The leasehold land and buildings located in Hong Kong are carried at valuation. They were valued at 31 March 2005 by BMI Appraisals Limited, an independent property valuer, on an open market existing use basis. The surplus on revaluation of HK\$2,272,000 (2004: surplus of HK\$72,000) has been credited to the income statement.

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 and amortisation at approximately HK\$6,843,491 (2004: HK\$7,004,000).

The leasehold land and 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, amortisation and impairment loss. The directors consider that the leasehold land and buildings located in the PRC are worth at least their carrying amount.

12. INVESTMENT IN A SUBSIDIARY

THE COMPANY
2005 & 2004
HK\$'000

Unlisted shares, at cost	111,968
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Particulars of the principal subsidiaries of the Company at 31 March 2005 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 <i>(note b)</i>	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 <i>(note b)</i>	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
Yorkshire Holdings Limited	Hong Kong	HK\$10	100%	Property holding
東莞恒生眼鏡製造有限公司 <i>(note a)</i>	PRC	HK\$2,500,000	100%	Manufacture and sale of optical frames and related products
紫金縣新基眼鏡五金配件有限公司 <i>(note a)</i>	PRC	HK\$19,300,000	100%	Inactive
紫金縣新泰工業園發展有限公司 <i>(note a)</i>	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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2005

13. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

14. LONG-TERM BANK DEPOSITS

The amount represents bank deposits 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 amount included HK\$15,727,000 (2004: HK\$15,727,000) deposit callable by a bank at its discretion at the end of each quarter during the six-year period.

15. INVENTORIES

	2005 HK\$'000	2004 HK\$'000
Raw materials	43,678	40,151
Work in progress	65,149	50,573
Finished goods	24,664	24,614
	133,491	115,338

Included above are raw materials of approximately HK\$8,153,211 (2004: HK\$6,030,071) which are carried at net realisable value.

16. 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 2005 HK\$'000	2004 HK\$'000
Trade debtors		
Current	127,123	115,829
Overdue up to 90 days	31,801	22,546
Overdue more than 90 days	6,313	5,068
	165,237	143,443
Other receivables	13,087	6,139
	178,324	149,582

17. TRADE AND OTHER PAYABLES

An aged analysis of trade creditors is as follows:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Trade payables		
Current and overdue up to 90 days	101,185	81,375
Overdue more than 90 days	4,879	6,462
	106,064	87,837
Other payables	21,581	22,700
	127,645	110,537

18. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31 March 2003, 2004 and 2005	500,000,000	50,000
Issued and fully paid:		
At 1 April 2003	246,839,200	24,684
Issue of shares upon exercise of share options	400,000	40
At 31 March 2004	247,239,200	24,724
Issue of shares upon exercise of share options	9,800,000	980
At 31 March 2005	257,039,200	25,704

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2005

19. SHARE OPTIONS

Pursuant to a resolution passed on 6 September 2004, the Company's share option scheme adopted on 4 May 1999 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted in order to comply with the amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange (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 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 5th anniversary of the date of grant and the 10th anniversary of the date of adoption of the Scheme. No option may be exercised by an individual until he 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.

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 year:

Option type	Outstanding at 1.4.2004	Granted during the year	Exercised during the year	Outstanding at 31.3.2005
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

Option type	Outstanding at 1.4.2003	Granted during the year	Exercised during the year	Outstanding at 31.3.2004
2000 – directors	9,800,000	–	–	9,800,000
2001 – directors	900,000	–	(400,000)	500,000
	10,700,000	–	(400,000)	10,300,000

During the year ended 31 March 2005, 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.

During the year ended 31 March 2004, no share options were held by the employees of the Group.

19. SHARE OPTIONS *(continued)*

Old Share Option Scheme *(continued)*

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 <i>(Note 1)</i>	0.75
2001 – directors	14 December 2001	14 December 2001 – 13 December 2006 <i>(Note 1)</i>	0.92
2004 – employees	2 April 2004	2 April 2004 – 1 April 2009 <i>(Note 2)</i>	3.50

Notes:

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

Total consideration received during the year for taking up the options granted is amounted to HK\$130 (2004: Nil).

The fair value of the Company's share at the date of issue for the exercise of share option during the year was HK\$3.61.

New Share Option Scheme

The purpose of the New Share Option Scheme is to attract and retain high calibre 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 10th 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.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2005

20. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 April 2003	61,310	111,768	8,235	181,313
Exercise of share options	328	–	–	328
Net profit for the year	–	–	49,036	49,036
Dividends paid (<i>note 9</i>)	–	–	(35,850)	(35,850)
At 31 March 2004	61,638	111,768	21,421	194,827
Exercise of share options	6,370	–	–	6,370
Net profit for the year	–	–	(1,530)	(1,530)
Dividends paid (<i>note 9</i>)	–	(35,963)	–	(35,963)
At 31 March 2005	68,008	75,805	19,891	163,704

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 the 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 2005 are represented by its accumulated profits and contributed surplus, totalling approximately HK\$95,696,000 (2004: HK\$133,189,000).

21. DEFERRED TAXATION

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 <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	7,366	(617)	6,749
Charge to income for the year	22	13	35
Effect of change in tax rate	691	(58)	633
At 31 March 2004	8,079	(662)	7,417
Charge to income for the year	585	398	983
At 31 March 2005	8,664	(264)	8,400

22. OPERATING LEASE COMMITMENTS

The Group as lessee

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Minimum lease payments paid in respect of rented premises under operating leases during the year	4,885	6,979

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

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	6,414	4,467
In the second to fifth year inclusive	9,002	13,093
Over five years	1,026	1,577
	16,442	19,137

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 lease terms.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2005

23. CAPITAL AND OTHER COMMITMENTS

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements		
– Acquisition of plant and machinery	17,819	12,062
– Factory under construction	599	1,446
	18,418	13,508
Capital expenditure authorised but not contracted for		
– Acquisition of plant and machinery	1,430	3,543
– Factory under construction	–	1,600
	19,848	18,651
Commitments for license fee for brandnames contracted for but not provided in the financial statements	9,128	5,258
	28,976	23,909

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

24. 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 PRC operations are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC operations are required 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 to the retirement benefits schemes is to make the required contributions under the schemes.

The retirement benefit scheme contribution arising from the Defined Contribution Scheme, the MPF Scheme and the PRC state-managed retirement benefit scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

As at 31 March 2005 and 31 March 2004, the Group did not have any forfeited contributions to offset future contributions.

25. CONTINGENT LIABILITIES

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Bills discounted with recourse	7,716	—

At 31 March 2005, the Company has guaranteed the bank facilities granted to its subsidiaries amounting to approximately HK\$66,000,000 (2004: HK\$46,000,000).