Notes to Financial Statements

(31 March 2006)

1. CORPORATE INFORMATION

Elegance International Holdings Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business is located at B2 & B4, 8/F, Block B, Mai Hing Industrial Building, 16-18 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong.

During the year, the Company was involved in investment holding and the Group was involved in the manufacture and trading of optical frames, sunglasses and optical cases.

The directors of the Company consider Wahyee Limited, a company incorporated in the British Virgin Islands, to be the Company's ultimate holding company.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sale financial assets and investments, and equity investments, which have been measured at fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell as further explained in note 2.5. These financial statements are presented in Hong Kong dollars except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

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 28	Investments in Associates
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
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)–Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK–Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 27, 28, 33, 37 and HK–Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

The adoption of HKFRS 1 regarding the presentation of the Group's share of tax attributable to associates had no material impact on the Group's financial statements.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 March 2005 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 32 and HKAS 39 – Financial Instruments

Time deposits, club debenture and equity securities

In prior years, the Group classified its investment in time deposits as cash and cash equivalents, which were stated at face value. Upon the adoption of HKAS 39, the time deposits held by the Group at 1 April 2005 in the amount of HK$93,444,000 are designated as available-for-sale financial assets under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In prior years, the Group classified its investment in a club debenture as a long term investment, which was held for non-trading purpose and was stated at cost less any impairment losses. Upon the adoption of HKAS 39, the club debenture held by the Group at 1 April 2005 in the amount of HK$650,000 are designated as available-for-sale investment under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 April 2005 in the amount of HK$401,000 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) HKAS 40 – Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained profits rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the consolidated financial statements. The effects of the above changes are summarised in note 2.4 to the financial statements.

(d) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The main impact of HKFRS 2 is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

The adoption of HKFRS 2 had no impact on the Group's financial statements.

(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against the consolidated reserves and debited to goodwill eliminated against reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill previously eliminated against the consolidated reserves remains eliminated against the consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The adoption of HKFRS 3 and HKAS 36 had no impact on the Group's financial statements.

(f) HKFRS 5 – Non-current Assets Held for Sale

HKFRS 5 requires a component of the Group to be classified as non-current assets held for sale when the criteria to be classified as held for sale have been met. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The effect of the above change is summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 5, comparative amounts have not been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(g) HK(SIC) – Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that certain investment properties will be recovered through use and certain investment properties (i.e. those included in the non-current assets classified as held for sale) will be recovered through sale, and accordingly the profits tax rate and tax rate that would be applicable upon the sale have been applied to the calculation of deferred tax, respectively.

The adoption of HK(SIC)-Int 21 had no material impact on the Group's financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued and applicable to the Group but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. As at the balance sheet date, certain of the banking facilities granted to subsidiaries are guaranteed by the Company (note 34(a)). The Group has already commenced on assessment of the impact of this revised HKFRS but is not yet in a position to assess whether the amendments to HKAS 39 would have a significant impact on its results of operations and financial position.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 April 2005	Effect of adopting			
	HKAS 17#	HKASs 32# and 39*	HKAS 40*	
Effect of new policies (Increase/(decrease))	Prepaid land lease payments	Change in classification of/ accounting for equity investments/ financial instruments	Surplus on revaluation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Property, plant and equipment	(42,715)	–	–	(42,715)
Prepaid land lease payments	41,610	–	–	41,610
Deposit for prepaid land lease payments	2,838	–	–	2,838
Deposit for a land use right	(2,838)	–	–	(2,838)
Available-for-sale financial assets	–	87,975	–	87,975
Available-for-sale investment	–	650	–	650
Club debenture	–	(650)	–	(650)
Prepayments, deposits and other receivables	1,105	–	–	1,105
Equity investments at fair value through profit or loss	–	401	–	401
Short term investments	–	(401)	–	(401)
Cash and cash equivalents	–	(93,444)	–	(93,444)
				(5,469)
Liabilities/equity				
Asset revaluation reserve	–	–	(1,879)	(1,879)
Available-for-sale financial asset revaluation reserve	–	(5,469)	–	(5,469)
Retained profits	–	–	1,879	1,879
				(5,469)

* Adjustment taken effect prospectively from 1 April 2005

\# Adjustment/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Effect on the consolidated balance sheet *(continued)*

At 31 March 2006 Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17 Prepaid land lease payments *HK$'000*	Effect of adopting HKASs 32 and 39 Change in classification of/ accounting for equity investments/ financial investments *HK$'000*	Effect of adopting HKFRS 5 Non-current assets classified as held for sale *HK$'000*	Total *HK$'000*
Assets				
Property, plant and equipment	(48,697)	–	(1,986)	(50,683)
Investment properties	–	–	(4,924)	(4,924)
Prepaid land lease payments	47,535	–	(843)	46,692
Available-for-sale financial assets	–	83,635	–	83,635
Available-for-sale investment	–	650	–	650
Club debenture	–	(650)	–	(650)
Prepayments, deposits and other receivables	1,162	–	–	1,162
Equity investments at fair value through profit or loss	–	437	–	437
Short term investments	–	(437)	–	(437)
Non-current assets classified as held for sale	–	–	7,753	7,753
Cash and cash equivalents	–	(93,444)	–	(93,444)
				(9,809)
Liabilities/equity				
Available-for-sale financial asset revaluation reserve	–	(9,809)	–	(9,809)
				(9,809)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) Effect on the balances of equity at 1 April 2005

	Effect of adopting		
Effect of new policies (Increase/(decrease))	HKAS 39 Available-for-sale financial assets	HKAS 40 Surplus on revaluation of investment properties	Total
	HK$'000	*HK$'000*	*HK$'000*
1 April 2005			
Available-for-sale financial asset revaluation reserve	(5,469)	–	(5,469)
Asset revaluation reserve	–	(1,879)	(1,879)
Retained profits	–	1,879	1,879
	(5,469)	–	(5,469)

(c) Effect on the consolidated income statement for the year ended 31 March 2006

Effect of new policy	**Effect of adopting HKAS 40 Deficit on revaluation of investment properties**
	HK$'000
Year ended 31 March 2006	
Decrease in other operating income	**(1,879)**
Total decrease in profit	**(1,879)**
Decrease in basic earnings per share	**(0.58 cents)**

The adoption of the new and revised HKFRSs had no effect on the consolidated income statement for the year ended 31 March 2005.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisition for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measure at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of Statement of Standard Accounting Practice ("SSAP") 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties, goodwill and non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and machinery is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale" below. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2%
Leasehold improvements	Shorter of the lease terms and the rate of 5% – 10%
Plant and machinery	10% to 20%
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	20%

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

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the cost of a new factory building under construction, which is stated at cost less any impairment losses. No depreciation is provided on the construction until the related construction is completed and the assets are put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment. Deposit for prepaid land lease payments represents the deposit paid for the right to use the land pending registration of titleship with the relevant authority. No recognition of the land lease payments is made until the registration is completed and the land is put into use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Applicable to the year ended 31 March 2005:

The Group classified its equity investments, other than subsidiaries and associates, as long term investments and short term investments.

Long term investment

Long term investment is non-trading investment in club debenture intended to be held on a long term basis, and is stated at cost less impairment losses.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 March 2006:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 March 2006: *(continued)*

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 March 2006)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets (applicable to the year ended 31 March 2006)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (applicable to the year ended 31 March 2006) *(continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 March 2006)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms;

(d) dividend income, when the shareholders' right to receive payment has been established; and

(e) gain or loss on disposal of investments, on the transfer of risks and rewards of ownership which generally coincides with the time when investments are delivered and title has passed.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

No share options had been granted under the share option scheme since its adoption.

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on an annual basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions to the MPF Scheme vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the central pension scheme. The only obligation for the Group with respect to the central pension scheme is the associated required contributions under the central pension scheme, which are charged to the income statement in the year to which they relate.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating leases commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of the ownership of these properties which are leased out on operating leases.

Classification between investment properties and owned-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portion could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by the management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of property, plant and equipment

The Group determines whether property, plant and equipment are impaired where an indication of impairment exists. This requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for obsolete inventories

The management of the Group reviews the usage of the inventories at each balance sheet date, and makes provision for obsolete items where events or changes in circumstances show that the balances of inventories may not be realised or are no longer suitable for production use. In addition, physical count on all inventories is carried out on a periodical basis in order to determine whether provision needed to be made in respect of any obsolete inventories identified. The directors of the Company are satisfied that sufficient provision for obsolete inventories has been made in the consolidated financial statements.

Impairment of trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement at each balance sheet date whether there is any objective evidence that the trade receivables are impaired. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Deferred tax assets

The carrying amount of deferred tax assets and related financial models and budgets are reviewed by management at each balance sheet date. To the extent that there is insufficient convincing evidence that sufficient taxable profits will be available in the future to allow utilisation of the tax losses carried forward, deferred tax assets will not be recognised in the consolidated balance sheet.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment.

No further business segment information is presented as the Group is principally engaged in the manufacturing and trading of eyewear products and management considers that the Group operates in one single business segment.

Each of the Group's geographical segments, based on the location of customers (the destination of sales), represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

(a) the North America segment mainly represents sale of eyewear products to customers located in the United States;

(b) the Europe segment mainly represents sale of eyewear products to customers located in Italy, the United Kingdom, Spain, France, Germany and Sweden;

(c) the People's Republic of China (including Hong Kong) segment mainly represents sale of eyewear products to agents located in Hong Kong, but also includes sales made to local retailers. The directors believe that the agents in Hong Kong export most of the Group's products to Europe and North America;

(d) the Other Asian countries segment mainly represents sale of eyewear products to customers located in Malaysia, Singapore, the Philippines, Japan and India; and

(e) the "Others" segment mainly represents sale of eyewear products to customers located in Australia, South America and Africa.

4. SEGMENT INFORMATION *(continued)*

Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 March 2006 and 2005.

	North America		Europe		People's Republic of China (including Hong Kong)		Other Asian countries		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue:												
Sales to external customers	**134,515**	152,528	**262,649**	200,194	**28,217**	28,963	**4,321**	10,588	**2,462**	13,204	**432,164**	405,477
Segment results	**11,486**	15,560	**22,427**	20,422	**2,409**	2,954	**369**	1,080	**210**	1,347	**36,901**	41,363
Interest and dividend income											**1,447**	3,943
Unallocated corporate expenses											**(1,987)**	(3,925)
Finance costs											**(2,840)**	(296)
Share of profits and losses of associates	**–**	–	**–**	–	**(1)**	(835)	**284**	263	**–**	–	**283**	(572)
Profit before tax											**33,804**	40,513
Tax											**(5,908)**	(4,868)
Profit for the year											**27,896**	35,645
Segment assets	**33,463**	40,666	**100,656**	52,785	**472,264**	368,467	**1,391**	1,725	**1,183**	2,973	**608,957**	466,616
Interests in associates	**–**	–	**–**	–	**4,270**	3,729	**1,579**	1,294	**–**	–	**5,849**	5,023
Cash and cash equivalents											**30,385**	134,374
Unallocated assets											**57**	42
Total assets											**645,248**	606,055
Segment liabilities	**1,672**	3,673	**11,390**	11,159	**63,704**	55,148	**2,733**	2,973	**–**	–	**79,499**	72,953
Bank loans											**84,267**	49,000
Unallocated liabilities											**13,785**	12,251
Total liabilities											**177,551**	134,204
Other segment information:												
Capital expenditure	**–**	–	**–**	–	**43,226**	59,340	**–**	–	**–**	–	**43,226**	59,340
Depreciation and amortisation	**–**	–	**–**	–	**33,150**	27,194	**–**	–	**–**	–	**33,150**	27,194
Provision for inventory obsolescence	**–**	–	**–**	–	**1,179**	1,363	**–**	–	**–**	–	**1,179**	1,363
Provision/(reversal of provision) for bad and doubtful debts, net	**(145)**	99	**–**	–	**(3,662)**	(14)	**(975)**	640	**–**	–	**(4,782)**	725
Changes in fair value of investment properties	**–**	–	**–**	–	**3,813**	(646)	**–**	–	**–**	–	**3,813**	(646)
Write-back of provision for impairment of prepaid land lease payments and buildings	**–**	–	**–**	–	**(3,472)**	–	**–**	–	**–**	–	**(3,472)**	–

5. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold to third parties, net of trade discounts and returns.

An analysis of revenue, other income and gain is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Revenue – sale of goods	**432,164**	405,477
Other income		
Bank interest income	**1,436**	3,927
Sales of scrap materials	**833**	103
Gross rental income	**191**	135
Dividend income from listed investments	**11**	16
Others	**619**	472
	3,090	4,653
Gain		
Foreign exchange differences, net	**578**	–
	3,668	4,653

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
	Notes	**2006** *HK$'000*	2005 *HK$'000* (Restated)
Cost of inventories sold		**339,320**	302,756
Depreciation	*13*	**32,025**	26,189
Auditors' remuneration		**1,150**	950
Minimum lease payments under operating leases in respect of buildings		**3,257**	2,130
Employee benefits expenses (excluding directors' remuneration, as set out in note 8):			
Wages and salaries		**95,567**	78,732
Pension scheme contributions*		**1,130**	1,101
		96,697	79,833
Provision for inventory obsolescence		**1,179**	1,363
Foreign exchange differences, net		**(578)**	3,366
Other operating expenses/(income):			
Provision/(reversal of provision) for bad and doubtful debts, net		**(4,782)**	725
Loss on disposal of items of property, plant and equipment		**56**	1,838
Write-back of provision for impairment of prepaid land lease payments	*15*	**(2,920)**	–
Write-back of provision for impairment of buildings	*13*	**(552)**	–
Gain on disposal of short term investments		**–**	(23)
Fair value gains, net:			
Equity investments at fair value through profit or loss/short term investments		**(36)**	(37)
Changes in fair value of investment properties		**3,813**	(646)

* *At the balance sheet date, the Group had no forfeited pension scheme contribution available to reduce its contributions to the pension scheme in future years (2005: Nil).*

7. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**2,816**	296
Interest on finance leases	**24**	–
	2,840	296

8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees	**263**	238
Other emoluments:		
Basic salaries and bonuses	**2,467**	2,460
Housing and other benefits	**1,506**	1,506
Pension scheme contributions	**54**	54
	4,027	4,020
	4,290	4,258

Three (2005: three) directors occupied certain of the Group's properties rent-free during the year. The estimated value of the accommodation provided for them was HK$1,506,000 (2005: HK$1,506,000) for the year ended 31 March 2006, which has been included in the amounts detailed above.

8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006 HK$'000	2005 HK$'000
Poon Kwok Fai, Ronald	100	100
Wong Chung Mat, Ben	63	38
Tam Hok Lam, Tommy	100	–
Fok Kwan Wing	–	100
	263	238

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors and non-executive directors

	Basic salaries and bonuses HK$'000	Housing and other benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006				
Executive directors:				
Hui Leung Wah	1,200	900	–	2,100
Poon Sui Hong	740	444	31	1,215
Leung Shu Sum	527	162	23	712
	2,467	1,506	54	4,027
2005				
Executive directors:				
Hui Leung Wah	1,200	900	–	2,100
Poon Sui Hong	734	444	31	1,209
Leung Shu Sum	526	162	23	711
	2,460	1,506	54	4,020

There were no fees and other emoluments payable to the non-executive directors during the year (2005: Nil).

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(continued)*

Highest paid employees' emoluments

The five highest-paid individuals during the year included three (2005: three) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining two (2005: two) non-director, highest-paid individuals for the year are set out below:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Basic salaries and bonuses	**1,643**	1,633
Housing and other benefits	**252**	252
Pension scheme contributions	**67**	67
	1,962	1,952

The number of non-director, highest-paid individuals whose remuneration fell within the following bands is as follows:

	Number of non-director, highest-paid individuals	
	2006	2005
Nil – HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**1**	1
	2	2

One of the non-director, highest-paid individuals occupied one of the Group's properties rent-free during the year. The estimated value of the accommodation provided for him was HK$252,000 (2005: HK$252,000) for the year ended 31 March 2006, which has been included in the amounts detailed above.

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006 ***HK$'000***	2005 *HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**4,419**	4,351
Under/(over) provision in prior years	**542**	(361)
Current – Elsewhere	**143**	227
Deferred *(note 29)*	**804**	651
Total tax charge for the year	**5,908**	4,868

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2006

	Hong Kong ***HK$'000***	**Mainland China** ***HK$'000***	**Total** ***HK$'000***
Profit/(loss) before tax	**42,176**	**(8,372)**	**33,804**
Tax at the statutory tax rate	**7,381**	**(2,763)**	**4,618**
Lower tax rate for specific provinces	**–**	**269**	**269**
Adjustments in respect of current tax of previous periods	**542**	**–**	**542**
Results from offshore manufacturing operation not subject to tax	**(3,237)**	**–**	**(3,237)**
Income not subject to tax	**(1,127)**	**(22)**	**(1,149)**
Expenses not deductible for tax	**1,442**	**329**	**1,771**
Estimated tax losses not recognised	**138**	**2,187**	**2,325**
Others	**626**	**143**	**769**
Tax charge at the Group's effective rate	**5,765**	**143**	**5,908**

9. TAX *(continued)*

Group – 2005

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit/(loss) before tax	45,067	(4,554)	40,513
Tax at the statutory tax rate	7,887	(1,503)	6,384
Lower tax rate for specific provinces	–	196	196
Adjustments in respect of current tax of previous periods	(361)	–	(361)
Results from offshore manufacturing operation not subject to tax	(3,415)	–	(3,415)
Income not subject to tax	(1,120)	–	(1,120)
Expenses not deductible for tax	906	572	1,478
Estimated tax losses not recognised	123	735	858
Tax losses utilised from previous periods	(10)	–	(10)
Others	631	227	858
Tax charge at the Group's effective rate	4,641	227	4,868

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 March 2006 dealt with in the financial statements of the Company, was HK$24,283,000 (2005: HK$14,968,000) (note 32(b)).

11. DIVIDENDS

	2006 ***HK$'000***	2005 *HK$'000*
Interim – HK2.5 cents (2005: HK3.0 cents) per ordinary share	**8,091**	9,710
Proposed final – HK5.0 cents (2005: HK5.0 cents) per ordinary share	**16,182**	16,182
	24,273	25,892

The 2006 final dividend of HK5.0 cents per ordinary share is proposed to be paid to shareholders whose names appear on the register of members on 30 August 2006 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$31,987,000 (2005: HK$36,800,000) and 323,649,123 (2005: 323,649,123) shares in issue.

A diluted earnings per share amount has not been calculated for the current and prior years as no diluting events existed throughout these years.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 March 2006								
At 31 March 2005 and at 1 April 2005:								
Cost		120,753	44,478	203,437	31,632	12,123	62	412,485
Accumulated depreciation and impairment		(4,861)	(22,943)	(132,433)	(23,367)	(10,337)	–	(193,941)
Net carrying amount		115,892	21,535	71,004	8,265	1,786	62	218,544
At 1 April 2005, net of accumulated depreciation and impairment		115,892	21,535	71,004	8,265	1,786	62	218,544
Additions		–	8,851	25,919	3,000	1,562	2,838	42,170
Transfer to non-current assets classified as held for sale	25	(1,986)	–	–	–	–	–	(1,986)
Disposals		–	(833)	(1,139)	(564)	–	–	(2,536)
Reversal of impairment	6	552	–	–	–	–	–	552
Depreciation provided during the year		(2,568)	(4,336)	(21,957)	(2,345)	(819)	–	(32,025)
Exchange realignment		1,460	151	100	46	5	–	1,762
At 31 March 2006, net of accumulated depreciation and impairment		113,350	25,368	73,927	8,402	2,534	2,900	226,481
At 31 March 2006:								
Cost		119,710	51,767	227,110	32,699	10,268	2,900	444,454
Accumulated depreciation and impairment		(6,360)	(26,399)	(153,183)	(24,297)	(7,734)	–	(217,973)
Net carrying amount		113,350	25,368	73,927	8,402	2,534	2,900	226,481

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

Group

	Buildings HK$'000	Leasehold improve– ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000 (Restated)
31 March 2005							
At 1 April 2004:							
Cost	49,679	33,820	183,998	29,689	12,683	76,346	386,215
Accumulated depreciation and impairment	(7,444)	(19,816)	(116,614)	(21,401)	(10,913)	–	(176,188)
Net carrying amount	42,235	14,004	67,384	8,288	1,770	76,346	210,027
At 1 April 2004, net of accumulated depreciation and impairment	42,235	14,004	67,384	8,288	1,770	76,346	210,027
Additions	1,139	9,945	24,069	2,684	359	13,740	51,936
Disposals	–	(6,035)	(2,642)	(255)	–	(686)	(9,618)
Depreciation provided during the year	(1,834)	(3,753)	(17,807)	(2,452)	(343)	–	(26,189)
Transfers	81,964	7,374	–	–	–	(89,338)	–
Transfer to investment properties *(note 14)*	(7,612)	–	–	–	–	–	(7,612)
At 31 March 2005, net of accumulated depreciation and impairment	115,892	21,535	71,004	8,265	1,786	62	218,544
At 31 March 2005:							
Cost	120,753	44,478	203,437	31,632	12,123	62	412,485
Accumulated depreciation and impairment	(4,861)	(22,943)	(132,433)	(23,367)	(10,337)	–	(193,941)
Net carrying amount	115,892	21,535	71,004	8,265	1,786	62	218,544

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 March 2006, amounted to HK$1,128,000 (2005: Nil).

In the prior year, certain of the Group's buildings situated in Hong Kong and Mainland China were leased to third parties and thus reclassified to investment properties at their carrying value of HK$7,612,000 at the date of transfer (note 14).

Certain of the Group's buildings situated in Hong Kong of HK$3,787,000 (2005: HK$3,318,000) have been pledged to banks to secure the bank loans and general banking facilities granted to the Group (see note 27).

14. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 April	**10,947**	810
Net profit/(loss) from a fair value adjustment	**(3,813)**	2,525
Transfer to non-current assets classified as held for sale *(note 25)*	**(4,924)**	–
Transfer from owner-occupied properties *(note 13)*	**–**	7,612
Carrying amount at 31 March	**2,210**	10,947

At 31 March 2006, the investment properties were revalued at HK$2,210,000 (2005: HK$10,947,000) on an open market and existing use basis by Vigers Appraisal & Consulting Limited, an independent professionally qualified valuer. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

The investment properties above are held under medium term leases located in:

	2006	2005
	HK$'000	*HK$'000*
Hong Kong	**1,431**	6,890
Mainland China	**779**	4,057
	2,210	10,947

The Group's investment properties with valuation of HK$1,431,000 (2005: HK$4,829,000) which are situated in Hong Kong have been pledged to a bank to secure the general banking facilities granted to the Group (see note 27).

15. PREPAID LAND LEASE PAYMENTS

		Group	
	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Carrying amount at 1 April			
As previously reported		–	–
Effect of adopting HKAS 17	2.2(a)	42,715	39,154
As restated		42,715	39,154
Additions		1,056	4,566
Transfer from deposit for prepaid land lease payments	19	2,838	–
Recognised during the year		(1,125)	(1,005)
Reversal of impairment loss during the year	6	2,920	–
Transfer to non-current assets classified as held for sale	25	(843)	–
Exchange realignment		293	–
Carrying amount at 31 March		47,854	42,715
Current portion included in prepayments, deposits and other receivables		(1,162)	(1,105)
Non-current portion		46,692	41,610

The leasehold land included above are held under medium term leases and are situated in:

	2006 HK$'000	2005 HK$'000
Hong Kong	32,476	30,385
Mainland China	15,378	12,330
	47,854	42,715

Certain of the Group's leasehold lands of HK$11,145,000 (2005: HK$9,056,000) which are situated in Hong Kong and held under medium term leases have been pledged to banks to secure the bank loans and general banking facilities granted to the Group (see note 27).

16. GOODWILL

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30, was HK$152,000 as at 1 April 2005 and 31 March 2006. The amount of goodwill is stated at cost less impairment of HK$1,687,000 (2005: HK$1,687,000) which arose in prior years.

As further detailed in note 2.2 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated reserves.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**147,173**	147,173
Due from subsidiaries	**105,316**	105,441
	252,489	252,614

The balances with subsidiaries are unsecured, interest-free and not repayable within one year. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

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

Name	**Place of incorporation/ registration**	**Place of operations**	**Nominal value of issued share capital/ paid-in capital**	**Percentage of equity attributable to the Company**		**Principal activities**
				Direct	**Indirect**	
Diamond Bright Industries Limited	Hong Kong	Hong Kong	Ordinary HK$400	–	100	Investment holding
Dongguan Yick Yue Optical Limited**	People's Republic of China (the "PRC")***	Mainland China	HK$15,005,000	–	55	Manufacture of optical frames
Elegance Group Limited	British Virgin Islands	Hong Kong	Ordinary US$80	100	–	Investment holding
Elegance Optical Investments Limited	Hong Kong	Hong Kong	Ordinary HK$200 Non-voting deferred HK$20,000,000*	–	100	Investment and property holding
Elegance Optical Manufactory Limited	Hong Kong	Hong Kong	Ordinary HK$2	–	100	Trading and manufacture of optical frames
Fortune Optical Limited**	PRC***	Mainland China	HK$23,270,000 (2005: HK$12,450,000)	–	55	Trading and manufacture of optical frames

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries at 31 March 2006 are as follows: *(continued)*

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued share capital/ paid-in capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Glory (Hui's) Trading Limited	Hong Kong	Hong Kong	Ordinary HK$200	–	100	Trading of optical frames in Hong Kong and South East Asia
Gold Strong Industrial Limited	Hong Kong	Hong Kong	Ordinary HK$100	–	55	Investment holding and trading of optical frames
Grand Artic Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	76	Manufacture of optical cases
Grand River Investments Limited**	Hong Kong	Hong Kong	Ordinary HK$2	–	100	Property holding
Great Champ Asia Limited**	Hong Kong	Hong Kong	Ordinary HK$2	–	100	Investment holding
Leader Up Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	60	Trading of spectacles
Million Wave Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Property holding
Promisewell Company Limited	British Virgin Islands	Hong Kong	Ordinary US$1	–	100	Intellectual property holding
Sandwalk Far East Limited**	Hong Kong	Hong Kong	Ordinary HK$1	–	100	Dormant
Standard Sun International Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Trading of eyewear products
United Wish Company Limited	Hong Kong	Mainland China	Ordinary HK$100	–	100	Retailing of optical frames
Yieldly (International) Investment Limited	Hong Kong	Hong Kong	Ordinary HK$400	–	100	Investment holding

17. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries at 31 March 2006 are as follows: *(continued)*

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued share capital/ paid-in capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Winston Technology Limited	Hong Kong	Hong Kong	Ordinary HK$1	–	100	Investment holding
東莞精奇機械科技有限公司**	PRC***	Mainland China	HK$2,500,000 (2005: Nil)	–	100	Trading and manufacture of machinery

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* *The first HK$1,000,000,000,000 of the profits which the subsidiary may determine to distribute in any financial year must be distributed among the holders of ordinary shares and one half of the balance of the said profits among the holders of the non-voting deferred shares, with the other half of such balance among the holders of ordinary shares. Save as aforesaid, the holders of the non-voting deferred shares have no other rights to dividends. The holders of the non-voting deferred shares have no right to attend or vote at general meetings, except for general meetings convened for the purpose of reducing the capital of the Company or altering their class rights. The non-voting deferred shares carry the right to receive one half of the balance of any surplus in a return of capital in a winding-up after the holders of the ordinary shares have received a total return of HK$5,000,000,000.*

** *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

*** *Dongguan Yick Yue Optical Limited, Fortune Optical Limited and 東莞精奇機械科技有限公司 are registered as wholly-foreign-owned enterprises under the PRC law.*

18. INTERESTS IN ASSOCIATES

	Group 2006 HK$'000	2005 HK$'000
Share of net assets	**286**	3
Loan to an associate	**5,563**	5,020
Due to an associate	**(4,700)**	(5,600)
	1,149	(577)

The loan to an associate is unsecured, interest-free and not repayable within one year. The amount due to an associate included in the Group's current liabilities of HK$4,700,000 (2005: HK$5,600,000) is unsecured, interest-free and has no fixed term of repayment. The carrying amounts of the balances with the associate approximate to their fair value.

18. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the associates at 31 March 2006 are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Safint Optical Investments Limited*	Ordinary shares of HK$1 each	Hong Kong	24.5	Trading of eyewear products
Safilo Trading (Shenzhen) Co., Ltd.	Registered capital of US$300,000	PRC	24.5	Distribution and sale of eyewear products
Optics 2000 & Optics Café Pte., Ltd.*	Ordinary shares of SGD1 each	Singapore	35	Retailing of eyewear products

* *These associates are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2006	2005
	HK$'000	*HK$'000*
Assets	**48,798**	39,201
Liabilities	**50,347**	40,408
Revenues	**70,059**	47,487
Profit/(loss)	**444**	(2,844)

19. DEPOSIT FOR PREPAID LAND LEASE PAYMENTS

In the prior year, a deposit amounting to RMB3,000,000 was paid by 東莞精奇機械科技有限公司 for the purchase of a land use right in Mainland China. During the year, the land use right certificate was obtained from the relevant authority and the amount has been transferred to prepaid land lease payments (note 15). The land use right is used for the construction of a factory in Dongguan and has a lease term of 50 years.

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Time deposits, at fair value	**83,635**	–

During the year, the gross loss of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$4,340,000 (2005: Nil).

The time deposits have maturity dates ranging from June 2007 to February 2010. Full principal amount of HK$93,444,000 will be repaid on maturity dates, subject to early repayment at the bank's option or the Group's request. Time deposits of HK$93,444,000 (note 24) were designated as available-for-sale financial assets on 1 April 2005. Interest income is charged at 3-7% times the number of calendar days in the relevant period on which the LIBOR is within a pre-determined range. The fair values of available-for-sale financial assets have been estimated using a valuation technique based on the prevailing market interest rate. The directors believe that the estimated fair values resulting from such valuation technique, which are recorded directly in the consolidated balance sheet, and the related changes in fair values, which are recorded directly in equity, are reasonable, and that they are the most appropriate values at the balance sheet date.

In accordance with the transitional provisions of HKAS 39, the available-for-sale financial asset revaluation reserve as at 1 April 2005 was a debit balance of HK$5,469,000.

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**31,951**	27,079
Work in progress	**39,812**	23,582
Finished goods	**16,262**	13,953
	88,025	64,614

22. TRADE AND BILLS RECEIVABLES

Credit is offered to customers following a financial assessment by the Group and with regard to their established payment records. The Group usually allows average credit periods ranging from 45 to 120 days (2005: 45 to 120 days) to its customers and seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management and collections are followed up by accounting personnel. Trade and bills receivables are non-interest-bearing.

The following is an aged analysis of the trade and bills receivables (net of provision for bad and doubtful debts) as at 31 March 2006 and 2005:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current to 90 days	**141,600**	114,063
91 - 180 days	**1,468**	2,387
181 - 360 days	**968**	336
	144,036	116,786
Bills receivables	**2,838**	678
Total	**146,874**	117,464

The trade receivables of the Group include trade balances due from the Safilo S.p.A group of companies of HK$102,754,000 (2005: HK$77,651,000) in aggregate, which are unsecured, interest-free and are repayable in accordance with normal trading terms of 120 days (2005: 120 days).

23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at market value	**437**	401

The above equity investments at 31 March 2006 were classified as held for trading.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**30,385**	40,930	**379**	379
Time deposits	**–**	93,444	**–**	–
Cash and cash equivalents	**30,385**	134,374	**379**	379

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$11,707,000 (2005: HK$13,800,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates.

As at 1 April 2005, upon the adoption of HKAS 39, the time deposits of HK$93,444,000 (note 20) were designated as available-for-sale financial assets.

25. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Carrying amount at 1 April	**–**	–
Transfer from property, plant and equipment *(note 13)*	**1,986**	–
Transfer from investment properties *(note 14)*	**4,924**	–
Transfer from prepaid land lease payments *(note 15)*	**843**	–
Carrying amount at 31 March	**7,753**	–

On 8 December 2005 and 21 March 2006, the Group entered into sale and purchase agreements with independent third parties in relation to the disposals of certain of the Group's investment properties and land and buildings situated in Hong Kong and the PRC for total cash consideration of HK$15,717,000. Accordingly, assets related to such disposals were classified as non-current assets held for sale at their net carrying value at the date of the agreements. The properties were used by the Group for rental purpose and as a staff quarter. The disposal of the land and building situated in the PRC is scheduled to be completed on 21 July 2006 and is expected to result in a gain on disposal before tax of approximately HK$7,888,000 after deduction of the corresponding estimated selling cost. The disposals of land and buildings situated in Hong Kong had been completed on 23 June 2006, which generated an insignificant gain on disposal.

The non-current assets held for sale were included as segment assets in the PRC (including Hong Kong).

26. TRADE AND BILLS PAYABLES

The following is an aged analysis of the trade and bills payables as at 31 March 2006 and 2005:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current to 90 days	**50,877**	40,897
91 - 180 days	**935**	647
181 - 360 days	**498**	576
Over 360 days	**399**	1,398
Total	**52,709**	43,518

The trade and bills payables are non-interest-bearing and are normally settled on 30-day terms.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 ***HK$'000***	Group 2005 *HK$'000*
Current				
Finance lease payables *(note 28)*	2.8 – 3.1	2006	**542**	–
Bank loans – secured	HIBOR+0.8 – HIBOR+1 / LIBOR+0.7	2006	**70,934**	40,334
			71,476	40,334
Non-current				
Finance lease payables *(note 28)*	2.8 – 3.1	2007 – 2008	**250**	–
Bank loans – secured	HIBOR+0.8 – HIBOR+1 / LIBOR+0.7	2007 – 2009	**13,333**	8,666
			13,583	8,666
			85,059	49,000

27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	Group	
	2006	2005
	HK$'000	*HK$'000*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**70,934**	40,334
In the second year	**8,333**	5,333
In the third to fifth years, inclusive	**5,000**	3,333
	84,267	49,000
Other borrowings repayable:		
Within one year	**542**	–
In the second year	**250**	–
	792	–
	85,059	49,000

Except for the secured bank loans of HK$15,600,000 (2005: Nil) which are denominated in United States dollars, all other borrowings are in Hong Kong dollars.

The Group's buildings situated in Hong Kong with an aggregate net book value of HK$3,787,000 (2005: HK$3,318,000) (note 13), the investment properties situated in Hong Kong with an aggregate valuation of HK$1,431,000 (2005: HK$4,829,000) (note 14) and leasehold land situated in Hong Kong with an aggregate net prepaid land lease payments of HK$11,145,000 (2005: HK$9,056,000) (note 15) were pledged to secure the bank loans and general banking facilities granted to the Group at the balance sheet date. The banking facilities were also secured by corporate guarantees in the amount of HK$147,600,000 (2005: HK$122,000,000) from the Company (note 34).

Other interest rate information:

	Group			
	2006		2005	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Finance lease payables	**792**	**–**	–	–
Bank loans – secured	**–**	**84,267**	–	49,000

The carrying amounts of the Group's borrowings approximate to their fair values. The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates.

28. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for its optical frames business. These leases are classified as finance leases and have remaining lease terms of two years.

At 31 March 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2006** *HK$'000*	Minimum lease payments 2005 *HK$'000*	**Present value of minimum lease payments 2006** *HK$'000*	Present value of minimum lease payments 2005 *HK$'000*
Amounts payable:				
Within one year	**605**	–	**542**	–
In the second year	**230**	–	**250**	–
Total minimum finance lease payments	**835**	–	**792**	–
Future finance charges	**(43)**	–		
Total net finance lease payables	**792**	–		
Portion classified as current liabilities *(note 27)*	**(542)**	–		
Non-current portion *(note 27)*	**250**	–		

29. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

Group

	Accelerated tax depreciation HK$'000	Others HK$'000	Total HK$'000
At 1 April 2004	8,139	(1,609)	6,530
Deferred tax charged to the income statement during the year *(note 9)*	579	72	651
At 31 March and 1 April 2005	8,718	(1,537)	7,181
Deferred tax charged to the income statement during the year *(note 9)*	432	372	804
Gross deferred tax liabilities at 31 March 2006	**9,150**	**(1,165)**	**7,985**

At the balance sheet date, the Group had tax losses arising in Hong Kong of HK$13,432,000 (2005: HK$12,559,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. SHARE CAPITAL

	Company	
	2006 HK$'000	2005 HK$'000
Authorised:		
1,000,000,000 shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
323,649,123 shares of HK$0.10 each	**32,365**	32,365

31. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder in the Company's subsidiaries.

The share option scheme of the Company was approved by the shareholders at a special general meeting of the Company held on 16 May 2003 to comply with Chapter 17 of the Listing Rules on the Stock Exchange. The Scheme became effective on 16 May 2003 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No options have been granted since the approval of the Scheme on 16 May 2003.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 29 of this annual report.

The capital reserve of the Group represents (i) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 8 February 1996, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the premium arising on the subscription of shares of Elegance Group Limited ("EGL"), the then holding company of the Group's subsidiaries existing at that time, by DSE Holdings Limited ("DSE") and MeesPierson N.V. ("MeesPierson") pursuant to a subscription agreement whereby DSE and MeesPierson subscribed for shares in the capital of EGL at an aggregate premium of HK$22,000,000 which was credited to the capital reserve. Such Group reorganisation has resulted in EGL becoming a wholly-owned subsidiary of the Company.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the consolidated reserves as explained in note 16 to the financial statements.

(b) Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 April 2004		56,831	146,973	11,177	22,655	237,636
Net profit for the year		–	–	14,968	–	14,968
2004 final dividend declared		–	–	–	(22,655)	(22,655)
2005 interim dividend paid	*11*	–	–	(9,710)	–	(9,710)
2005 final dividend proposed	*11*	–	–	(16,182)	16,182	–
At 31 March and 1 April 2005		56,831*	146,973*	253*	16,182	220,239
Net profit for the year		–	–	24,283	–	24,283
2005 final dividend declared		–	–	–	(16,182)	(16,182)
2006 interim dividend paid	*11*	–	–	(8,091)	–	(8,091)
2006 final dividend proposed	*11*	–	–	(16,182)	16,182	–
At 31 March 2006		**56,831***	**146,973***	**263***	**16,182**	**220,249**

The contributed surplus of the Company represents the difference between the consolidated net asset value of EGL on 8 February 1996, when its entire issued share capital was acquired by the Company pursuant to the Group reorganisation referred to in note 32(a), and the nominal amount of the Company's shares issued in consideration for such acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders under certain circumstances.

* *Comprise the Company's reserves of HK$204,067,000 (2005: HK$204,057,000) at the balance sheet date.*

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$1,240,000 (2005: Nil).

34. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2006	2005
	HK$'000	*HK$'000*
Guarantees given for banking facilities granted to *(note 27)*:		
– wholly-owned subsidiaries	**142,600**	117,000
– non-wholly-owned subsidiaries	**5,000**	5,000
	147,600	122,000

Details of the corporate guarantees given by the Company to banks to secure banking facilities granted to the non-wholly-owned subsidiaries are as follows:

	Corporate guarantees given by the Company	
	2006	2005
	HK$'000	*HK$'000*
Grand Artic Limited	**2,000**	2,000
Gold Strong Industrial Limited	**3,000**	3,000

These banking facilities were utilised by these subsidiaries to the extent of approximately HK$341,000 as at the balance sheet date (2005: approximately HK$326,000).

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$709,000 (2005: HK$929,000) as at 31 March 2006, as further explained under the heading "Employee benefits" in note 2.5 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases one of its investment properties (note 14) under an operating lease arrangement, with the lease negotiated for a term of four years. The terms of the lease also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**61**	102
In the second to fifth years, inclusive	**–**	76
	61	178

(b) As lessee

The Group leases certain of its office premises under operating lease arrangements. Leases for office premises are negotiated for terms ranging from one to 50 years.

At 31 March 2006 and 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**2,516**	2,730
In the second to fifth years, inclusive	**7,109**	7,896
After five years	**41,868**	28,086
	51,493	38,712

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Land and buildings	**1,753**	1,081
Equipment and machinery	**1,503**	3,192
	3,256	4,273

The Company had no significant commitments at the balance sheet date.

37. RELATED PARTY TRANSACTIONS

In addition to the transactions set out elsewhere in these financial statements, the Group entered into the following material related party transactions during the year:

(a) Transactions with the Safilo S.p.A. group of companies

On 28 February 1997, Safilo S.p.A., a company incorporated in Italy, entered into a number of agreements with the Company. Pursuant to these agreements, Safilo S.p.A. and the Group entered into certain commercial arrangements, further details of which are set out in a circular to the Company's shareholders dated 24 March 1997. Safilo Far East Limited, one of Safilo's wholly-owned subsidiaries, owns a 23.05% equity interest in the Company.

(i) Supply Agreement

Pursuant to the terms of the Supply Agreement dated 18 April 1997, the Group committed to supply and the Safilo S.p.A. group of companies committed to purchase, for an initial period of three years, minimum quantities (subject to adjustment) of optical frames, sunglasses and related products. Subsequent to the initial three-year period, the Supply Agreement was continued subject to termination by either party by a notice period of six months.

The prices offered to the Safilo S.p.A. group of companies are determined in a similar manner to prices that the Group offers to other major customers. The payments in respect of these sales should be made by the Safilo S.p.A. group of companies within 120 days (2005: 120 days) from the end of the month in which these products are delivered to the Safilo S.p.A. group of companies. The terms of the Supply Agreement are set out in greater detail in the circulars to the shareholders of the Company dated 24 March 1997 and 18 July 2001.

37. RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with the Safilo S.p.A. group of companies *(continued)*

(i) Supply Agreement (continued)

During the year, the Group sold goods to the Safilo S.p.A. group of companies with aggregate sales value amounting to HK$214,886,000 (2005: HK$214,773,000). In accordance with the terms of the Supply Agreement, the corresponding sales volume discount for the year amounted to HK$3,577,000 (2005: HK$7,277,000). Prior years' discount of HK$6,066,000 (2005: Nil) was paid during the year and HK$5,272,000 (2005: HK$7,761,000) was accrued in the financial statements at the balance sheet date.

The aggregate accounts receivable balance due from the Safilo S.p.A. group of companies as at 31 March 2006 in respect of these sales amounted to HK$102,754,000 (2005: HK$77,651,000) (note 22).

(ii) Shareholders' Agreement, Sub-licence Agreement and Sales Management Agreement

Pursuant to the terms of a Shareholders' Agreement dated 15 December 1998 entered into between one of the Group's subsidiaries, Elegance Optical Investments Limited ("EOIL"), Safilo Far East Limited ("Safilo") which is a wholly-owned subsidiary of Safilo S.p.A and an independent third party, a joint venture company, Safint Optical Investments Limited ("Safint"), was established during the year ended 31 March 1999 to manage and operate the manufacture and distribution of optical frames and sunglasses in the PRC. The shareholding interests of EOIL, Safilo and the independent third party in Safint are 24.5%, 51% and 24.5%, respectively. As the Group is able to exercise significant influence over Safint, Safint is accounted for as an associate of the Group (note 18).

A Sub-licence Agreement was entered into between Safint, EOIL and the Group's PRC subsidiary on 15 December 1998, whereby Safilo's branded products are manufactured and distributed by the Group's PRC subsidiary. Pursuant to the terms of the Sub-licence Agreement, the Group was granted a non-exclusive licence by Safint to manufacture and distribute Safilo S.p.A. group's branded products in the PRC in consideration of HK$1.00, and the Group is not required to pay any licence fee to the Safilo S.p.A. group of companies in respect of any sale of the Safilo S.p.A. group's branded products in the PRC. Sales of the Safilo S.p.A. group's branded products in the PRC amounted to HK$10,877,000 for the year (2005: HK$12,127,000).

Pursuant to the Sales Management Agreement entered into between Safint, EOIL and the Group's PRC subsidiary on the same day, any profits or losses derived from sales of the Safilo S.p.A. group's branded products in the PRC are then payable to or recoverable from Safint. The results derived from sales under this arrangement in the prior and current years were insignificant.

(b) Transactions among Group companies

The Company granted corporate guarantees to banks in favour of certain of its subsidiaries, wholly-owned and non-wholly-owned, for no consideration to secure banking facilities available to these companies. Further details are set out in note 34 to the financial statements.

37. RELATED PARTY TRANSACTIONS *(continued)*

(c) Transaction with a director of the Company

During the year, a director's quarter was rented by the Group from Mr. Hui Leung Wah, the chairman and managing director of the Company, for the use by Mr. Poon Sui Hong as a directors' quarter. The annual rental amounting to HK$444,000 for the year (2005: HK$444,000) was mutually agreed by both parties based on market value and has been included in directors' remuneration in note 8 to the financial statements.

(d) Outstanding balances with related party

Details of the Group's balances with its associate as at the balance sheet date are included in note 18 to the financial statements.

(e) Compensation of key management personnel of the Group

	2006 ***HK$'000***	2005 *HK$'000*
Short term employee benefits	**5,868**	5,851
Post-employment benefits	**121**	121
Total compensation paid to key management personnel	**5,989**	5,972

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions as set out in (a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, finance leases, and cash and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations and the time deposits with a floating interest rate.

The Group does not hedge interest rate fluctuations. The Group's policy to manage its cash flow interest rate risk is to minimise its interest-bearing borrowings at floating rates.

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Most of the Group's sales are denominated in United States dollars while expenditures incurred in the operations of manufacturing plants and capital expenditure are denominated in Renminbi. The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. The Group's policy is to minimise borrowings.

39. POST BALANCE SHEET EVENTS

Details of the post balance sheet events have been disclosed in note 25 to the financial statements.

40. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

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