

notes to the financial statements

For the year ended March 31, 2004

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in Bermuda under The Companies Act 1981 of Bermuda (as amended) on February 5, 1999. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from May 25, 1999. Its ultimate holding company is United Vision International Limited, a company incorporated in The British Virgin Islands.

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA.

Income taxes

The principal effect of the implementation of SSAP 12 (Revised) "Income taxes" is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amount for 2003 have been restated accordingly. As a result of this change in policy, the balance of accumulated profits at April 1, 2002 has been decreased by HK\$4,222,000, representing the cumulative effect of change in policy on the result for periods prior to April 1, 2002. The change has resulted in a decrease in the profit of approximately HK\$668,000 for the year ended March 31, 2004 (2003: HK\$1,477,000). The deferred tax liabilities at March 31, 2003 have been increased by HK\$5,699,000, which is the cumulative effect of the change in policy on the deferred tax liabilities as at March 31, 2003.



3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Turnover

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

Revenue recognition

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

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

Investments in subsidiaries

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

Property, plant and equipment

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

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

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

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

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

Leasehold land and buildings	Over the term of leases
Leasehold improvements	10% – 20%
Plant and machinery	10% – 30%
Furniture and fixtures	20%
Motor vehicles	20%

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

Inventories

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

Impairment

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



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

Taxation

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

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

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

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

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

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

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Foreign currencies

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

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

Operating leases

Rental payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term of the relevant lease.

Retirement benefit costs

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

4. SEGMENT INFORMATION

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

(a) Business segments

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

(b) Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China (the "PRC").



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

For the year ended March 31, 2004

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

BALANCE SHEET

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

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For the year ended March 31, 2004

For the year ended March 31, 2003

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
TURNOVER	<u>179,003</u>	<u>240,913</u>	<u>41,303</u>	<u>9,284</u>	<u>470,503</u>
RESULT					
Segment result	<u>44,240</u>	<u>69,908</u>	<u>7,669</u>	<u>2,478</u>	124,295
Interest income					1,845
Surplus arising on revaluation of land and buildings					72
Unallocated corporate expenses					<u>(29,906)</u>
Profit from operations					96,306
Interests on bank borrowings					<u>(105)</u>
Profit before taxation					96,201
Taxation					<u>(7,602)</u>
Net profit for the year					<u>88,599</u>

BALANCE SHEET

	Europe HK\$'000	United States HK\$'000	Asia HK\$'000	Other regions HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	41,106	40,066	19,991	1,478	102,641
Unallocated corporate assets					<u>402,483</u>
Consolidated total assets					<u>505,124</u>
LIABILITIES					
Unallocated corporate liabilities					<u>95,052</u>



In addition to the analysis by the geographical location of its customers, the following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amounts of segment assets		Additions to property, plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	324,563	274,861	3,315	4,112
The PRC	271,181	230,263	41,442	65,386
	595,744	505,124	44,757	69,498

5. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors' emoluments	91,998	84,001
Retirement benefits scheme contributions (note 23)	3,021	2,640
Total staff costs	95,019	86,641
Auditors' remuneration	700	623
Depreciation and amortisation of property, plant and equipment	30,223	25,260
Loss on disposal of property, plant and equipment	–	14

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6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	187	207
Independent non-executive directors	240	240
	<u>427</u>	<u>447</u>
Other emoluments (executive directors)		
Salaries and other benefits	3,879	4,191
Retirement benefits scheme contributions	112	116
	<u>3,991</u>	<u>4,307</u>
Total emoluments	<u>4,418</u>	<u>4,754</u>

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

(b) Employees' emoluments

The five highest paid individuals for the years ended March 31, 2004 and 2003 included two executive directors of the Company, whose emoluments are set out in (a) above. The emoluments of the remaining three individuals for the years ended March 31, 2004 and 2003 are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	1,976	2,131
Retirement benefits scheme contributions	65	78
	<u>2,041</u>	<u>2,209</u>



	2004 No. of employees	2003 No. of employees
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Their emoluments were within the following bands

HK\$nil to HK\$1,000,000	3	2
HK\$1,000,001 to HK\$1,500,000	—	1
	<u>3</u>	<u>3</u>

During the years ended March 31, 2004 and 2003, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office. None of the directors has waived any emoluments during the years ended March 31, 2004 and 2003.

7. TAXATION

	2004 HK\$'000	2003 HK\$'000 (Restated)
The charge comprises:		
Hong Kong Profits Tax		
Current taxation		
Current year	9,050	5,868
Underprovision in the prior years (note)	2,335	7
	<u>11,385</u>	<u>5,875</u>
Deferred taxation (note 20)		
Current year	35	1,727
Attributable to a change in tax rate	633	—
	<u>12,053</u>	<u>7,602</u>

Note: In 2003, the Inland Revenue Department (the "IRD") had tax disputes with certain subsidiaries of the Group for prior years and had issued notices of additional assessments in respect of the year of assessment 1997/98 to those subsidiaries. The Group has objected against such assessment and the matter has not been finalised with the IRD. Subsequent to the balance sheet date, the Group paid approximately HK\$750,000 for tax reserve certificate at the IRD's request. During the year, the directors of the Company reviewed the tax disputes. A provision of approximately HK\$2,335,000, being the directors' best estimate of the additional tax liability and potential surcharge on the tax disputes, has been made in the financial statements.

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Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) on the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/2004. The effect of this increase has been reflected in the calculation of current and deferred tax balances at March 31, 2004.

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

Details of the deferred taxation are set out in note 20.

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>104,492</u>	<u>96,201</u>
Tax at the Hong Kong Profits Tax rate of 17.5% (2003: 16%)	18,286	15,392
Tax effect of expenses that are not deductible in determining taxable profit	407	1,925
Tax effect of underprovision in prior years	2,335	7
Tax effect of income not subject to tax under any jurisdictions	(9,655)	(9,687)
Effect of tax exemption granted to PRC subsidiaries	(25)	(27)
Increase in opening deferred tax liabilities resulting from an increase in tax rate	633	-
Effect of different tax rates of operation in other jurisdictions	<u>72</u>	<u>(8)</u>
Tax expense for the year	<u>12,053</u>	<u>7,602</u>



8. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Final, paid – 8 Hong Kong cents per share for 2003 (2003: 7.2 Hong Kong cents for 2002)	19,779	17,463
Interim, paid – 4 Hong Kong cents per shares for 2004 (2003: 4 Hong Kong cents)	9,890	9,873
Special, paid – 2.5 Hong Kong cents per shares for 2004 (2003: 2 Hong Kong cents)	6,181	4,937
	<u>35,850</u>	<u>32,273</u>

The final dividend in respect of 2004 of 8.1 Hong Kong cents (2003: 8 Hong Kong cents) per share has been proposed by the directors and is subject to approval by the shareholders in the general meeting.

9. EARNINGS PER SHARE

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

	2004 HK\$'000	2003 HK\$'000 (Restated)
Earnings for the purposes of basic and diluted earnings per share		
– Net profit for the year	<u>92,439</u>	<u>88,599</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	247,079,200	230,398,164
Effect of dilutive potential ordinary shares:		
– Share options	7,938,969	7,664,439
– Warrants	–	7,405,587
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>255,018,169</u>	<u>245,468,190</u>

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10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong under medium- term leases HK\$'000	Leasehold land and buildings in the PRC under medium- term leases HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP								
COST OR VALUATION								
At April 1, 2003	3,600	35,026	23,399	114,112	42,232	3,868	12,444	234,681
Additions	-	288	2,365	20,825	5,583	-	15,696	44,757
Transfers	-	18,410	3,864	166	263	-	(22,703)	-
At March 31, 2004	3,600	53,724	29,628	135,103	48,078	3,868	5,437	279,438
Comprising:								
At cost	-	53,724	29,628	135,103	48,078	3,868	5,437	275,838
At valuation - 2004	3,600	-	-	-	-	-	-	3,600
	3,600	53,724	29,628	135,103	48,078	3,868	5,437	279,438
DEPRECIATION AND AMORTISATION								
At April 1, 2003	-	1,698	12,038	49,512	20,186	1,560	-	84,994
Provided for the year	72	720	4,023	17,882	6,892	634	-	30,223
Eliminated on revaluation	(72)	-	-	-	-	-	-	(72)
At March 31, 2004	-	2,418	16,061	67,394	27,078	2,194	-	115,145
NET BOOK VALUES								
At March 31, 2004	3,600	51,306	13,567	67,709	21,000	1,674	5,437	164,293
At March 31, 2003	3,600	33,328	11,361	64,600	22,046	2,308	12,444	149,687

The leasehold land and buildings located in Hong Kong are carried at valuation. They were valued at March 31, 2004 by BMI Appraisals Limited, an independent property valuer, on an open market existing use basis. The surplus on revaluation of HK\$72,000 (2003: surplus of HK\$72,000) has been credited to the income statement.



If leasehold land and buildings located in Hong Kong had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and amortisation at approximately HK\$7,004,000 (2003: HK\$7,165,000).

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

11. INVESTMENT IN A SUBSIDIARY

THE COMPANY

2004 & 2003

HK\$'000

Unlisted shares, at cost 111,968

Particulars of the principal subsidiaries of the Company at March 31, 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid ordinary share capital	Proportion of nominal value of issued share capital held by the Company <i>(note b)</i>	Principal activities <i>(note c)</i>
101 Studio Limited	Hong Kong	HK\$9	100%	Sales of optical frames and related products
New Prosperity Optical Manufactory Limited	The British Virgin Islands	US\$1	100%	Manufacture of optical frames and related products in the PRC
Sun Hing Optical International Group Limited <i>(note b)</i>	The British Virgin Islands	HK\$106	100%	Investment holding
Sun Hing Optical Manufactory Limited	Hong Kong	HK\$2	100%	Sales of optical frames and related products
Yorkshire Holdings Limited	Hong Kong	HK\$10	100%	Property holding
東莞恒生眼鏡制造有限公司 <i>(note a)</i>	PRC	HK\$2,500,000	100%	Manufacture and sale of optical frames and related products

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Notes:

- (a) The subsidiary established in the PRC is registered as a wholly foreign owned enterprise.
- (b) Sun Hing Optical International Group Limited is directly held by the Company and all other subsidiaries are indirectly held.
- (c) The principal activities are carried out in the place of incorporation except as otherwise stated under principal activities above.

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

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

12. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

13. LONG-TERM BANK DEPOSITS

The amount represents bank deposits with an initial term of six years and callable by the bank at its discretion at the end of each quarter during the six-year period. The deposits carry interests determined by a formula with reference to the London Inter-bank Offer Rate.

14. INVENTORIES

	2004 HK\$'000	2003 HK\$'000
Raw materials	40,151	30,776
Work in progress	50,573	33,805
Finished goods	24,614	25,440
	<u>115,338</u>	<u>90,021</u>

Included above are raw materials of approximately HK\$6,030,071 (2003: HK\$3,935,000) which are carried at net realisable value.



15. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade debtors		
Current	115,829	82,305
Overdue up to 90 days	22,546	15,063
Overdue more than 90 days	5,068	5,273
	<hr/>	<hr/>
	143,443	102,641
Other receivables	6,139	6,047
	<hr/>	<hr/>
	149,582	108,688
	<hr/>	<hr/>

16. TRADE AND OTHER PAYABLES

An aged analysis of trade creditors is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade payables		
Current and overdue up to 90 days	81,375	57,490
Overdue more than 90 days	6,462	3,034
	<hr/>	<hr/>
	87,837	60,524
Other payables	22,700	21,197
	<hr/>	<hr/>
	110,537	81,721
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17. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At March 31, 2001, 2003 and 2004	<u>500,000,000</u>	<u>50,000</u>
Issued and fully paid:		
At April 1, 2002	207,502,000	20,750
Issue of shares upon exercise of share options	1,100,000	110
Issue of shares upon exercise of warrants	<u>38,237,200</u>	<u>3,824</u>
At March 31, 2003	246,839,200	24,684
Issue of shares upon exercise of share options	<u>400,000</u>	<u>40</u>
At March 31, 2004	<u>247,239,200</u>	<u>24,724</u>

18. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on May 4, 1999 for the primary purpose of providing incentives to eligible employees and will expire on the business day preceding the 10th anniversary of the date of adoption. Under the Scheme, the board of directors of the Company may at their discretion grant options to eligible full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company.

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



Options granted must be taken up before the date specified in the offer and the expiry of the Scheme, whichever is the earlier, upon payment of HK\$10 per grant of options. Options may generally be exercised at any time from the date of grant to the earlier of the 5th anniversary of the date of grant and the 10th anniversary of the date of adoption of the Scheme. No option may be exercised by an individual until he shall have completed half year's full-time service with the Company or its subsidiaries. The exercise price is determined by the directors of the Company, and will not be less than the higher of the nominal value of the shares of the Company and 80% of the average closing price of the shares for the five trading days immediately preceding the date of grant.

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

The following tables disclose details of the Company's share options held by directors during the year:

Option type	Outstanding at 1.4.2003	Granted during the year	Exercised during the year	Outstanding at 31.3.2004
2000	9,800,000	–	–	9,800,000
2001	900,000	–	(400,000)	500,000
	<u>10,700,000</u>	<u>–</u>	<u>(400,000)</u>	<u>10,300,000</u>
Option type	Outstanding at 1.4.2002	Granted during the year	Exercised during the year	Outstanding at 31.3.2003
2000	10,800,000	–	(1,000,000)	9,800,000
2001	1,000,000	–	(100,000)	900,000
	<u>11,800,000</u>	<u>–</u>	<u>(1,100,000)</u>	<u>10,700,000</u>

Other than the share options disclosed above, no share options were held by the employees of the Group.

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Details of specific categories of options are as follows:

Category	Date of grant	Exercisable period	Exercise price HK\$
2000	March 3, 2000	March 3, 2000 – March 2, 2005	0.75
2001	June 11, 2001	June 11, 2001 – June 10, 2006	0.92

Total consideration received for the options exercised during the year amounted to HK\$368,000 (2003: HK\$842,000).

The closing price of the Company's shares on the trading day immediately before August 16, 2003, the date on which the options were exercised, was HK\$3.28.

19. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY				
At April 1, 2002	18,518	111,768	20,224	150,510
Exercise of share options	732	–	–	732
Exercise of warrants	42,060	–	–	42,060
Net profit for the year	–	–	20,284	20,284
Dividends paid (note 8)	–	–	(32,273)	(32,273)
	<hr/>	<hr/>	<hr/>	<hr/>
At March 31, 2003	61,310	111,768	8,235	181,313
Exercise of share options	328	–	–	328
Net profit for the year	–	–	49,036	49,036
Dividends paid (note 8)	–	–	(35,850)	(35,850)
	<hr/>	<hr/>	<hr/>	<hr/>
At March 31, 2004	<u>61,638</u>	<u>111,768</u>	<u>21,421</u>	<u>194,827</u>

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

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

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.



The Company's reserves available for distribution to shareholders as at March 31, 2004 are represented by its accumulated profits and contributed surplus, totalling approximately HK\$133,189,000 (2003: HK\$120,003,000).

20. DEFERRED TAXATION

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

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At April 1, 2002			
– as originally stated	800	–	800
– adjustment on adoption of SSAP 12 (Revised)	4,851	(629)	4,222
	<hr/>	<hr/>	<hr/>
– as restated	5,651	(629)	5,022
Charge to income for the year	1,715	12	1,727
	<hr/>	<hr/>	<hr/>
At March 31, 2003	7,366	(617)	6,749
Charge to income for the year	22	13	35
Effect of change in tax rate	691	(58)	633
	<hr/>	<hr/>	<hr/>
At March 31, 2004	8,079	(662)	7,417
	<hr/>	<hr/>	<hr/>

21. OPERATING LEASE COMMITMENTS

The Group as lessee

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Minimum lease payments paid in respect of rented premises under operating leases during the year	6,979	5,503
	<hr/>	<hr/>

notes to the financial statements

For the year ended March 31, 2004

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	4,467	4,802
In the second to fifth year inclusive	13,093	7,171
Over five years	1,577	1,785
	<u>19,137</u>	<u>13,758</u>

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

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

22. CAPITAL AND OTHER COMMITMENTS

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements		
– Acquisition of plant and machinery	12,062	16,333
– Factory under construction	1,446	3,389
	<u>13,508</u>	<u>19,722</u>
Capital expenditure authorised but not contracted for		
– Acquisition of plant and machinery	3,543	–
– Factory under construction	1,600	474
	<u>18,651</u>	<u>20,196</u>
Commitments for license fee for brandnames contracted for but not provided in the financial statements	5,258	5,148
	<u>23,909</u>	<u>25,344</u>

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



23. RETIREMENT BENEFITS SCHEME

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

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

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

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

As at March 31, 2004 and March 31, 2003, the Group did not have any forfeited contributions to offset future contributions.

24. CONTINGENT LIABILITIES

At March 31, 2004, the Company has guaranteed the bank facilities of its subsidiaries amounting to approximately HK\$46,000,000 (2003: HK\$46,000,000).