Elegance International Holdings Limited

(Stock Code: 907)

Annual Report 2006

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
HUI Leung Wah *(Chairman)*
POON Sui Hong
LEUNG Shu Sum

Non-Executive Directors
Mario PIETRIBIASI
Massimiliano TABACCHI

Independent Non-Executive Directors
POON Kwok Fai, Ronald
TAM Hok Lam, Tommy, JP
WONG Chung Mat, Ben

QUALIFIED ACCOUNTANT & COMPANY SECRETARY

KWAN Chi Kin, Wallace

PRINCIPAL BANKERS

Dah Sing Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Citibank, N.A.
UniCredito Italiano S.p.A.

AUDITORS

Ernst & Young

HONG KONG LEGAL ADVISERS

Richards Butler

BERMUDA LEGAL ADVISERS

Conyers, Dill & Pearman

AUDIT COMMITTEE

POON Kwok Fai, Ronald
TAM Hok Lam, Tommy
WONG Chung Mat, Ben

REMUNERATION COMMITTEE

POON Kwok Fai, Ronald
TAM Hok Lam, Tommy
WONG Chung Mat, Ben

NOMINATION COMMITTEE

POON Kwok Fai, Ronald
TAM Hok Lam, Tommy
WONG Chung Mat, Ben

HONG KONG SHARE REGISTRARS

Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai Hong Kong

PRINCIPAL SHARE REGISTRARS

The Bank of Bermuda
6 Front Street
Hamilton HM 11
Bermuda

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

B2 & B4 8th Floor Block B
Mai Hing Industrial Building
16-18 Hing Yip Street
Kwun Tong
Kowloon
Hong Kong

WEBSITE

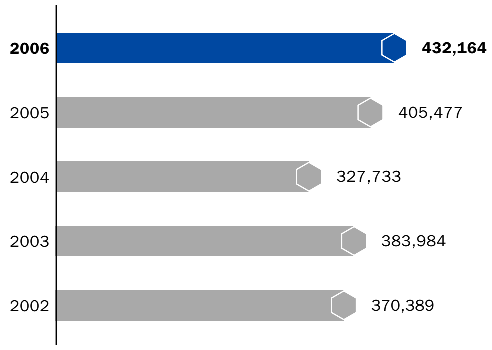
www.elegance-group.com

STOCK CODE

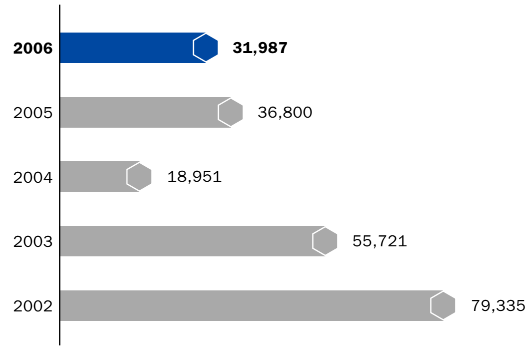
907

Financial Highlights

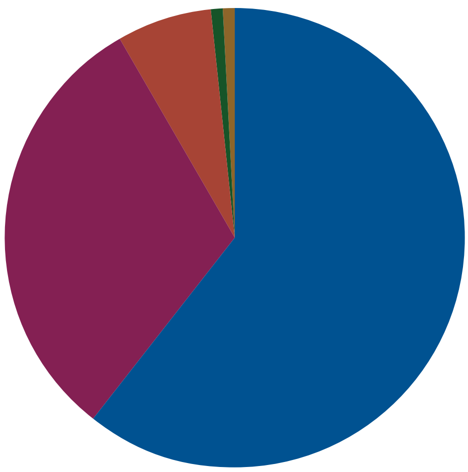
REVENUE
(HK$'000)



NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS
(HK$'000)



BREAKDOWN OF REVENUE BY GEOGRAPHICAL AREA FOR THE YEAR ENDED 31 MARCH 2006



Europe	60.78%
North America	31.12%
The People's Republic of China (including Hong Kong)*	6.53%
Other Asian Countries	1.00%
Others	0.57%

**Note: Sales are primarily to agents in Hong Kong but are also to local retailers. The directors believe that the agents in Hong Kong export most of the Group's products to Europe and North America.*

Chairman's Statement

DIVIDENDS

The Board of Directors have resolved to recommend the payment of a final dividend of HK5.0 cents per ordinary share (2005: HK5.0 cents) for the year ended 31 March 2006 at the forthcoming Annual General Meeting to be held on 30 August 2006. The final dividend together with the interim dividend of HK2.5 cents per share, will make a total dividend for the year of HK7.5 cents (2005: HK8.0 cents) per share. The final dividend, if approved by shareholders, is expected to be payable on 30 September 2006 to those shareholders whose names appear on the Register of Members on 30 August 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 24 August 2006 to 30 August 2006 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 23 August 2006.

BUSINESS REVIEW

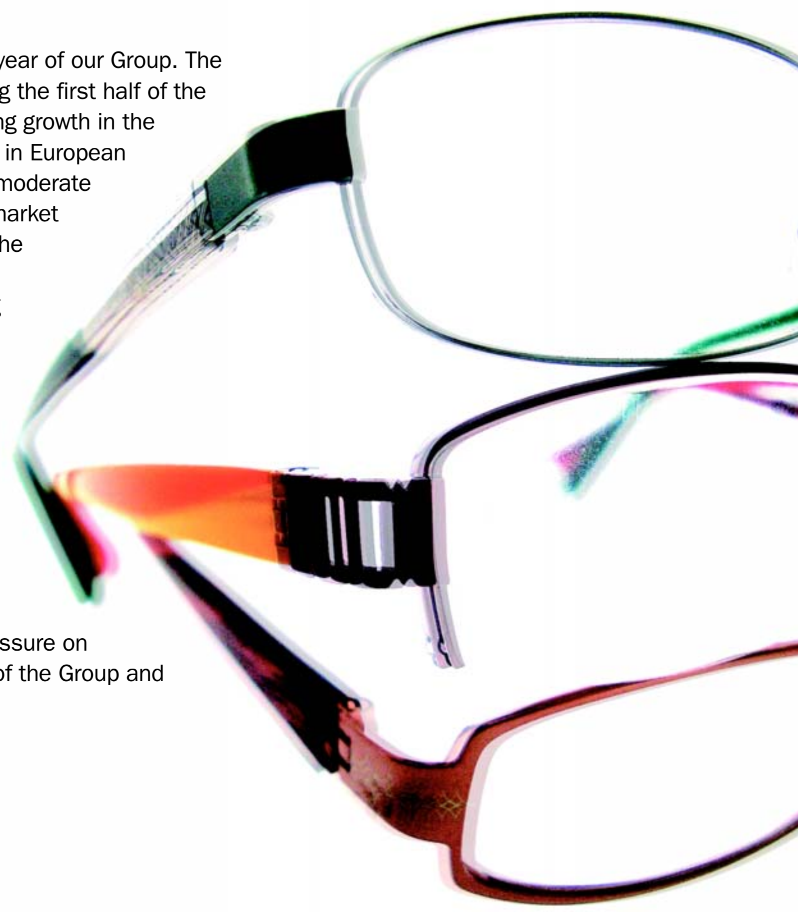
Financial Results

The revenue of the Group reached approximately HK$432,164,000, representing an increase of about 6.58% over the approximate figure of HK$405,477,000 for 2004/2005. Our profit before tax stood at about HK$33,804,000 or some 16.56% lower than the approximate figure of HK$40,513,000 for the previous year. For the year ended 31 March 2006, the profit attributable to shareholders was about HK$31,987,000 (31 March 2005: HK$36,800,000), decreasing by 13.08% when compared with previous financial year. The earning per share was HK9.88 cents compared to HK11.37 cents for the year 2004/2005.

Review and Analysis

Operating Environment

The financial year 2005/2006 is a challenging year of our Group. The demand for optical products remained flat during the first half of the financial year under review but it showed a strong growth in the second half of this financial year. Strong growth in European market however helped the Group to achieve a moderate growth of 6.58% in the Group's revenue. Keen market competition has put a continuous pressure on the selling prices of the optical products. The ever increasing demands from customers requesting shortened delivery time, numerous design concepts for them to choose from, and small quantity per order fostered our management to fine-tune and be more innovative in production on a non-stop basis. The continual rise of prices of various raw materials, shortage of skilled labour, fluctuation in the supply of acetate sheets and others, increased minimum wages and electricity charges in Southern China and appreciation of Renminbi also exerted great pressure on management in containing manufacturing cost of the Group and maintaining good margin.



BUSINESS REVIEW *(continued)*

Review and Analysis *(continued)*

Operating Environment (continued)

Battered by the unfavourable factors such as continuous demand-led hike in prices of raw materials like copper and acetate sheets and significant increase in direct wages in mainland China due to increased minimum wage level by more than 20% in mid 2005, our gross margin was under high pressure and it was lowered to 21.21% from 25.00% for the year 2004/2005. The decrease in gross margin also led to the decrease in net profit attributable to shareholders by 13.08% to HK$31,987,000 though we had successfully contained the selling and administrative expenses.

Facing this environment, the Group adopted various remedies to reduce the impact of the adverse costing environment. On the one hand, the Group strengthened cost control measures including better procurement and logistic management to reduce idle inventory; material management in force to economize use of materials and consumables and furthermore, negotiation with suppliers to assure stable supply of materials, more favourable credit terms and price structure to relieve pressure on our cost structure given fluctuated markets of raw materials. The Group also made an attempt to identify alternative sources of raw materials and seek for competitive suppliers.

On the other hand, the Group devoted resources to upgrade production facilities with an aim to strengthen our vertically integrated production capability by producing quality components and parts. We have strengthened the production management and adopted flexible production procedures to shorten production lead time to achieve quick delivery. Greater degree of process automation has also been implemented to upheld production efficiency and product quality. The Group made this possible by installing more self-developed computer numeric control ("CNC") machining centers in house.

The management has put in a lot of efforts to streamline the workflow of the production lines for plastic frames and parts and invested in expanding its production facilities to increase our production capacity to cater the increasing demands for plastic frames and sunglasses and to benefit the economies of scale. Nevertheless, since market competition is expected to remain stiff while high materials costs cannot be transferred to our customers immediately, the gross margin of the Group in the manufacturing business will still come under considerable pressure in the forthcoming year.

Market Development

The further consolidation of wholesale and retail markets in North America slackened demands for optical products of the Group in the first half of this financial year. Having taken note of the increasing demand of optical products from Europe, continual shift of production activities and subsequent outsourcing by European customers and focusing our marketing efforts on seeking orders from both existing and new customers, we achieved a substantial growth in revenue of European markets, compensating for the downturn in the North American market in the year under review.

BUSINESS REVIEW *(continued)*

Market Development *(continued)*

The European market remained our major market in the year 2005/2006 and was boosted by the prosperous consumer markets for optical products. The sales to Europe recorded an increase of 31.20% to HK$262,649,000 (2005: HK$200,194,000) and it constituted over 60.78% of the Group's total revenue. It is followed by North America, traditionally our strongest market, in terms of sales to the Group. The US market for optical product has undergone further consolidation due to keen competition in retail markets in the year 2005 and the sales to North America decreased by approximately 11.81% to HK$134,515,000 compared to HK$152,528,000 for the year ended 31 March 2005. The Group has stepped up its efforts in the exploration of new customers in the United States and other areas with a view to diversify our market bases so as to manage business risks.

PROSPECT

Looking to the financial year 2006/2007, the Group will stay abreast of the changes in market and operating environment. The Group's core business of manufacturing and sale of optical frames has been performing steadily in accordance with our expectation in the first half of the year 2006. Nevertheless, unfavourbale factors such as persistently high prices of raw materials, strong Renminbi, further increase of minimum wages and overtime pay for the workers in mainland China and rising factory overheads are expected to affect the operating environment. Under the circumstances, the Group will continue our focus on developing the core production business so that we could remain competitive in the market to secure a larger market share for the business in the future.

As envisaged in the prior year, the global economy has been improving in 2005 and the demand for our products has continued to grow satisfactorily in the first half of the year 2006. Based on the current stable demand for optical products, our newly established customer bases and progressive marketing strategies, we believe that the momentum for the growth of our turnover will continue in the financial year ended 31 March 2007. Regarding our market development, the Group will continue to develop European markets by strengthening customer relationship with our key customers and pursue a balanced development in North American and Japanese markets by investing in new design and new production know-how to secure new customers. In addition, the Group will seek further opportunities to diversify our customer bases. The Group will concentrate on securing potential customers and developing fashionable products with higher margin.

To maintain our profitability, we will optimise our materials management and production management to reduce the scrap rate materials loss and wastage. The process automation will be further intensified by deploying more CNC machining centers to increase production capacity and development of machines with higher degree of standardization to cater for the production of quality parts and components with sophisticated design.

The Group strongly believes that with the mentioned measures and the devotion of our staff, our business will continue to progress steadily so that reasonable return can be achieved for our shareholders.

LIQUIDITY AND CAPITAL RESOURCES

The Group's current ratio, being the ratio of total current assets divided by the total current liabilities, was 1.79:1 (2005: 2.76:1). The decrease in current ratio was due to the reclassification of the fixed bank deposits of HK$83,635,000 as the available-for-sale financial assets under non-current assets in the consolidated balance sheets as at 31 March 2006. The gearing ratio of the Group, calculated on the basis of interest-bearing bank and other borrowings over shareholders' funds maintained at 18.86% (2005: 10.84%) as at the year-end date. The increase in gearing was due to the utilisation of new banking facilities to finance the capital expenditures on the acquisition of machinery, addition of new production lines, leasehold improvements and other plant facilities at Shenzhen and Dongguan, PRC respectively.

The Group had banking facilities amounted to HK$147,600,000 (31 March 2005: HK$122,000,000), of which approximately HK$85,059,000 (31 March 2005: HK$49,000,000) were utilised. All outstanding bank borrowings were for purposes of trade-finance and working capital and short to medium term in nature.

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

The Group has undertaken various measures to tighten control on purchase and use of raw materials to maintain a healthy inventory level despite an increase of turnover of over 6.58%. Therefore, stock turnover days increased slightly from 79 days for the previous financial year to 82 days in 2005/2006. The increase in stock turnover days was due to an increase in inventory level to cater for the increased production output and sale activities since the fourth quarter of the financial year 2005/2006.

As at 31 March 2006, the Group's capital commitment was of HK$3,256,000 (31 March 2005: HK$4,273,000).

FOREIGN CURRENCY RISK

The Group's monetary assets, liabilities and transactions are mainly denominated in Hong Kong dollars, Renminbi and US dollars. The management believes that the Group's working capital is not exposed to any significant risk from exchange rate. All of the bank borrowings are denominated in Hong Kong dollars and US dollars. The revenue of the Group, being mostly denominated in US dollars, was fairly matched with the currency requirements of operating expenses.

CONTINGENT LIABILITIES

At 31 March 2006, the Company had contingent liabilities of HK$147,600,000 (31 March 2005: HK$122,000,000), comprised of guarantees given to banks in connection with facilities granted to its fellow subsidiaries.

THE PLEDGE OF ASSETS

At 31 March 2006, the Group has pledged its leasehold land, leasehold buildings and investment properties with an aggregate carrying value of approximately HK$16,363,000 (31 March 2005: HK$17,203,000) as security for bank loan and general banking facilities granted to the Group. Except the above, there are no other charges on the Group's assets.

EMPLOYEES

As at 31 March 2006, the Group has over 6,131 (2005: 4,846) employees in Hong Kong and China. Most of them were stationed in the Mainland China while the rest were in Hong Kong and overseas. Employee costs (excluding director's emoluments) amounting to approximately HK$95,567,000 (31 March 2005: HK$78,732,000). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance, individual experience and performance. Various fringe benefits ranging from Mandatory Provident Fund and medical insurance are provided. Employee's remuneration is consistent with the prevailing industry practice in the respective countries where the Group operates.

APPRECIATION

I would like to take this opportunity to express my deepest gratitude and sincere thanks to all of our staff and fellow directors for their contributions and efforts to the Group in the past. I would also like to thank our customers, shareholders, bankers, suppliers and other business partners for their continuous support to the success of the Group. As the optical markets remains strong in the first half of the year 2006, I am looking forward to placing the Group on the path to further growth and bring fruitful returns to shareholders in the coming financial year.

ON BEHALF OF THE BOARD
Hui Leung Wah
Chairman

Hong Kong
14 July 2006

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

HUI Leung Wah, aged 53, the chairman and managing director of the Group. He is the founder of the Group and has 40 years of experience in the optical frames manufacturing industry. He received one of the "Young Industrialist Awards of Hongkong" in September 1995. These awards are given by the Federation of Hong Kong Industries. He is responsible for the overall supervision of the Group's activities and for policy making. Mr. Hui has since 1990 served as a Committee Member of The Hong Kong Optical Manufacturers Association. In 1999, Mr. Hui served as the President of The Association.

POON Sui Hong, aged 47, is a general manager of the Group. He joined the Group in 1984 and has over 20 years of experience in the marketing and production of optical frames. He is presently responsible for the strategic planning and supervision of the Group's marketing activities. Mr. Poon is a brother-in-law of Mr. Hui Leung Wah.

LEUNG Shu Sum, aged 51, is one of the founding members of the Group and has over 30 years of experience in optical frames production. He is currently responsible for supervising the production and engineering activities at the PRC production facilities.

NON-EXECUTIVE DIRECTORS

Mario PIETRIBIASI, aged 49, is the director of Safilo Far East Limited and Safilo Hong Kong Limited. He holds a Degree in Economics from University of Padova (Italy) and has over 22 years of experience in the commercial field.

Massimiliano TABACCHI, aged 35, joined the Company as a non-executive director on 24 September 2004. Mr. Tabacchi is a director of Safilo S.p.A., which is incorporated in Italy. He holds a Mechanical Engineering Degree from Padua University, Italy.

INDEPENDENT NON-EXECUTIVE DIRECTORS

POON Kwok Fai, Ronald, aged 57, is a solicitor and notary public practicing in Hong Kong and has over 25 years of experience in the legal profession. Mr. Poon is currently an independent non-executive director of abc Multiactive Limited (Stock Code: 8131), a listed company on the GEM Board.

TAM Hok Lam, Tommy, J.P., 57, is a fellow member of the Association of International Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is also a director of Hong Kong Watch Manufacturer's Association Limited and a council member of the Hong Kong Institute of Directors and a council member of the Singapore Chamber of Commerce (Hong Kong). Mr. Tam is currently an independent non-executive director of Winbox International (Holdings) Limited (Stock Code: 474), a listed company on the Main Board, which is principally engaged in the manufacturing and sales of packaging products. Mr. Tam is also currently an executive director of National Electronics Holdings Limited (Stock Code: 213), a listed company on the Main Board, which is principally engaged in the manufacturing, assembly and sale of electronic watches and watch parts, trading of watch movements and watch parts, property development and investment and trading of securities till March 2006. Mr. Tam remains as the director of the main operating subsidiaries of National Electronics Holdings Limited, including but not limited to National Electronics (Consolidated) Ltd. and National Properties Holdings Ltd. Mr. Tam is currently a member of Chinese People Political Consultative Conference in Shandong Province, the PRC. Mr. Tam was appointed as the independent non-executive Director in April 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

WONG Chung Mat, Ben, aged 54, is the Chairman and CEO of Wong's International (Holdings) Limited, a Hong Kong listed company on the Main Board (Stock code: 099). He obtained a Master of Science Degree in Operations Research from Ohio State University and has over 31 years of experience in the electronics industry.

SENIOR MANAGEMENT

TSANG Tak Hung, Donald, aged 47, is one of the general managers of the Group and is responsible for the management, strategic planning and corporate development of the Group. Prior to joining the Group in 1994, he had over 14 years of management experience by serving in various banking institutions in Hong Kong and Canada and in the Stock Exchange.

CHENG Wai Keung, Edmond, aged 46, is the assistant general manager supervising the Group's production and purchasing departments. He joined the Group in 1988 and has worked in various departments within the Group including the marketing, production and purchasing departments. Mr. Cheng now oversees the production in Hong Kong and the PRC production facilities. Mr. Cheng is a brother-in-law of Mr. Hui Leung Wah and is the spouse of Ms. Poon Kam Yee. He holds directorships in some of the subsidiaries in the Group.

POON Kam Yee, aged 45, is the assistant to the chairman and managing director and is also a supervisor of the Group's marketing department – the PRC division. She joined the Group in 1988 and has over 25 years of experience in accounting and administration. She is responsible for the Group's sales in the PRC market. Ms. Poon is a sister-in-law of Mr. Hui Leung Wah. She holds directorships in some of the subsidiaries in the Group.

KWAN Chi Kin, Wallace, aged 36, is the financial controller and company secretary of the Group. He holds a Bachelor of Social Science Degree from The Chinese University of Hong Kong. He also holds a Master of Business Administration Degree from the University of Manchester. He is an associate of the Hong Kong Institute of Certified Public Accountants and also a fellow of the Association of Chartered Certified Accountants. Mr. Kwan joined the Group in 1997 and has over 14 years of experience in accounting with listed companies and an international accountancy firm.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and trading of optical frames, sunglasses and optical cases. There was no change in the nature of the principal activities of the Group during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 84.

An interim dividend of HK2.5 cents per share was paid on 19 January 2006. The directors recommend the payment of a final dividend of HK5.0 cents per share in respect of the year, to shareholders on the register of members on 30 August 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out below. This summary does not form part of the audited financial statements.

Results

	Year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**432,164**	405,477	327,733	383,984	370,389
PROFIT FOR THE YEAR	**27,896**	35,645	20,265	57,348	83,311
Attributable to:					
Equity holders of the parent	**31,987**	36,800	18,951	55,721	79,335
Minority interests	**(4,091)**	(1,155)	1,314	1,627	3,976
	27,896	35,645	20,265	57,348	83,311

SUMMARY FINANCIAL INFORMATION *(continued)*

Assets, liabilities and minority interests

	31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**645,248**	606,055	547,502	558,671	516,676
TOTAL LIABILITIES	**(177,551)**	(134,204)	(80,810)	(75,024)	(54,844)
MINORITY INTERESTS	**(16,797)**	(20,004)	(21,159)	(19,845)	(18,218)
	450,900	451,847	445,533	463,802	443,614

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of the Company's share capital and share option scheme are set out in notes 30 and 31 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity set out on page 29 of this annual report, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2006, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$163,418,000 of which HK$16,182,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$56,831,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$812,000.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Hui Leung Wah *(Chairman and Managing Director)*
Poon Sui Hong
Leung Shu Sum

Non-executive directors

Mario Pietribiasi
Massimiliano Tabacchi

Independent non-executive directors

Poon Kwok Fai, Ronald
Wong Chung Mat, Ben
Tam Hok Lam, Tommy (appointed on 20 April 2005)

In accordance with the Company's bye-laws, Messrs. Hui Leung Wah, Poon Sui Hong and Poon Kwok Fai, Ronald will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Messrs. Poon Kwok Fai, Ronald, Wong Chung Mat, Ben and Tam Hok Lam, Tommy and as at the date of this report still considers them to be independent.

Detailed terms of the appointment of the non-executive directors have been disclosed in the Corporate Governance Report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Poon Sui Hong and Mr. Leung Shu Sum have each entered into a renewed service agreement with the Company for a term of three years commencing on 17 February 2005. The service agreements continue after the expiry of their existing terms, subject to termination by either party giving not less than three months' notice.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, the interests and short positions of the directors in the shares capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

	Number of ordinary shares held			
Name of director	**Directly beneficially owned**	**Beneficiary of a trust**	**Total**	**Percentage of the issued share capital of the Company**
Hui Leung Wah	8,136,000	141,316,000 *(note)*	149,452,000	46.18
Poon Sui Hong	6,900,000	–	6,900,000	2.13
Leung Shu Sum	6,000,000	–	6,000,000	1.85
Mario Pietribiasi	100,000	–	100,000	0.03
	21,136,000	141,316,000	162,452,000	50.19

Note: 141,116,000 shares are held by Best Quality Limited and 200,000 shares are held by Deluxe Concept Limited. The entire issued share capital of both Best Quality Limited and Deluxe Concept Limited are held by Wahyee Limited as trustee for a unit trust which, in turn, is beneficially owned by a discretionary trust, the beneficiaries of which include the spouse and children of Mr. Hui Leung Wah (Mr. Hui himself is not a beneficiary of the discretionary trust).

Long positions in ordinary shares of Company's subsidiaries:

Mr. Hui Leung Wah is beneficially interested in 200,000 non-voting deferred shares in the capital of Elegance Optical Investments Limited. The rights and restrictions of such non-voting deferred shares are set out in note 17 to the financial statements.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries of the Group held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 March 2006, none of the directors had any interest or short position in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosures set out in note 31 to the financial statements, at no time during the year was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company, their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

Other than as disclosed above under the section headed "Directors' interests and short positions in shares and underlying shares", so far as is known to the directors of the Company, as at 31 March 2006, the following interests in the shares and underlying shares of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Long positions:

Name	Number of issued ordinary shares held	Nature of interest	Percentage of the issued share capital of the Company
Poon Yuk Yee	149,452,000 *(note)*	Beneficially owned	46.18
Ansbacher (BVI) Limited	141,316,000	Beneficiary of a trust	43.66
Wahyee Limited	141,316,000	Beneficiary of a trust	43.66
Safilo Far East Limited	74,599,123	Beneficially owned	23.05

Note: Mdm. Poon Yuk Yee is the wife of Mr. Hui Leung Wah and is deemed to be interested in shares held by and shares taken to be interested by Mr. Hui Leung Wah.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed securities by the Company or by any of its subsidiaries during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's largest customer and the Group's five largest customers accounted for 49.72% and 65.49% of the Group's total sales, respectively. The Group's largest customer, the Safilo S.p.A. group of companies, owned 23.05% of the Company's issued share capital at the balance sheet date. Details of the sales to the Safilo S.p.A. group of companies are included in note 37 to the financial statements.

During the year under review, the Group's largest supplier and the Group's five largest suppliers accounted for 12.51% and 41.62% of the Group's total purchases, respectively.

Other than as detailed above, none of the directors of the Company or any of their associates or any shareholders, which to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

(I) Pursuant to a special general meeting held on 31 March 2004 by the independent shareholders, an ordinary resolution was passed which approved the sale of optical frames, sunglasses and related products (the "Sales") by the Company and its subsidiaries to the Safilo S.p.A. group of companies for the three years ending 31 March 2007 subject to certain conditions. According to the resolution, the aggregate value of the Sales shall not exceed HK$230 million, HK$255 million and HK$280 million for each of the three years ending 31 March 2005, 2006 and 2007, respectively.

This resolution replaces the waiver granted by the SEHK to the Company on 29 October 2001, which expired on 31 March 2004. Further details are set out in the circular to the Company's shareholders dated 15 March 2004.

The directors, including the independent non-executive directors, confirm that the Sales to the Safilo S.p.A. group of companies were approved by the board of directors and were:

(a) entered into in the ordinary and usual course of business of the Group;

(b) conducted on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than the terms available to or from independent third parties as appropriate;

(c) entered into in accordance with the relevant terms and conditions governing such transactions, which are fair and reasonable so far as the shareholders of the Company were concerned and in the interest of the Group as a whole; and

(d) did not exceed HK$255 million for the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(continued)*

(I) *(continued)*

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 37 to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Further details of the Sales to the Safilo S.p.A. group of companies are set out in note 37 to the financial statements.

(II) In addition to the transactions with the Safilo S.p.A. group of companies set out above, during the year, the Company executed guarantees in respect of banking facilities granted to certain non-wholly-owned subsidiaries, namely Gold Strong Industrial Limited and Grand Artic Limited.

Details of such guarantees are set out below:

Name of non-wholly-owned subsidiaries to which banking facilities were granted	**Extent of guarantees given by the Company**
Gold Strong Industrial Limited	Corporate guarantee to the extent of HK$3 million
Grand Artic Limited	Corporate guarantee to the extent of HK$2 million

Certain non-wholly-owned subsidiaries of the Group also owed certain of the Group's wholly-owned subsidiaries amounts arising from their ordinary and usual course of business during the year. The amounts due are unsecured, interest-free and are repayable in accordance with normal trading terms. Details of the amounts outstanding at the respective balance sheet dates are set out below:

	31 March 2006 ***HK$'000***	31 March 2005 *HK$'000*
Gold Strong Industrial Limited	**30,144**	11,066
Grand Artic Limited	**1,688**	2,210
Leader Up Limited	**4,347**	3,818
	36,179	17,094

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 39 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
Hui Leung Wah
Chairman

Hong Kong
14 July 2006

Corporate Governance Report

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors is committed to maintaining high standard of corporate governance practices and procedures in fulfilling the responsibilities to shareholders. The Company has always recognised that the importance of the shareholder's transparency and accountability. It is the belief of the board that shareholders can maximise their benefits form good corporate governance.

The Group has adopted the Code Provisions set out in the Code ("Code") of Corporate Governance Practices ("CGP") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") as its own code of corporate governance practices. The Directors consider that the Company has complied with the new Code during the financial year ended 31 March 2006 except in certain circumstances where in the opinion of the Directors are unsuitable to be adopted by the Company at present. Details of such deviation are discussed later in the following:

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Company does not have any officer with the title "chief executive officer". Mr. Hui Leung Wah assumes the role of both Chairman and Managing Director of the Company and he is in charge of the overall management of the Company. The Company does not have a separate Chairman and Managing Director as Mr. Hui Leung Wah currently holds both positions. The Board believes that the combination of the roles of chairman and chief executive officer can promote the efficient formulation and implementation of the strategies of the Company which will enable the Group to grasp business opportunities efficiently and promptly. The Board also maintains that through the supervision of its Board and its Independent Non-executive Directors (the "INED"), a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

Accordingly, except for above mentioned Code Provision A.2.1, the Directors consider that the Company has complied with the code provisions set out in the Code of CGP.

BOARD OF DIRECTORS

Board Composition

The Board of Directors (the "Board") comprises a total of eight Directors. Three Executive Directors are Hui Leung Wah, who is also the chairman of the Board, Leung Shu Sum and Poon Sui Hong, two Non-executive Directors are Mario Pietribiasi and Massimiliano Tabacchi and three Independent Non-executive Directors are Poon Kwok Fai, Ronald, Tam Hok Lam, Tommy and Wong Chung Mat, Ben. One of the INEDs has appropriate professional qualifications, or accounting or related financial management expertise, which is in accordance with rules 3.10(1) and (2) of the Listing Rules.

Each of the INEDs has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board composition will be reviewed regularly to ensure that it has a balance of skills and experience appropriate for the requirements of the business. The Directors' biographical information is set out on pages 8 to 9 to the annual report.

BOARD OF DIRECTORS *(continued)*

Appointment and Re-election

To comply with the Code Provision A.4.1 of the Code, the relevant resolutions have been proposed and approved by the shareholders at the annual general meeting of the Company held on 19 August 2005. The Non-executive Directors and the INED of the Company are appointed and elected by the shareholders of the Company at the 2005 annual general meeting of the Company for the specific terms that it shall not be more than three years from 19 August 2005, the date of the last annual general meeting. All Directors are subject to retirement by rotation and re-election in accordance with the provision of the Listing Rules and the Company's Bye-laws. The Board considers that with eight Directors and one-third of them being subject to retirement at each annual general meeting, all of the Directors should be retired by rotation at least once every three years. A retiring Director is eligible for re-election.

To comply with the Code Provision A.4.2 of the Code, the relevant amendment to Bye-laws of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 19 August 2005 whereby all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director of the Company shall be subject to retirement by rotation at least once every three years respectively.

At the forthcoming Annual General Meeting. Mr. Hui Leung Wah, Mr. Poon Sui Hong and Mr. Poon Kwok Fai, Ronald will retire by rotation and, being eligible, will offer themselves for re-elections by shareholders.

Duties of the Board

The Board formulates the overall policies and strategies, monitors the financial performance, oversees the management, and ensures good corporate governance practices of the Company. The Board is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

The Directors meet regularly to review the financial performance and operational performance of the Company and to discuss and formulate the development plan of the Group. Daily operations and administration are delegated to the Executive Directors and management of the Group. The members of the Board are mostly professionally qualified and widely experienced personnel who bring in valuable contribution add different professional advices and consultancy for the development of the Company. They provide strong support towards the effective discharge of the duties and responsibilities of the Board. Every Director has access to board papers and related information; and has access to the services of the Company Secretary who updates the Board on corporate governance and regulatory frameworks.

The Chairman of the Board shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed and approved by the Board before the execution. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

BOARD OF DIRECTORS *(continued)*

Functions of the Board

During the financial year ended 31 March 2006, four regular quarterly Board meetings were held and the attendance of each director is set out as follows:

Name of director	Attendance in 2005/2006
Executive Directors	
Hui Leung Wah	4/4
Poon Sui Hong	2/4
Leung Shu Sum	4/4
Non-executive Directors	
Mario Pietribiasi	2/4
Massimiliano Tabacchi	1/4
Independent Non-executive Directors	
Poon Kwok Fai, Ronald	4/4
Tam Hok Lam, Tommy	4/4
Wong Chung Mat, Ben	4/4

Four regular Board meetings of the year ended 31 March 2006 were scheduled in advance to give all Directors and opportunity to attend and these meetings at approximately quarterly intervals. One of the Board meetings had been convened by the Chairman to discuss a discloseable transaction which was constituted and required to be disclosed under the Listing Rules. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and adequate and reliable information are given to the Board in a timely manner.

The Company Secretary shall convene the Board meetings on the request of any one director of the Company and 14 days' notice of Board meetings will be given to all Directors. The Board papers are tabled not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. The Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings. Minutes of the Board are kept by the Company Secretary and are open for inspection at any reasonable time by any Director.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and prevailing accounting standards with the assistance of the Finance Department which is under the supervision of the Qualified Accountant of the Company. The Directors also ensure the timely publication of the financial statements of the Group. The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 25 to the annual report.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted the code of conducts regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code in Appendix 10 to the Listing Rules. The Company, having made specific enquiry, confirms that all Directors complied throughout the year with the required standard set out in the Model Code and the Company's code of conduct regarding Director's securities transactions.

REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION

The Company established the Remuneration Committee by the Board on 29 June 2005. Prior to the establishment of the Remuneration Committee, all the remuneration matters relating to executive directors are discussed and approved by the Board. The members of the Remuneration Committee comprise Mr. Poon Kwok Fai, Ronald, Mr. Tam Hok Lam, Tommy and Mr. Wong Chung Mat, Ben. All members are the INED of the Company and Mr. Wong is a chairman of the Remuneration Committee. During the year, the meeting of the Remuneration Committee was held on 29 March 2006.

The attendance of each member is set out as follows:

Members	Number of Attendence
Poon Kwok Fai, Ronald	1/1
Tam Hok Lam, Tommy	1/1
Wong Chung Mat, Ben	1/1

Its terms of reference are summarised as follows:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management;

2. to review and determine the remuneration packages of all executive directors; and

3. to ensure that no director of any of his associates is involved in deciding his own remuneration.

REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION *(continued)*

The Remuneration Committee has reviewed and recommended to the Board on the remuneration policy and remuneration of the executive Directors, the remuneration of the INED and senior management, retirement schemes, the existing share option policy and the rewarding scheme for executive Directors and senior management. The Board reviewed and approved the Directors' remuneration at the Board Meeting held on 14 July 2006.

Details of the emoluments of Directors are set out in note 8 to the financial statements.

The terms of reference of the Remuneration Committee have been posted on the website of the Company.

NOMINATION COMMITTEE

The Company established the Remuneration Committee by the Board on 29 June 2005. The Nomination Committee currently comprises three members including three INED. Mr. Tam Hok Lam, Tommy is the chairman of the Nomination Committee. The other members are Mr. Poon Kwok Fai, Ronald and Mr. Wong Chung Mat, Ben. The Nomination Committee assists the Board to fulfill its supervisory role over the Group in nominating new directors to the Board and assessing the performance and skills of Directors. The terms of reference of the Nomination Committee have been posted on the website of the Company. Nomination Committee does not held any meeting during the financial year ended 31 March 2006.

AUDIT COMMITTEE

The Audit Committee was established in 1999 to consider the appointment of auditors and audit fee, to discuss with the auditors the nature and scope of audit, to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. Its current members comprise Mr. Poon Kwok Fai, Ronald, Mr. Tam Hok Lam, Tommy and Mr. Wong Chung Mat, Ben. Mr. Poon Kwok Fai, Ronald is the chairman of the Audit Committee. All members of the Audit Committee are the INED. One of the members has appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules. None of them is employed by or otherwise affiliated with former or existing auditors of the Company. The main duties of the Audit Committee are as follows:

1. To consider the appointment, reappointment and removal of the external auditors, and to approve the remuneration and the terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors of the Company;

2. To assess the independence of external auditors and discuss with the external auditors the nature and scope of audit;

3. To review interim and annual financial statements before approval of the Board;

4. To review the financial control, internal control, and risk management system of the Group and make recommendations to the Board; and

5. To review the external auditor's engagement letter and material queries raised by the auditors to management in respect of accounting records, financial control, internal control and response of management.

AUDIT COMMITTEE *(continued)*

The Audit Committee held two meetings during the year under review and one of the meeting was attended by external auditors. Full minute of the audit committee is kept by a duly appointed secretary of the audit committee and the copies of the minutes are sent to all members of the committee. The conclusions of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of director	Attendance in 2005/2006
Poon Kwok Fai, Ronald	2/2
Tam Hok Lam, Tommy	2/2
Wong Chung Mat, Ben	2/2

During the meetings held in the year, the Audit Committee had performed the following work:

1. To review with external auditors the accounting policies and the financial reports for the year ended 31 March 2006 and for the six months ended 30 September 2005 respectively;

2. To review the accounting principles and practices adopted by the Group and ensure the Company to comply with the Listing Rules and other statutory compliance;

3. To review the effectiveness of internal control system;

4. To review the external auditor's management letter and reports issued by external auditors;

5. To review and recommend for approval by the board the audit scope for the year ended 31 March 2006 and auditors' remuneration; and

6. To review and consider the connected transactions entered into the Group during the year.

The terms of reference of the Audit Committee have been posted on the Website of the Company.

AUDITORS' REMUNERATION

For the year ended 31 March 2006, the remuneration paid to the Company's auditors, Messrs Ernst & Young, is set out as follows:

Services rendered	Fees paid/payable *HK$'000*
Audit services	1,150
Non-audit services i.e. taxation	119
Total	1,269

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with all shareholders. The Company establishes different communication channels with shareholders and investors: (i) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (ii) updated and key information of the Group are available on the website of the Company, and (iii) the Company's website offers communication channel between the Company and its shareholders and investors.

The annual general meeting is a channel for the Chairman of the Board and the sub-committees of the Board to address concern of shareholders. At the annual general meeting, a separate resolution was proposed by the Chairman in respect of each separate issue including re-election of directors and the Chairman demanded on a poll on all resolutions. The procedures for and the rights of shareholders for demanding a poll by the shareholders were incorporated in the circular dated 28 July 2006.

The Company has established dedicated personnel for liaison with investors and shareholders by answering their enquiries.

INTERNAL CONTROL

The Board acknowledges its responsibility in maintaining effective and sound internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times.

The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. The design of system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought. No material suspected frauds and irregularities, internal control deficiencies or infringement of relevant regulations and rules have come to the attention of Board to cause the Board to believe that the system of internal control is inadequate.

Report of the Auditors

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the members
Elegance International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 26 to 84 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
14 July 2006

Consolidated Income Statement

(Year ended 31 March 2006)

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	5	**432,164**	405,477
Cost of sales		**(340,499)**	(304,119)
Gross profit		**91,665**	101,358
Other income and gain	5	**3,668**	4,653
Selling and distribution costs		**(9,435)**	(10,166)
General and administrative expenses		**(53,958)**	(52,607)
Other operating income/(expenses)		**4,421**	(1,857)
Finance costs	7	**(2,840)**	(296)
Share of profits and losses of associates		**283**	(572)
PROFIT BEFORE TAX	6	**33,804**	40,513
Tax	9	**(5,908)**	(4,868)
PROFIT FOR THE YEAR		**27,896**	35,645
Attributable to:			
Equity holders of the parent	10	**31,987**	36,800
Minority interests		**(4,091)**	(1,155)
		27,896	35,645
DIVIDENDS	11		
Interim		**8,091**	9,710
Proposed final		**16,182**	16,182
		24,273	25,892
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**9.88 cents**	11.37 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

(31 March 2006)

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**226,481**	218,544
Investment properties	14	**2,210**	10,947
Prepaid land lease payments	15	**46,692**	41,610
Interests in associates	18	**5,849**	5,023
Deposit for prepaid land lease payments	19	**–**	2,838
Available-for-sale financial assets	20	**83,635**	–
Available-for-sale investment/club debenture		**650**	650
Total non-current assets		**365,517**	279,612
CURRENT ASSETS			
Inventories	21	**88,025**	64,614
Trade and bills receivables	22	**146,874**	117,464
Prepayments, deposits and other receivables		**6,200**	9,548
Equity investments at fair value through profit or loss/ short term investments	23	**437**	401
Tax recoverable		**57**	42
Cash and cash equivalents	24	**30,385**	134,374
		271,978	326,443
Non-current assets classified as held for sale	25	**7,753**	–
Total current assets		**279,731**	326,443
CURRENT LIABILITIES			
Trade and bills payables	26	**52,709**	43,518
Other payables and accrued liabilities		**21,298**	23,835
Tax payable		**5,800**	5,070
Interest-bearing bank and other borrowings	27	**71,476**	40,334
Due to an associate	18	**4,700**	5,600
Total current liabilities		**155,983**	118,357
NET CURRENT ASSETS		**123,748**	208,086

Consolidated Balance Sheet *(continued)*

(31 March 2006)

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**489,265**	487,698
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*27*	**13,583**	8,666
Deferred tax liabilities	*29*	**7,985**	7,181
Total non-current liabilities		**21,568**	15,847
Net assets		**467,697**	471,851
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*30*	**32,365**	32,365
Reserves	*32(a)*	**402,353**	403,300
Proposed final dividend	*11*	**16,182**	16,182
		450,900	451,847
Minority interests		**16,797**	20,004
Total equity		**467,697**	471,851

Hui Leung Wah
Director

Poon Sui Hong
Director

Consolidated Statement of Changes in Equity

(Year ended 31 March 2006)

		Attributable to equity holders of the parent											
		Issued share capital	**Share premium account**	**Capital reserve**	**Asset revaluation reserve**	**Available-for-sale financial asset revaluation reserve**	**Goodwill eliminated against reserve**	**Exchange fluctuation reserve**	**Retained profits**	**Proposed final dividend**	**Total**	**Minority interests**	**Total equity**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004		32,365	56,831	41,800	–	–	(152)	–	292,034	22,655	445,533	21,159	466,692
Change in fair value of investment properties		–	–	–	1,879	–	–	–	–	–	1,879	–	1,879
Total income for the year recognised directly in equity		–	–	–	1,879	–	–	–	–	–	1,879	–	1,879
Net profit for the year		–	–	–	–	–	–	–	36,800	–	36,800	(1,155)	35,645
Total income and expenses for the year		–	–	–	1,879	–	–	–	36,800	–	38,679	(1,155)	37,524
2004 final dividend declared		–	–	–	–	–	–	–	–	(22,655)	(22,655)	–	(22,655)
2005 interim dividend paid	*11*	–	–	–	–	–	–	–	(9,710)	–	(9,710)	–	(9,710)
2005 proposed final dividend	*11*	–	–	–	–	–	–	–	(16,182)	16,182	–	–	–
At 31 March and 1 April 2005		32,365	56,831*	41,800*	1,879*	–*	(152)*	–*	302,942*	16,182	451,847	20,004	471,851
Opening adjustments	*2.4, 20*	–	–	–	(1,879)	(5,469)	–	–	1,879	–	(5,469)	–	(5,469)
As restated		32,365	56,831	41,800	–	(5,469)	(152)	–	304,821	16,182	446,378	20,004	466,382
Change in fair value of available-for-sale financial assets	*20*	–	–	–	–	(4,340)	–	–	–	–	(4,340)	–	(4,340)
Exchange realignment		–	–	–	–	–	–	1,148	–	–	1,148	884	2,032
Total income and expenses for the year recognised directly in equity		–	–	–	–	(4,340)	–	1,148	–	–	(3,192)	884	(2,308)
Net profit for the year		–	–	–	–	–	–	–	31,987	–	31,987	(4,091)	27,896
Total income and expense for the year		–	–	–	–	(4,340)	–	1,148	31,987	–	28,795	(3,207)	25,588
2005 final dividend declared		–	–	–	–	–	–	–	–	(16,182)	(16,182)	–	(16,182)
2006 interim dividend paid	*11*	–	–	–	–	–	–	–	(8,091)	–	(8,091)	–	(8,091)
2006 proposed final dividend	*11*	–	–	–	–	–	–	–	(16,182)	16,182	–	–	–
At 31 March 2006		**32,365**	**56,831***	**41,800***	**–***	**(9,809)***	**(152)***	**1,148***	**312,535***	**16,182**	**450,900**	**16,797**	**467,697**

* *Comprise the consolidated reserves of HK$402,353,000 (2005: HK$403,300,000) at the balance sheet date.*

Consolidated Cash Flow Statement

(Year ended 31 March 2006)

	Notes	2006 *HK$'000*	2005 *HK$'000* (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**33,804**	40,513
Adjustments for:			
Finance costs	7	**2,840**	296
Share of profits and losses of associates		**(283)**	572
Interest income	5	**(1,436)**	(3,927)
Dividend income from listed investments	5	**(11)**	(16)
Loss on disposal of items of property, plant and equipment	6	**56**	1,838
Fair value gains, net:			
Equity investments at fair value through profit or loss/ short term investments	6	**(36)**	(37)
Gain on disposal of short term investments	6	**–**	(23)
Depreciation	6	**32,025**	26,189
Changes in fair value of investment properties	6	**3,813**	(646)
Recognition of prepaid land lease payments	15	**1,125**	1,005
Provision/(reversal of provision) for bad and doubtful debts, net	6	**(4,782)**	725
Provision for inventory obsolescence	6	**1,179**	1,363
Write-back of provision for impairment of buildings	6	**(552)**	–
Write-back of provision for impairment of prepaid land lease payments	6	**(2,920)**	–
Operating profit before working capital changes		**64,822**	67,852
Decrease/(increase) in inventories		**(24,590)**	1,701
Increase in trade and bills receivables		**(24,628)**	(23,190)
Decrease/(increase) in prepayments, deposits and other receivables		**3,405**	(3,411)
Increase in trade and bills payables		**9,191**	4,175
Increase/(decrease) in other payables and accrued liabilities		**(2,537)**	5,730
Decrease in the amount due to an associate		**(900)**	–
Cash generated from operations		**24,763**	52,857
Interest paid		**(2,816)**	(296)
Interest element on finance lease rental payments		**(24)**	–
Hong Kong profits tax paid		**(4,389)**	(384)
Net cash inflow from operating activities		**17,534**	52,177

(Year ended 31 March 2006)

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,436	3,927
Dividend received from listed investments		11	16
Purchases of items of property, plant and equipment		(40,930)	(48,272)
Additions to prepaid land lease payments	15	(1,056)	(3,406)
Proceeds from disposal of items of property, plant and equipment		2,480	7,780
Increase in advances to an associate		(543)	(2,003)
Proceeds from disposal of short term investments		–	303
Deposit paid for a land use right		–	(2,838)
Investments in time deposits		–	(93,444)
Net cash outflow from investing activities		(38,602)	(137,937)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		(5,333)	(2,000)
New bank loans		40,600	37,000
Capital element of finance lease rental payments		(448)	–
Dividends paid		(24,273)	(32,365)
Net cash inflow from financing activities		10,546	2,635
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,522)	(83,125)
Cash and cash equivalents at beginning of year		40,930	124,055
Effect of foreign exchange rate changes, net		(23)	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		30,385	40,930
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	30,385	40,930

Balance Sheet

(31 March 2006)

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**252,489**	252,614
CURRENT ASSETS			
Prepayments		**131**	117
Cash and cash equivalents	24	**379**	379
Total current assets		**510**	496
CURRENT LIABILITIES			
Other payables and accrued liabilities		**385**	506
NET CURRENT ASSETS/(LIABILITIES)		**125**	(10)
Net assets		**252,614**	252,604
EQUITY			
Issued capital	30	**32,365**	32,365
Reserves	32(b)	**204,067**	204,057
Proposed final dividend	11	**16,182**	16,182
Total equity		**252,614**	252,604

Hui Leung Wah
Director

Poon Sui Hong
Director

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 new policies (Increase/(decrease))	Effect of adopting HKAS 17# Prepaid land lease payments *HK$'000*	HKASs 32# and 39* Change in classification of/ accounting for equity investments/ financial instruments *HK$'000*	HKAS 40* Surplus on revaluation of investment properties *HK$'000*	Total *HK$'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)*

	Effect of adopting			
At 31 March 2006	HKAS 17	HKASs 32 and 39	HKFRS 5	
Effect of new policies (Increase/(decrease))	Prepaid land lease payments	Change in classification of/ accounting for equity investments/ financial investments	Non-current assets classified as held for sale	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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 new policies (Increase/(decrease))	Effect of adopting HKAS 39 Available-for-sale financial assets *HK$'000*	Effect of adopting HKAS 40 Surplus on revaluation of investment properties *HK$'000*	Total *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 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'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 HK$'000	2005 HK$'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 HK$'000	2005 HK$'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	
		2006	2005
	Notes	***HK$'000***	*HK$'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	2005
	HK$'000	*HK$'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 Direct	Percentage of equity attributable to the Company Indirect	Principal activities
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	Percentage of equity attributable to the Company 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	Percentage of equity attributable to the Company 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$'000	Group 2005 HK$'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	2005
			HK$'000	*HK$'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$'000	Company 2005 HK$'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	2005
	HK$'000	*HK$'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.