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UNIVERSAL SECURITY INSTRUMENTS INC
Form 10-K/A
September 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(AMENDMENT NO. 1)

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2006 or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to .

COMMISSION FILE NUMBER: 001-31747

UNIVERSAL SECURITY INSTRUMENTS, INC.
(Exact name of registrant as specified in its charter)

MARYLAND	52-0898545
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(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7-A Gwynns Mill Court Owings Mills, Maryland	21117
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	(410) 363-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
-----	-----
COMMON STOCK, \$0.01 PAR VALUE	AMERICAN STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:

None

Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Act). Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or other information

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer Accelerated filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of Common Stock, \$.01 par value, held by non-affiliates of the registrant based on the closing sales price of the Common Stock on the American Stock Exchange Stock on September 30, 2005, was \$28,211,326.

The number of shares of common stock outstanding as of June 29, 2006 was 1,808,951.

DOCUMENTS INCORPORATED BY REFERENCE

To the extent specified, Part III of this Form 10-K incorporates information by reference to the Registrant's definitive proxy statement for its 2006 Annual Meeting of Shareholders (to be filed).

The Registrant hereby amends its Annual Report on Form 10-K for the fiscal year ended March 31, 2006, which was filed with the Commission on June 29, 2006, to include an unredacted Exhibit 10.2 in Item 15(a)(3), and unredacted financial statements required by Regulation S-X included in Item 15(c).

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) 1. FINANCIAL STATEMENTS. (Previously filed)

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(A) 2. FINANCIAL STATEMENT SCHEDULES. (Previously filed)

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(A) 3. EXHIBITS REQUIRED TO BE FILED BY ITEM 601 OF REGULATION S-K.

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Exhibit No.

- 3.1 Articles of Incorporation (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1988, File No. 1-31747)
- 3.2 Articles Supplementary, filed October 14, 2003 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed October 31, 2002, file No. 1-31747)
- 3.3 Bylaws, as amended (incorporated by reference to Exhibit 3 to the Company's Form 8-A/A filed July 24, 2003)
- 10.1 Non-Qualified Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2003, File No. 1-31747)
- 10.2 Hong Kong Joint Venture Agreement, as amended*
- 10.3 Amended Factoring Agreement with CIT Group (successor to Congress Talcott, Inc.) dated November 14, 1999 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended March 31, 2003, File No. 1-31747)
- 10.4 Amendment to Factoring Agreement with CIT Group (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2002, File No. 1-31747)
- 10.5 Amendment to Factoring Agreement with CIT Group dated September 28, 2004 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004, File No. 1-31747)
- 10.6 Lease between Universal Security Instruments, Inc. and National Instruments Company dated October 21, 1999 for its office and warehouse located at 7-A Gwynns Mill Court, Owings Mills, Maryland 21117 (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended March 31, 2000, File No. 1-31747)
- 10.7 Amended and Restated Employment Agreement dated July 18, 2005 between the Company and Harvey B. Grossblatt (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2005, File No. 1-31747)
- 14 Code of Ethics (incorporated by reference to Exhibit 14 to the Company's Annual Report on Form 10-K for the year ended March 31, 2004, File No. 1-31747)
- 21 Subsidiaries of the Registrant (incorporated by reference to Exhibit 14 to the Company's Annual Report on Form 10-K for the year ended March 31, 2004, File No. 1-31747)
- 23.1 Consent of Grant Thornton LLP (Previously filed)
- 23.2 Consent of Grant Thornton LLP (Hong Kong) (Previously filed)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer*
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer*
- 32.1 Section 1350 Certifications*
- 99.1 Press Release dated June 29, 2006 (Previously filed)

*Filed herewith

(C) FINANCIAL STATEMENTS REQUIRED BY REGULATION S-X.

Separate financial statements of the Hong Kong Joint Venture

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Consolidated Cash Flow Statement
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment to be signed on its behalf by the undersigned, thereto duly authorized.

Date: September 7, 2006

UNIVERSAL SECURITY INSTRUMENTS, INC.

By: /s/ Harvey B. Grossblatt

Harvey B. Grossblatt, President

EYSTON COMPANY LIMITED

Reports and Financial Statements
For the year ended 31 March 2006

EYSTON COMPANY LIMITED

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Expressed in Hong Kong dollars ("HK\$")

Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS OF EYSTON COMPANY LIMITED :

We have audited the accompanying consolidated balance sheets of EYSTON COMPANY

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LIMITED and subsidiaries ("the Company"), as of March 31, 2006 and 2005, and the related consolidated statements of income, changes in equity, and cash flows for each of the two years in the period ended March 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2006 and 2005, and the consolidated results of its income and its cash flows for each of the two years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Hong Kong.

GRANT THORNTON
Certified Public Accountants
Hong Kong

June 23, 2006

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EYSTON COMPANY LIMITED

Consolidated income statement
for the year ended 31 March 2006

	Notes	2006 HK\$	2005 HK\$
Turnover	5	192,697,968	201,851,572
Cost of sales		(125,843,197)	(134,128,970)

Gross profit		66,854,771	67,722,602
Other income	6	2,798,681	2,550,272
Administrative expenses		(33,160,250)	(27,242,707)

Profit from operations		36,493,202	43,030,167
Finance costs	7	(265,063)	(239,239)

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Profit before income tax	8	36,228,139	42,790,928
Income tax expense	9	(3,912,698)	(3,776,352)
Profit for the year	10	32,315,441	39,014,576
Dividends	11	17,163,365	18,508,258

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EYSTON COMPANY LIMITED

Consolidated balance sheet
as at 31 March 2006

	Notes	2006 HK\$	(Rest)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	41,660,661	35,04
Advanced lease payments	13	8,708,432	8,97
Available-for-sale financial assets/Other investments	14	34,277,991	27,04
		84,647,084	71,06
Current assets			
Inventories	16	18,922,905	18,29
Trade and other receivables	17	8,280,783	6,14
Loan to a shareholder	19	3,900,000	3,90
Cash and cash equivalents		26,322,005	19,46
		57,425,693	47,81
Current liabilities			
Trade and other payables		20,844,537	15,57
Amount due to a related company	20	2,914,238	3,61
Dividend payable	21	11,700,000	11,70
Amount due to a shareholder	20	409,907	25
Loans from shareholders	22	2,868,954	2,86
Collateralised bank advances	23	3,435,122	
Provision for taxation		1,081,046	1,37
		43,253,804	35,38

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Net current assets		14,171,889	12,42
Total assets less current liabilities		98,818,973	83,48
Non-current liabilities			
Provision for deferred taxation	24	255,000	19
Net assets		98,563,973	83,29
EQUITY			
Share capital	25	200	
Reserves	26	98,563,773	83,29
		98,563,973	83,29

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EYSTON COMPANY LIMITED

Balance sheet
as at 31 March 2006

	Notes	2006 HK\$	(Res
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	5,024,417	4,80
Advanced lease payments	13	1,191,701	1,45
Available-for-sale financial assets/Other investments	14	34,277,991	27,04
Interests in subsidiaries	15	39,793,122	50,75
		80,287,231	84,05
Current assets			
Inventories	16	18,922,905	18,00
Other receivables		904,638	2,56
Amounts due from subsidiaries	18	26,647,470	8,41
Cash and cash equivalents		20,200,914	10,36
		66,675,927	39,34
Current liabilities			

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Trade and other payables		16,817,998	13,98
Amount due to a related company	20	2,914,238	3,61
Dividend payable	21	11,700,000	11,70
Loans from shareholders	22	2,868,954	2,86
Provision for taxation		1,081,046	1,37
		35,382,236	33,54

Net current assets		31,293,691	5,79

Total assets less current liabilities		111,580,922	89,84

Non-current liabilities			
Provision for deferred taxation	24	255,000	19

Net assets		111,325,922	89,65

EQUITY			
Share capital	25	200	
Reserves	26	111,325,722	89,65
		111,325,922	89,65

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EYSTON COMPANY LIMITED

Consolidated statement of changes in equity
for the year ended 31 March 2006

	Share capital HK\$	Exchange reserve HK\$	Fair value reserve HK\$	Retained profits HK\$
Balance at 1 April 2004	200	8,378	-	62,755,463
Exchange differences arising on translation of a subsidiary	-	25,855	-	-
Profit for the year	-	-	-	39,014,576
Dividends	-	-	-	(18,508,258)

Balance at 31 March 2005	200	34,233	-	83,261,781

Balance at 1 April 2005 - prior to

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opening adjustment	200	34,233	-	83,261,781
Opening adjustment on adoption of HKAS 39 (note 2.2)	-	-	(251,023)	251,023

Adjusted balance at 1 April 2005	200	34,233	(251,023)	83,512,804
Change in fair value of available-for-sale financial assets	-	-	(499,606)	-
Exchange differences arising on translation of a subsidiary	-	615,289	-	-
Profit for the year	-	-	-	32,315,441
Dividends	-	-	-	(17,163,365)

Balance at 31 March 2006	200	649,522	(750,629)	98,664,880

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EYSTON COMPANY LIMITED

Consolidated cash flow statement
for the year ended 31 March 2006

	2006 HK\$	(Res
Cash flows from operating activities		
Profit before income tax	36,228,139	42,79
Adjustments for :		
Amortisation of advanced lease payment	415,454	23
Bad debts written off	-	13
Depreciation of property, plant and equipment	4,414,388	3,85
Gain on disposal of other investments	-	(4
Loss/(Gain) on disposal of property, plant and equipment	9,985	(34
Interest expense	265,063	23
Interest income	(1,761,425)	(1,30
Unrealised holding loss on other investments	-	84

Operating profit before working capital changes	39,571,604	46,41
Decrease in amount due to a shareholder	(3,845,777)	(54
(Increase)/Decrease in inventories	(624,869)	2,11
Decrease in trade and other receivables	1,300,430	3
Increase in loan to a shareholder	-	(3,90
(Decrease)/Increase in amount due to a related company	(698,628)	43
Increase in trade and other payables	5,271,527	76

Cash generated from operations	40,974,287	45,31

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Interest received	1,761,425	1,30
Interest paid	(265,063)	(23
Dividends paid	(13,158,676)	(14,92
Hong Kong profits tax paid	(4,148,883)	(1,86

Net cash generated from operating activities	25,163,090	29,59

Cash flows from investing activities		
Purchase of property, plant and equipment	(10,630,878)	(16,67
Purchase of available-for-sale financial assets/other investments	(7,729,800)	(7,78
Proceeds from disposal of available-for-sale financial assets/other investments	-	3,92
Proceeds from disposal of property, plant and equipment	5,919	35

Net cash used in investing activities	(18,354,759)	(20,17

Net increase in cash and cash equivalents	6,808,331	9,41
Cash and cash equivalents at beginning of the year	19,468,905	10,03
Effect of foreign exchange rate changes, net	44,769	2

Cash and cash equivalents at end of the year	26,322,005	19,46

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Eyston Company Limited

Notes to the financial statements
for the year ended 31 March 2006

1. GENERAL INFORMATION

The company is a limited liability company incorporated and domiciled in Hong Kong. The address of the company's registered office and principal place of business is B2, 3/F., Fortune Factory Building, 40 Lee Chung Street, Chai Wan, Hong Kong.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance.

The financial statements for the year ended 31 March 2006 were approved by the board of directors on 23 June 2006.

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2. ADOPTION OF NEW OR REVISED HKFRS

From 1 April 2005, the group has adopted, for the first time, the new or revised standards and interpretations of HKFRS, which are relevant to its operations. This includes the following new, revised and renamed standards:

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 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 32 Financial Instruments : Disclosure and Presentation
HKAS 36 Impairment of Assets
HKAS 37 Provisions, Contingent Liabilities and Contingent Assets
HKAS 39 Financial Instruments : Recognition and Measurement
HK(SIC)-Int 15 Operating leases - Incentives

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Eyston Company Limited

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2005 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2005 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 March 2005.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes :

2.1 Adoption of HKAS 17

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are charged to the income statement on a straight-line basis over the period of the lease. In prior years, leasehold land and buildings were not separated. Leasehold land and buildings and land use rights were classified under property, plant and equipment and carried at cost less accumulated depreciation and accumulated impairment losses. The reclassification does not give rise to any adjustment to prior year's profit.

2.2 Adoption of HKAS 32 and HKAS 39

Prior to the adoption of HKAS 39, investments of the group were classified into unlisted equity securities and listed debt securities, which were stated in the balance sheet at cost less any impairment losses and at fair value, respectively. Any impairment losses on unlisted equity securities and changes in fair value of listed debt securities were recognised in the income statement in the period in which they arose.

On the adoption of HKAS 39, the listed debt securities as at 31 March 2005 were redesignated into available-for-sale financial assets on 1 April 2005. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the aggregate gain or loss previously reported in equity is included in the income statement.

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Eyston Company Limited

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

2.2 Adoption of HKAS 32 and HKAS 39 (Continued)

In accordance with the transitional provisions of HKAS 39, the recognition, derecognition and measurement of financial assets and liabilities on a retrospective basis is not permitted. Accordingly, an adjustment has been made to restate the aggregate changes in fair value of the group's listed debt securities of HK\$251,023 from retained profits to fair value reserve at 1 April 2005.

According to the relevant transitional provisions of HKAS 39, the group's bills discounted with full recourse, which were derecognised and treated as contingent liabilities (note 29) until 31 March 2005, have been accounted for as collateralised bank advances (note 23) and bills receivable (note 17) prospectively on or after 1 April 2005 as the financial assets derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

2.3 Other standards adopted

All other standards did not result in significant changes to the group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these standards and interpretations did not result in any significant changes to the amounts or disclosures in these financial statements.

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Eyston Company Limited

2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

2.4 New standards or interpretations that have been issued but are not

yet effective.

The group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the company anticipate that the adoption of such standards and interpretations will not result in substantial changes to the group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures (1)
HKAS 19 (Amendment)	Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures (2)
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation(2)
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions (2)
HKAS 39 (Amendment)	The Fair Value Options (2)
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments : Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts (2)
HKFRS 1& HKFRS 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources (2)
HKFRS 6	Exploration for and Evaluation of Mineral Resources (2)
HKFRS 7	Financial Instruments - Disclosures (1)
HK(IFRIC) - Int 4	Determining whether an Arrangement contains a Lease(2)
HK(IFRIC) - Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (2)
HK(IFRIC) - Int 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (3)
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (4)
HK(IFRIC) - Int 8	Scope of HKFRS 2 (5)
HK(IFRIC) - Int 9	Reassessment of embedded derivatives (6)

- (1) Effective for annual periods beginning on or after 1 January 2007
- (2) Effective for annual periods beginning on or after 1 January 2006
- (3) Effective for annual periods beginning on or after 1 December 2005
- (4) Effective for annual periods beginning on or after 1 March 2006
- (5) Effective for annual periods beginning on or after 1 May 2006
- (5) Effective for annual periods beginning on or after 1 June 2006

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Eyston Company Limited

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities. The measurement bases are fully described in the accounting policies below.

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It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3.2 Basis of consolidation

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

3.3 Subsidiaries

Subsidiaries are those entities in which the company controls more than half of the voting power, or holds more than half of the issued share capital, or controls the composition of the board of directors. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the company on the basis of dividends received and receivable at the balance sheet date.

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Eyston Company Limited

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation is provided to write off the cost of property, plant and equipment less their residual values over their estimated useful lives, using the straight line method, at the following rates per annum :

Buildings	5% or where shorter over 16 - 19 years
Leasehold improvements	20%
Plant and machinery	10%
Furniture and fixtures	20%

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Motor vehicles	20%
Computer equipment and software	50%

Construction in progress represents costs incurred in the construction of buildings. These costs are not depreciated until such time as the relevant assets are completed and put into use, at which time the relevant costs are transferred to the appropriate category of property, plant and equipment.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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Eyston Company Limited

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using first-in, first-out method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and estimated costs necessary to make the sale.

3.6 Financial assets

The financial assets include available-for-sale financial assets, trade and other receivables, bills receivable, and amounts due from group companies.

In previous years, the group classified its investments in debt securities as other investments. Other investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in fair value of other investments were recognised in the income statement as they arose. Gains or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

From 1 April 2005 onwards, the group classifies its financial assets into loans and receivables and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest

method less any impairment. Any changes in their value are recognised in income statement.

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Eyston Company Limited

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial assets (Continued)

Loans and receivables (Continued)

Loans and receivables are provided against when objective evidence is received that the group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment is the difference between the asset's carrying amount and the present value of expected cash flows, discounted at the effective interest rate.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value, with changes in value recognised in equity (i.e. fair value reserve). Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised. Impairment losses previously recognised in the income statement on equity instruments will not reverse in subsequent periods. Impairment losses previously recognised in income statement are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

3.7 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

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Eyston Company Limited

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Impairment of assets

Property, plant and equipment are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Any impairment loss is charged pro rata to the assets in the cash generating unit.

An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment had been recognised.

3.9 Financial liabilities

The financial liabilities include trade and other payables, amounts due to group and related companies and borrowings.

Financial liabilities are recognised when the group or the company becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in the income statement.

Trade and other payables and amounts due to group and related companies are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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Eyston Company Limited

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Employee benefits

Retirement benefits costs

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The company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries, limited to a maximum of HK\$1,000 per month, 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 company in an independently administered fund. The company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

3.11 Equity

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefits) to the extent they are incremental cost directly attributable to the equity transaction that otherwise would have been avoided. The cost of an equity transaction that is abandoned are recognised as an expense.

3.12 Foreign currencies

The financial statements are presented in Hong Kong Dollars (HK\$), which is also the functional currency of the company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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Eyston Company Limited

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Foreign currencies (Continued)

In the consolidated financial statements, all separate financial statements of subsidiaries, originally presented in a currency different from the group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rate at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the exchange reserve in equity.

3.13 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements with their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

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Eyston Company Limited

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Operating lease payments are recognised as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

3.15 Recognition of revenue

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

Rental income from properties letting under operating leases is recognised on the straight line basis over the lease terms.

Interest income is recognised on a time proportion basis.

3.16 Related parties

Parties are considered to be related to the group if :

- (i) directly, or indirectly through one or more intermediaries, the party : -controls, is controlled by, or is under common control with, the group; -has an interest in the group that gives it significant influence over the group; -has joint control over the group;
- (ii) the party is a jointly-controlled entity;
- (iii) the party is an associate;
- (iv) the party is a member of the key management personnel of the group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);

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Eyston Company Limited

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Related parties (Continued)

- (vi) 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 (iv) or (v); or
- (vii) 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.

3.17 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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 :

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Eyston Company Limited

Depreciation and amortisation

The group and company depreciated the property, plant and equipment on a straight-line basis over the estimated useful lives, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the group intends to derive future economic benefits from the use of the group's and company's property, plant and equipment.

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Eyston Company Limited

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Impairment of receivables

The policy for the impairment of receivables of the group is based on the evaluation of collectibility and ageing analysis of accounts and on the management's judgement. 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 debtor.

Net realisable value of inventories

Net realisable value of inventories is the actual or estimated selling price in the ordinary course of business, less further costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to the changes in market condition. Management reassess these estimations at the balance sheet date.

Current taxation and deferred taxation

The group is subject to income taxes in Hong Kong and the People's Republic of China ("PRC"). Significant judgement is required in determining the amount of the provision of taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. TURNOVER

Revenue, which is also the group's turnover, represents total invoiced value of goods supplied, less discounts and returns.

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Eyston Company Limited

6. OTHER INCOME

	2006 HK\$	
Exchange gain, net	-	4
Gain on disposal of property, plant and equipment	150	34
Interest income	1,761,425	1,30
Rental income, less outgoings	268,800	26
Sundry income	768,306	58

	2,798,681	2,55

7. FINANCE COSTS

	2006 HK\$	
Interest charges on :		
- Discounted bills	265,063	19
- Others	-	4

	265,063	23

8. PROFIT BEFORE INCOME TAX

	2006 HK\$	(Res
Profit before income tax is arrived at after charging :		
Amortisation of advanced lease payments	415,454	23
Auditors' remuneration	187,020	20
Bad debts written off	-	13
Cost of inventories recognised as expenses	125,843,197	134,12
Depreciation of property, plant and equipment	4,414,388	3,85
Exchange loss, net	598,754	
Loss on disposal of property, plant and equipment	9,178	
Operating lease charges in respect of land and buildings	1,334,433	1,28
Retirement benefits scheme contributions	226,818	19
Staff costs (excluding retirement benefits scheme contributions)	14,213,294	11,57
Unrealised holding loss on other investments	-	84

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Eyston Company Limited

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9. INCOME TAX EXPENSE

	2006 HK\$	
The tax charge comprises :		
Hong Kong profits tax		
- current year	3,922,325	3,86
- overprovision in prior years	(71,627)	(20
	-----	-----
	3,850,698	3,65
	-----	-----
Deferred taxation (Note 24)		
- current year	62,000	11
	-----	-----
Total income tax expense	3,912,698	3,77
	-----	-----

Hong Kong profits tax has been provided at the rate of 17.5% (2005 : 17.5%) on the group's estimated assessable profits arising in Hong Kong for the year.

No provision for PRC Enterprise Income Tax has been made as the group has no assessable profit in Mainland China (2005 : Nil).

Reconciliation between tax expense and accounting profit at applicable tax rates :

	2006 HK\$	
Profit before income tax	36,228,139	42,790
	-----	-----
Notional tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	6,028,317	7,293
Tax effect of non-deductible expenses	1,105,380	379
Tax effect of non-taxable revenue	(4,248,502)	(4,202
Tax effect on temporary differences not recognised	478,546	393
Tax effect on unrecognised tax losses	620,584	113
Overprovision in prior years	(71,627)	(201
	-----	-----
Actual tax expense	3,912,698	3,77
	-----	-----

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Eyston Company Limited

10. PROFIT FOR THE YEAR

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Of the consolidated profit attributable to shareholders of HK\$32,315,441 (2005 : HK\$39,014,576), HK\$39,334,216 (2005 : HK\$42,542,423) has been dealt with in the financial statements of the company.

11. DIVIDENDS

	2006 HK\$	
Dividends attributable to the year :		
First interim dividend of HK\$1,667,865 (2005 : HK\$1,168,350) per share	3,335,730	2,336
Second interim dividend of HK\$2,336,824 (2005 : HK\$2,413,723) per share	4,673,649	4,827
Third interim dividend of HK\$2,014,406 (2005 : HK\$2,580,752) per share	4,028,813	5,161
Fourth interim dividend of HK\$2,562,586 (2005 : HK\$3,091,304) per share	5,125,173	6,182
	-----	-----
	17,163,365	18,508
	-----	-----

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Eyston Company Limited

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK\$	Leasehold improvements HK\$	Construction in progress HK\$	Plant and machinery HK\$	Furniture and fixtures HK\$	ve
(Restated)						
At 1 April 2004						
Cost	13,711,906	10,384,240	5,693,589	31,745,665	3,974,371	3,9
Accumulated depreciation	(7,092,955)	(8,141,900)	-	(27,214,851)	(3,358,584)	(1,8
Net book amount	6,618,951	2,242,340	5,693,589	4,530,814	615,787	2,1

Year ended 31 March 2005						
Opening net book amount	6,618,951	2,242,340	5,693,589	4,530,814	615,787	2,1
Additions	-	429,650	12,560,638	2,122,395	296,239	9
Disposals	-	-	-	(5,075)	-	-
Depreciation	(760,043)	(772,782)	-	(955,096)	(262,873)	(7
Exchange differences	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-

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Closing net book amount	5,858,908	1,899,208	18,254,227	5,693,038	649,153	2,4

At 31 March 2005						
Cost	13,711,906	10,813,890	18,254,227	29,168,238	4,001,317	4,8
Accumulated depreciation	(7,852,998)	(8,914,682)	-	(23,475,200)	(3,352,164)	(2,3

Net book amount	5,858,908	1,899,208	18,254,227	5,693,038	649,153	2,4

Year ended 31 March 2006						
Opening net book amount	5,858,908	1,899,208	18,254,227	5,693,038	649,153	2,4
Additions	71,154	43,319	6,332,090	2,828,123	991,463	1
Disposals	-	(11,083)	-	(1,733)	(2,280)	
Depreciation	(1,271,697)	(769,939)	-	(1,026,319)	(304,012)	(7
Exchange differences	-	-	395,175	-	2,513	
Reclassifications	22,971,168	-	(24,981,492)	2,010,324	-	

Closing net book amount	27,629,533	1,161,505	-	9,503,433	1,336,837	1,8

At 31 December 2005						
Cost	36,754,228	10,822,209	-	33,801,485	4,976,520	5,0
Accumulated depreciation	9,124,695	9,660,704	-	24,298,052	3,639,683	3,1

Net book amount	27,629,533	1,161,505	-	9,503,433	1,336,837	1,8

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Eyston Company Limited

12. PROPERTY, PLANT AND EQUIPMENT

Company

	Buildings HK\$	Leasehold Improvements HK\$	Construction in progress HK\$	Plant and machinery HK\$	Furniture and fixtures HK\$	v
(Restated)						
At 1 April 2004						
Cost	2,829,732	2,354,287	-	449,414	1,404,622	2,
Accumulated depreciation	1,806,262	2,007,883	-	24,912	1,143,839	1,

Net book amount	1,023,470	346,404	-	424,502	260,783	

Year ended 31 March 2005						
Opening net book amount	1,023,470	346,404	-	424,502	260,783	
Additions	-	429,650	-	2,122,395	171,754	
Disposals	-	-	-	-	-	
Depreciation	(141,486)	(152,141)	-	(146,517)	(115,793)	(

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Exchange differences	-	-	-	-	-
Reclassifications	-	-	-	-	-

Closing net book amount	881,984	623,913	-	2,400,380	316,744
-------------------------	---------	---------	---	-----------	---------

At 31 March 2005

Cost	2,829,732	2,783,937	-	2,571,809	1,576,376	1,
Accumulated depreciation	1,947,748	2,160,024	-	171,429	1,259,632	1,

Net book amount	881,984	623,913	-	2,400,380	316,744
-----------------	---------	---------	---	-----------	---------

Year ended 31 March 2006

Opening net book amount	881,984	623,913	-	2,400,380	316,744
Additions	-	6,800	-	1,230,371	20,990
Disposals	-	-	-	-	-
Depreciation	(141,486)	(191,471)	-	(301,321)	(105,894)
Exchange differences	-	-	-	-	-
Reclassifications	-	-	-	-	-

Closing net book amount	740,498	439,242	-	3,329,430	231,840
-------------------------	---------	---------	---	-----------	---------

At 31 December 2005

Cost	2,829,732	2,790,737	-	3,802,180	1,593,416	1,
Accumulated depreciation	2,089,234	2,351,495	-	472,750	1,361,576	1,

Net book amount	740,498	439,242	-	3,329,430	231,840
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Eyston Company Limited

13. ADVANCED LEASE PAYMENTS

	Group (Restated)		Company (Restated)	
	2006 HK\$	2005 HK\$	2006 HK\$	
Land use rights	7,516,731	7,520,078	-	
Advanced lease payments, net	1,191,701	1,451,292	1,191,701	1,
	8,708,432	8,971,370	1,191,701	1,

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14. AVAILABLE-FOR-SALE FINANCIAL ASSETS/ OTHER INVESTMENTS

	2006 HK\$	Group 2005 HK\$	2006 HK\$	Compa
Available-for-sale financial assets:				
Listed outside Hong Kong, at market value	34,277,991	-	34,277,991	
Debt securities :				
Listed outside Hong Kong, at market value	-	27,047,797	-	27,
	34,277,991	27,047,797	34,277,991	27,

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Eyston Company Limited

15. INTERESTS IN SUBSIDIARIES

Company

	2006 HK\$	2005 HK\$
Unlisted shares, at cost	39,993,130	32,658,008
Less : Impairment	(200,000)	(200,000)
	39,793,130	32,458,008
Amounts due from subsidiaries	-	19,079,609
Less : Impairment	-	(785,384)
	-	18,294,225
Amount due to a subsidiary	(8)	(8)
	39,793,122	50,752,225

At 31 March 2006, the amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment and the amounts due from subsidiaries are repayable on demand and accordingly, are classified as current assets (note 18).

At 31 March 2005, the amounts due from/(to) subsidiaries were unsecured, interest-free and had no fixed terms of repayment. In the opinion of the directors, no part of amounts would be repayable within one year from the balance sheet date and the balances were therefore shown as non-current assets.

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Eyston Company Limited

15. INTERESTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries as at 31 March 2006 are as follows :

Name	Place of incorporation/ establishment	Nominal value of issued capital/registered capital	Percentage of issued capital held by the company directly	Principal activities
Fujian Taisun Electronics Technologies Co., Ltd.	The PRC	US\$15,000,000	100%	Manufacture of electronic (operations commenced y
Fujian Taisun Fire Safety Technologies Co., Ltd.	The PRC	US\$5,000,000	100%	Manufacture of electronic (operations commenced y
Sound Well (Hong Kong) Co. Limited	Hong Kong	HK\$200,000	100%	Trading of co electronic and investm
Kimbager International Limited	British Virgin Islands	US\$1	100%	Trading of ma and equipme
Kimbager Limited	Hong Kong	HK\$10,000	100%	Dormant

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Eyston Company Limited

16. INVENTORIES

	Group		Company	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Raw materials	10,583,470	12,704,515	10,583,470	12,704,515
Work in progress	3,420,355	2,051,929	3,420,355	2,051,929
Finished goods	4,919,080	3,541,592	4,919,080	3,244,812
	-----	-----	-----	-----
	18,922,905	18,298,036	18,922,905	18,001,256
	-----	-----	-----	-----

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Eyston Company Limited

17. TRADE AND OTHER RECEIVABLES

	Group	
	2006	2005
	HK\$	HK\$
Accounts receivable	3,511,654	3,133,328
Bills receivable (note 2.2)	3,435,122	-
Deposits, prepayments and other receivables	1,334,007	3,012,763
	-----	-----
	8,280,783	6,146,091
	-----	-----

18. AMOUNTS DUE FROM SUBSIDIARIES

	2006	2005
	HK\$	HK\$
Trade *	7,371,509	8,414,502
Non-trade **	20,251,108	-
	-----	-----
	27,622,617	8,414,502
Less : Impairment	(975,147)	-
	-----	-----
	26,647,470	8,414,502
	-----	-----

* The amount is unsecured and arises from trading activities of which the settlement period is in accordance with normal commercial terms. Interest is charged on the overdue portion over HK\$3,900,000 (equivalent to US\$500,000) at 6% per annum.

** The amount is unsecured, interest-free and repayable on demand.

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Eyston Company Limited

19. LOAN TO A SHAREHOLDER

The loan to a shareholder is unsecured, interest bearing at 6% per annum and is repayable on demand.

20. AMOUNT DUE TO A RELATED COMPANY/ A SHAREHOLDER

The amount is unsecured, interest-free and repayable on demand.

21. DIVIDEND PAYABLE

At a board meeting held on 7 February 2004, the directors declared a final dividend of HK\$5,850,000 per share, totalling HK\$11,700,000, which is expected to be payable to the shareholders upon successful initial listing of the company's shares on the Main Board of The Stock Exchange of Hong

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Kong Limited ("the HKEX").

22. LOANS FROM SHAREHOLDERS

The loans are unsecured, interest-free and repayable on demand by the respective shareholders with the consent of each other and upon successful initial listing of the company's shares on the Main Board of HKEX, whichever is earlier.

23. COLLATERALISED BANK ADVANCES

As described in note 2.2 to the financial statements, this amount represents the recognition of the bills discounted with recourse at 31 March 2006.

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Eyston Company Limited

24. DEFERRED TAXATION

At 31 March 2006, the major deferred tax liabilities recognised in the balance sheets and the movements during the current and prior years :

Group and Company

	Accelerated tax depreciation HK\$
Balance at 1 April 2004	75,000
Charge to income statement	118,000
<hr style="border-top: 1px dashed black;"/>	
Balance at 31 March 2005 and 1 April 2005	193,000
Charge to income statement (Note 9)	62,000
	255,000
<hr style="border-top: 1px dashed black;"/>	
Balance at 31 March 2006	

	2006 HK\$	2005 HK\$
Deferred tax liabilities recognised in the balance sheets of the group and company	255,000	193,000
<hr style="border-top: 1px dashed black;"/>		

At the balance sheet date, the major component of the deferred tax assets has not been recognised is the temporary difference in respect of the pre-operating expenses incurred by Fujian Taisun, the PRC subsidiary of the company, of approximately HK\$1,524,303 (2005 : HK\$1,074,000) as it is not certain that future taxable profits will be available against which this deductible temporary difference can be utilised.

25. SHARE CAPITAL

	2006 HK\$	2005 HK\$
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Authorised :			
100 ordinary shares of HK\$100 each		10,000	10,000

Issued and fully paid :			
2 ordinary shares of HK\$100 each		200	200

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Eyston Company Limited

26. RESERVES

Group

	2006 HK\$	2005 HK\$
Exchange reserve	649,522	34,233
Fair value reserve	(750,629)	-
Retained profits	98,664,880	83,261,781
	<hr/>	<hr/>
	98,563,773	83,296,014

Details of the movements in the above reserves during the year are set out in the consolidated statement of changes in equity on page 6.

Company

	Retained profits HK\$	Fair value reserve HK\$	Total HK\$
Balance at 1 April 2004	65,620,312	-	65,620,312
Profit for the year	42,542,423	-	42,542,423
Dividends	(18,508,258)	-	(18,508,258)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2005	89,654,477	-	89,654,477
	<hr/>	<hr/>	<hr/>
Balance at 1 April 2005 - prior to opening adjustment	89,654,477	-	89,654,477
Opening adjustment on adoption of HKAS 39 (note 2.2)	251,023	(251,023)	-
	<hr/>	<hr/>	<hr/>
Adjusted balance at 1 April 2005	89,905,500	(251,023)	89,654,477

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Profit for the year	39,334,216	-	39,334,216
Change in fair value of available-for-sale financial assets	-	(499,606)	(499,606)
Dividends	(17,163,365)	-	(17,163,365)

Balance at 31 March 2006	112,076,351	(750,629)	111,325,722

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Eyston Company Limited

27. OPERATING LEASE ARRANGEMENTS

At 31 March 2006, the total future minimum rental receivable under non-cancellable operating leases in respect of land and buildings are as follows :

	Group and Company	
	2006 HK\$	2005 HK\$
Within one year	53,265	76,800
In the second to fifth years	-	53,265

	53,265	130,065

At 31 March 2006, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows :

	Group		Company	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Within one year	1,160,600	1,202,000	1,000,000	996,000
In the second to fifth years	140,000	1,054,516	140,000	980,000

	1,300,600	2,256,516	1,140,000	1,976,000

The group and the company lease land and buildings under operating leases. The leases run for an initial period of one to two years, with an option to renew the leases at the expiry dates. None of the leases includes contingent rentals.

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Eyston Company Limited

28. CAPITAL COMMITMENTS

	Group		Company	
	2006	2005	2006	2006
	HK\$	HK\$	HK\$	HK\$
Contracted but not provided for the purchase of property, plant and equipment	3,853,794	3,548,800	6,100,930	9,779
Contracted but not provided for the construction of the factory premises in the PRC	2,780,697	5,462,297	-	-
Capital contributions payable to PRC wholly-owned subsidiaries	-	-	116,216,878	84,552
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	6,634,491	9,011,097	122,317,808	94,331
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29. CONTINGENT LIABILITIES

The current and prior years' tax provisions have been prepared on the basis that the management fees and bonuses are deductible in the determination of the assessable profits of the company and the company is entitled to the offshore claims. During the year ended 31 March 2006, the company received enquiries from the Hong Kong Inland Revenue Department regarding these deductions and offshore claims. The directors have assessed the circumstances as at the date of approval of these financial statements, no additional tax provision being suggested since the outcome is uncertain. The total contingent tax exposures to the group and company in respect of the deductions and offshore claims are estimated to be approximately HK\$2.8 million and HK\$8.3 million, respectively.

At 31 March 2005, the group has a contingent liability of HK\$3,906,240 in respect of the bills discounted with recourse.

Save as disclosed above, the group and company have no contingent liabilities at 31 March 2006.

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Eyston Company Limited

30. DIRECTORS' REMUNERATION

Remuneration of the directors of the company disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows :

Group	Company
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	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Fees	-	-	-	-
Other emoluments	-	-	-	-

31. RELATED PARTY TRANSACTIONS

During the year, the following transactions were carried out with related parties :

	2006 HK\$	Group 2005 HK\$
Transactions with a related company		
Rental expense	840,000	840,000
Management fee expense	4,434,600	4,434,600
Management bonus expense	2,914,238	3,337,730
Transactions with a shareholder		
Sales	95,570,482	82,241,295
Purchases	5,713,786	2,410,042
Sales commission expense	605,942	1,111,515
Interest income	234,000	229,550
Interest expenses	-	46,957
Transaction with a director		
Rental expenses	240,000	240,000

32. MAJOR NON-CASH TRANSACTION

During the year ended 31 March 2006, HK\$4,004,689 (2005 : HK\$3,582,073) of the dividends for the year was settled through the current account with a shareholder.

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Eyston Company Limited

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's major financial assets and liabilities include bank balances and cash, available-for-sale financial assets, trade receivables and payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The group does not have any significant exposure to interest rate risk as the group currently has no financial assets and liabilities with floating interest rates.

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(b) Foreign currency risk

The group's exposure to risk resulting from changes in foreign currency exchange rates is minimal.

(c) Credit risks

The company's bank balances are all deposited with major banks in Hong Kong and the PRC.

The carrying amount of trade and other receivables represent the group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk. The group has no significant concentration of credit risk.

(d) Fair values

The fair values of the group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

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