



Elegance International Holdings Limited



annual 2003 report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

HUI Leung Wah
POON Sui Hong
LEUNG Shu Sum

Non-Executive Directors

Mario PIETRIBIASI
Vittorio TABACCHI

Independent Non-Executive Directors

FOK Kwan Wing
POON Kwok Fai, Ronald

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.

AUDITORS

Ernst & Young

HONG KONG LEGAL ADVISERS

K.B. Chau & Co.

BERMUDA LEGAL ADVISERS

Conyers, Dill & Pearman

HONG KONG SHARE REGISTRARS

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRARS

The Bank of Bermuda
6 Front Street
Hamilton HM 11
Bermuda

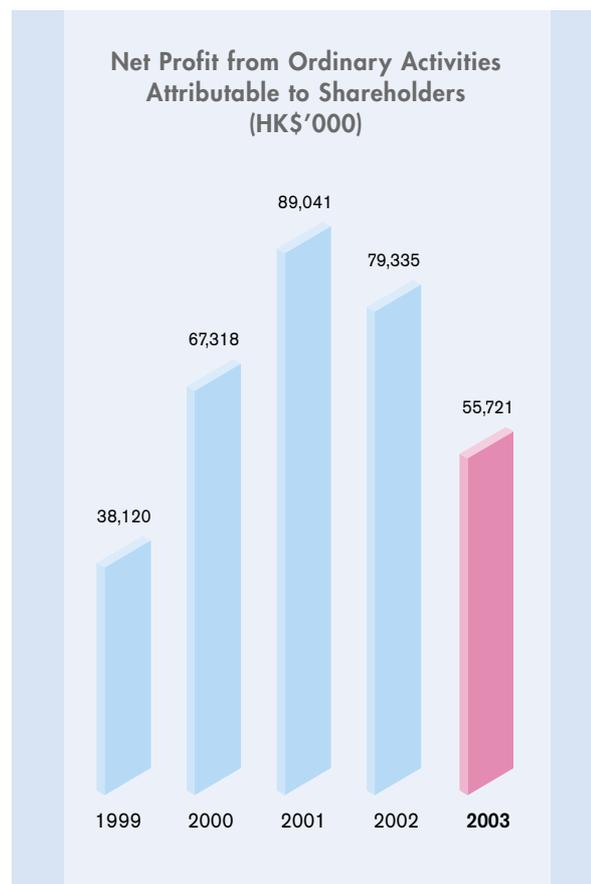
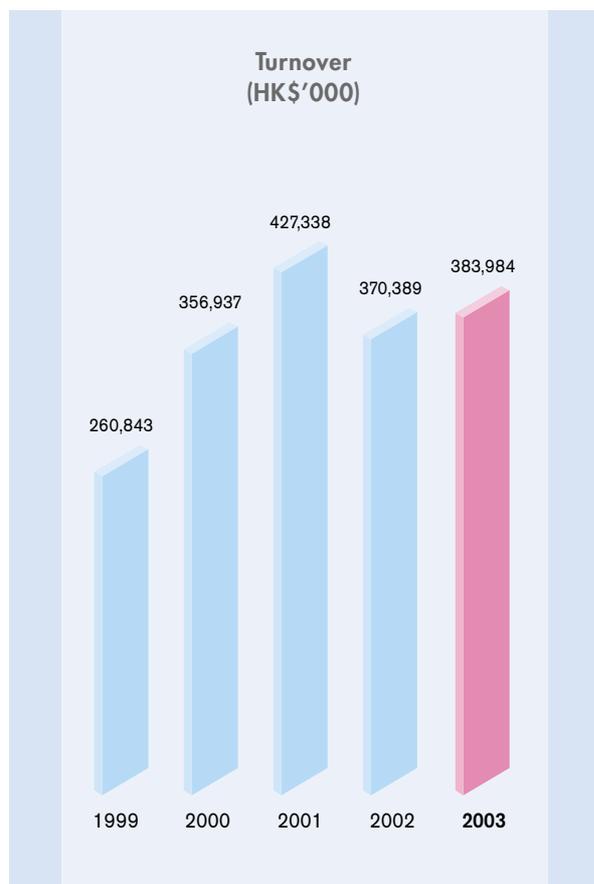
REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

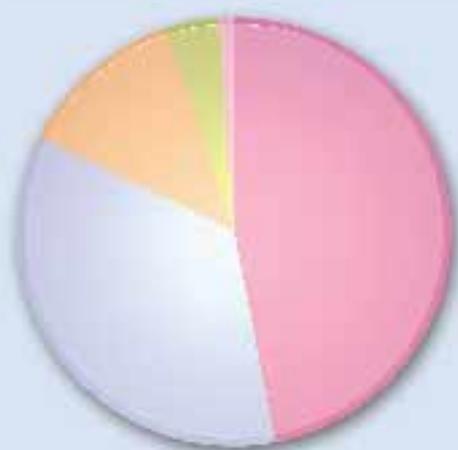
PRINCIPAL OFFICE

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

Financial Highlights



Breakdown of turnover by geographical area for the year ended 31 March 2003



North America	46.86%
Europe	35.35%
People's Republic of China (the "PRC") (including Hong Kong)*	12.17%
Other Asian Countries	3.83%
Others	1.79%

*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

On behalf of the Board of Directors (the "Board"), I am pleased to present the 2002/2003 annual report of Elegance International Holdings Limited (the "Company" or "Elegance") and its subsidiaries (collectively, the "Group").



FINAL DIVIDEND

The Board of Directors have resolved to recommend the payment of a final dividend of HK 7.5 cents per ordinary share (31 March 2002: HK 7.5 cents) for the year ended 31 March 2003 at the forthcoming Annual General Meeting to be held on 22 August 2003. The final dividend together with the interim dividend of HK 4.0 cents per ordinary share, will make a total dividend for the year of HK 11.5 cents (31 March 2002: HK 11.5 cents) per ordinary share. The final dividend, if approved by shareholders, is expected to

be payable on 11 September 2003 to those shareholders whose names appear on the Register of the Members on 22 August 2003.

CLOSURE OF THE REGISTER

The Register of Members will be closed from 16 August 2003 to 22 August 2003 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 G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 15 August 2003.

BUSINESS REVIEW

During the year under review, the Group continued to engage in the design, manufacture and sale of optical frames, sunglasses and related products.

Performance Highlight

During the year under review, the turnover of the Group for the year ended 31 March 2003 was approximately HK\$383,984,000 (31 March 2002: HK\$370,389,000). Total income of the Group during the year, which included principally the income from the manufacturing and sales of optical frames and sunglasses, has recorded a slight growth. North America and Europe accounted for 46.86% and 35.35% (31 March 2002: 39.74% and 32.77%) of the Group's turnover, respectively.

Net profit attributable to shareholders for the current year was HK\$55,721,000, compared to a reported profit of HK\$79,335,000 in the year 2001/2002, while basic earnings per share were HK17.22 cents (31 March 2002: HK 24.51 cents). The net asset value per share was HK\$1.43 (31 March 2002: HK\$1.37). The decrease in net profit attributable to shareholders for the year 2002/2003 was mainly due to the various special charges made against the operating profit. Should the special charges be excluded, the Group's financial performance would have been better and was comparable to the financial results for the year 2001/2002. These special charges included the impairment in value of properties in Hong Kong of HK\$1,800,000, the deficit on revaluation of investment properties of HK\$716,000 and the impairment of goodwill in relation to subsidiaries of HK\$1,687,000. Our profitability would have been higher if the additional tax provision of HK\$4,810,000 resulting from the settlement of disputes regarding the Hong Kong profits tax with the Inland Revenue Department was excluded. The additional tax provision made the current provision of Hong Kong profits tax for the year 2002/2003 sufficient to cover the tax liabilities in prior years.

Chairman's Statement *(continued)*

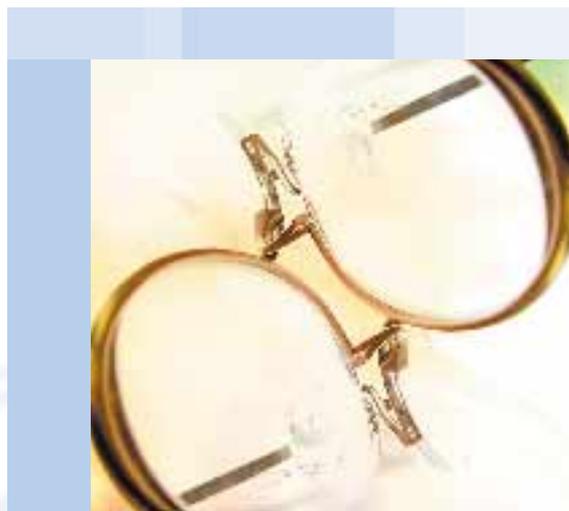
BUSINESS REVIEW *(continued)*

Performance Highlight *(continued)*

Added to the mentioned special charges was the lowering of the gross profit margin. During the year, the gross profit margin also decreased to approximately 37.90% (31 March 2002: 41.12%). There was keen competition in market and our product prices were under pressure. With increased cost of raw materials due to depreciation of US dollars, higher labour costs and other factory overheads, together with the fact that the sales in the year under review did not go up as predicted, the profitability of the Group was negatively affected.

The sales and marketing team has stepped up their sales effort by participating in more trade shows and exhibitions and by visiting the customers more frequently. These efforts accounted partly for the sharp rise in selling and distribution expenses in current financial year. In the period, business promotional expenses and travelling expenses increased by 24.42% and 30.12%, respectively.

The increase in administrative expenses was partly due to the exchange losses of HK\$2,012,000 resulting from the depreciation of US dollars in the current financial year. The general provision for bad and doubtful debts of HK\$2,071,000 explained the increase of other operating expenses for the year 2002/2003, a provision that the management contends to be justified in view of uncertain economic conditions for the current financial year.



The Group also adopted a prudent accounting policy to accrue the deferred tax liability in the financial statements due to the tax effect of timing difference arising as a result of the excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements. A provision for deferred tax of HK\$2,400,000 (2002: HK\$5,000,000) was made accordingly to recognise the deferred tax liability in the current year.

Analysis of Operations

Even though the slowdown of the global economy in 2002 and in the first half of 2003 struck a blow to the optical industry, the turnover of the Group remained stable over the past year in view of our efforts and a solid customer base. This demonstrated that optical products of Elegance were generally well accepted by our customers and our sales and marketing strategy was effective in retaining existing customers.

Chairman's Statement *(continued)*

BUSINESS REVIEW *(continued)*

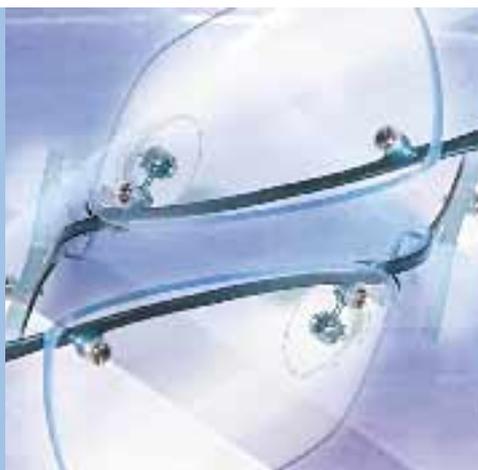
Analysis of Operations *(continued)*

With a view to provide more fashionable, reliable and competitive products to the market, we have concentrated our effort in improving our internal organization. In the year under review, we have strengthened our product design and development ability by adding more human resources as well as advanced machineries. We have also set up new infrastructure to improve on the quality assurance program so as to ensure that products of high quality would be delivered in a timely manner. We have also worked on organizing ourselves to provide better services to customers at all stages of the sales process. We strongly believe that these efforts will add competitive edges to the Group and will reinforce the Group as a major and leading player in the market.

With the full implementation of enterprise resource planning system, the management is gradually equipped with better management information tools. In this ever-changing business environment, the enhanced use of information technology will simplify and streamline the management processes, thus

enabling a smoother operation and faster response to customer needs. By this way, we hope to be able to keep pace with changing customer demand and the market trend so that we are able to better serve the customers.

Construction work of the new factory in Jin Quan, Shengzhen, the PRC, which is located right next to the main factory of the Group, will be completed during the year 2003/2004. It is expected that the new premise will become operational in late 2003. The new factory will consolidate some of the existing production facilities of the Group in the vicinity. With better utilization of the Group's facilities under one roof, we hope to achieve a greater operational efficiency and better economic return.



PROSPECT

The magnitude of the adverse impact on global economies brought by the Iraqi War, downturn in the economies of Europe and North America, the weakening of the U.S. currency and the catastrophic SARS outbreak is difficult to predict but stagnant market conditions will probably create cautious business sentiment. There will also be more intensive competition in the optical industry as the market conditions and outlook in Europe and North America are still uncertain. Business environment ahead is expected to be difficult. The Group has already heightened our emphasis on developing and energising our marketing team to expand the customer base in Europe and North America to overcome the challenges ahead, and the management is hopeful that such and the following measures taken will increase our competitiveness. We will also explore new market opportunities through establishing our distinctive and unique market position and by adopting a flexible market strategy, like providing more trendy and innovative designs to better satisfy our existing customers and in seeking new customers.

Chairman's Statement *(continued)*

PROSPECT *(continued)*

To help our customers to succeed in their increasingly competitive markets, the Group will continuously upgrade our support to our customers. It is a challenge that we are meeting effectively and that we will continue to excel by maintaining the closest and most proactive working relationship with them.

In addition to the focused and strengthened marketing strategies, enhancing our operational efficiency, product quality, design variety and timely delivery will also be important elements to withstand the uncertain market situation and maintain the market share. The Group will continue to improve on the manufacturing and logistics process to attain higher productivity to bring up our profit margin. We will also adopt more modern production and information technology to cater for the present and potential needs of our established as well as potential customers.

Besides the manufacturing business, the Group will maintain its alertness in seeking suitable opportunities in diversifying its business so that its income base can be widened.

LIQUIDITY AND FINANCIAL RESOURCE

During the year under review, the Group adopted a prudent treasury management policy in managing current assets and liabilities. The Group's balance sheet remained healthy. The cash and bank balance were reported at HK\$188,211,000 (2002: HK\$173,849,000) at the end of the current financial year with the continual support of cash flow from operating activities, notwithstanding that the capital expenditure led to a cash outflow of HK\$41,065,000 (2002: HK\$25,611,000). The substantial part of capital expenditures was the payments for the construction of the new factory complex of HK\$19,342,000 (2002: HK\$13,726,000). The working capital, defined as current assets less current liabilities, of HK\$275,808,000 (2002: HK\$269,193,000) was maintained as at 31 March 2003. Gearing, representing total bank borrowings over shareholder's funds, was maintained at relatively sound level of below 4.13% (2002: 2.26%) while bills payables surged to HK\$11,142,000 (2002: HK\$1,976,000) as at 31 March 2003 to cater mainly for capital investments in production facilities. Current ratio was also maintained at a healthy level of 5.48:1 (2002: 7.15:1).

The Group had banking facilities amounted to HK\$65,500,000 (31 March 2002: HK\$79,000,000), of which approximately HK\$19,142,000 (31 March 2002: HK\$10,026,000) were utilised. All outstanding bank borrowings were for purpose of trade-finance and working capital and short to medium term in nature.

As at 31 March 2003, the Group's capital commitment was of HK\$49,034,000 (31 March 2002: HK\$21,024,000), in which HK\$18,799,000 (2002: HK\$20,959,000) was related to the capital investments in the new factory facilities and machineries. The remaining portion is future contributions of capital to subsidiaries in the PRC.



Chairman's Statement (continued)



FOREIGN CURRENCY RISK

Since major transactions of the Group were primarily denominated in US dollars, Hong Kong dollars and Renminbi and the Group's treasury policy was of maintaining our liquid assets in these currencies, the exposure to foreign exchange risk was not material. There was no outstanding forward contract outstanding as at 31 March 2003.

PLEDGE OF ASSETS

At 31 March 2003, the Group has pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$17,432,000 (31 March 2002: HK\$18,972,000) 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.

CONTINGENT LIABILITIES

At 31 March 2003, the Group had contingent liabilities of HK\$65,500,000 (31 March 2002: HK\$79,000,000). The contingent liabilities comprised of guarantees given to banks in connection with facilities granted to its fellow subsidiaries.

EMPLOYEES

The total number of employees of the Group as of 31 March 2003 has increased to approximately 4,200 (2002: 3,900). Most of them were stationed in the Mainland China while the rest were in Hong Kong. Employee costs (excluding director's emoluments) amounting to approximately HK\$72,023,000 (31 March 2002: HK\$62,832,000). 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

Last but certainly not least, on behalf of the Board, I would like to take this opportunity to extend my sincere thanks to the Group's dedicated directors and staffs for their continuous improvement. I also wish to thank all our customers, suppliers, banks and shareholders for their long-time co-operation and support to the Group during the year.

By Order of the Board
Hui Leung Wah
 Chairman

Hong Kong, 26 June 2003

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Elegance International Holdings Limited (“the Company”) will be held at Boardroom I, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 22 August 2003 at 3:30 p.m. for the following purposes:–

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and Auditors for the year ended 31 March 2003;
2. To declare the final dividends for the year ended 31 March 2003;
3. To re-elect retiring Directors and to authorise the Board of Directors to fix their remuneration;
4. To appoint Auditors and to authorise the Board of Directors to fix their remuneration;
5. As special business to consider and, if thought fit, pass with or without amendments, the following resolutions as an Ordinary Resolution:–

“**THAT:**–

- (a) subject to paragraph 5(c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph 5(a) above shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph 5(a) above, otherwise than pursuant to (i) a Rights Issue (as hereafter defined) or (ii) an issue of shares as scrip dividends pursuant to the Bye-laws of the Company from time to time; (iii) the issue of shares under the exercise of options under any share option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or any of its subsidiaries of shares or rights to subscribe for shares in the Company, shall not exceed:
 - (A) in the case of an allotment and issue of shares for cash, 10 percent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution;

Notice of Annual General Meeting (*continued*)

- (B) in the case of an allotment and issue of shares other than for cash, 20 percent of the aggregate nominal amount of the share capital in issue at the date of passing of this Resolution (less shares (if any) issued pursuant to the general mandate granted pursuant to sub-paragraph (A) of this Resolution), provided that, in any event, any shares to be allotted and issued by the Directors pursuant to the approval granted under this Resolution shall not be issued at a discount of 5 percent or more to the Benchmarked Price (as hereinafter defined) of the shares, and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution:–

“Benchmarked Price” shall be a price which is the higher of:–

- (i) the closing price of the shares of the Company as stated in the Hong Kong Stock Exchange’s daily quotations sheet on the date of signing of the agreement to which the transactions relates; or
- (ii) the average closing price of the shares of the Company as stated in the Hong Kong Stock Exchange’s daily quotations sheet for the five trading days immediately preceding the earlier of:
- (A) the date of signing of the agreement to which the transaction relates; or
- (B) the date on which the relevant transaction is announced; or
- (C) the date on which the price of the shares of the Company to be issued pursuant to the transaction is fixed.

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:–

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by Hong Kong law or the Bye-laws of the Company to be held; and
- (iii) the revocation or variation of this Resolution by an ordinary resolution of shareholders of the Company in General Meeting.

Notice of Annual General Meeting (continued)

“Right Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares on the register of members on a fixed record date in proportion to their holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

6. As special business, to consider and if thought fit, pass the following resolution as an Ordinary Resolution: –

“**THAT:** –

- (a) subject to paragraph 6(c) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to repurchase issued shares in the capital of the Company subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph 6(a) shall be in addition to any other authorisation given to the Directors of the Company;
- (c) the aggregate nominal amount of share capital purchased or agreed conditionally or unconditionally to be purchased by the Directors of the Company pursuant to the approval in paragraph 6(a) during the Relevant Period, shall be no more than 10 percent of the aggregate nominal amount of the existing issued share capital of the Company on the date of passing of this Resolution, and the said authority pursuant to paragraph 6(a) shall be limited accordingly; and
- (d) for the purposes of this Resolution:–

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:–

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by Hong Kong law or the Bye-laws of the Company to be held; and
- (iii) the revocation or variation of this Resolution by an ordinary resolution of shareholders of the Company in General Meeting”.

Notice of Annual General Meeting (*continued*)

7. As special business, to consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:–

“**THAT** conditional on the passing of the Ordinary Resolution numbered 5 and 6 as set out in the notice of the Meeting of which this Resolution forms part, the aggregate nominal amount of the number of shares in the share capital of the Company that shall have been repurchased by the directors of the Company after the date of the passing of the Resolution pursuant to and in accordance with the said Ordinary Resolution numbered 6 shall be added to the aggregate nominal amount of share capital that may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the Directors of the Company pursuant to the general mandate to allot and issue shares granted to the Directors of the Company by the said Ordinary Resolution numbered 5”.

By Order of the Board
Kwan Chi Kin Wallace
Company Secretary

Hong Kong, 26 June 2003

Principal Office: B2 & B4, 8/F., Block B, Mai Hing Ind. Bldg.,
 16 - 18 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong

Notes:–

1. A member entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint another person as his proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of such power of authority, must be deposited with the Company's registers in Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the Meeting, or any adjournment thereof.
3. The Register of Members will be closed from 16 August 2003 to 22 August 2003 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed dividend, all transfers accompanied by the relevant share certificate must be lodged with the Company's Registers in Hong Kong, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 15 August 2003.
4. An explanatory statement containing further details on resolution 6 above on the general mandate to repurchase shares will be sent to members of the Company together with the Annual Report for the year ended 31 March 2003.
5. With respect to the Resolution numbered 6, the present general mandate given by members pursuant to the Section 57B of the Companies Ordinance and the Listing Rules and the Hong Kong Code on Share Repurchases expires at the forthcoming Annual General Meeting and accordingly, a renewal of that general mandate is now being sought.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

HUI Leung Wah, aged 50, the chairman and managing director of the Group. He is the founder of the Group and has 37 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 44, is a general manager of the Group. He joined the Group in 1984 and has over 17 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 48, is one of the founding members of the Group and has over 27 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

LEE Chien, aged 49, is a director of Hysan Development Company Limited and Swire Pacific Limited. Mr Lee holds a Bachelor of Science degree in Mathematical Sciences, a Master of Science degree in Operations Research and a Master of Business Administration degree from Stanford University in the United States of America. Mr Lee has resigned on 16 August 2002.

Mario PIETRIBIASI, aged 46, is the Sales Director of Safilo Group (Padova-Italy), the Managing Director of Safilo Australia (Sydney) and the Chief Operating Officer of Safilo Far East (Hong Kong). He holds a degree in Economics from University of Padova (Italy) and has over 19 years of experience in the commercial field.

Vittorio TABACCHI, aged 63, is the Chairman of Safilo Group. He has established good track record and extensive experience in the eyewear industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FOK Kwan Wing, aged 60, is a certified public accountant and the senior partner of a firm of certified public accountants. Mr Fok has extensive experience in accounting and auditing. He holds a Master’s degree in Business Administration from the University of East Asia. Mr Fok is a fellow of the Hong Kong Society of Accountants and a fellow of the Association of Chartered Certified Accountants. In 1995, Mr Fok was given the award of Accountant of the Year 1995 by the Hong Kong Society of Accountants and Systems Union.

POON Kwok Fai, Ronald, aged 54, is a solicitor and notary public practicing in Hong Kong and has over 22 years of experience in the legal profession.

Profiles of Directors and Senior Management (*continued*)

SENIOR MANAGEMENT

TSANG Tak Hung, Donald, aged 44, 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 43, 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 and the purchase of raw materials and machineries. 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 42, 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 22 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.

LUK Yee Mui, aged 44, is the manager of the sales and marketing department. She has over 25 years of experience in the sales and marketing sector of the optical frames manufacturing industry. She assists one of the general managers to organise and supervise the sales and marketing activities of the Group. She joined the Group in 1988.

KWAN Chi Kin, Wallace, aged 33, 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 Society of Accountants and also a fellow of the Association of Chartered Certified Accountants. Mr Kwan has over 11 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 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing 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 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 66.

An interim dividend of HK4.0 cents per share was paid on 16 January 2003. The directors recommend the payment of a final dividend of HK7.5 cents per share in respect of the year, to shareholders on the register of members on 22 August 2003. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves 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 is not part of the audited financial statements.

Results

	Year ended 31 March				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	<u>383,984</u>	<u>370,389</u>	<u>427,338</u>	<u>356,937</u>	<u>260,843</u>
Net profit from ordinary activities attributable to shareholders	<u>55,721</u>	<u>79,335</u>	<u>89,041</u>	<u>67,318</u>	<u>38,120</u>

Report of the Directors (continued)

SUMMARY FINANCIAL INFORMATION (continued)

Assets, liabilities and minority interests

	2003	2002	31 March		
	HK\$'000	HK\$'000	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	558,671	516,676	478,032	423,025	341,536
TOTAL LIABILITIES	(75,024)	(54,844)	(59,591)	(63,114)	(36,025)
MINORITY INTERESTS	(19,845)	(18,218)	(16,942)	(13,469)	(12,752)
TOTAL NET ASSETS AND SHAREHOLDERS' EQUITY	<u>463,802</u>	<u>443,614</u>	<u>401,499</u>	<u>346,442</u>	<u>292,759</u>

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 13 and 14 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 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$157,807,000, of which HK\$24,274,000 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.

Report of the Directors *(continued)*

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions of approximately HK\$698,000.

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

Vittorio Tabacchi

Lee Chien (*resigned on 16 August 2002*)

Independent non-executive directors

Fok Kwan Wing

Poon Kwok Fai, Ronald

In accordance with the Company's bye-laws, Messrs. 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. All other directors continue in office.

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 13 to 14 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Under an agreement dated 21 March 1996 ("Consultancy Agreement") between the Company and HLW Concept Company Limited ("HLW Concept"), the Company agreed that Mr. Hui Leung Wah, as the nominee of HLW Concept, would provide management services to the Company.

Mr. Poon Sui Hong and Mr. Leung Shu Sum have each entered into a renewed service agreement with the Company. Both agreements are for a term of three years commencing on 17 February 2002.

The Consultancy Agreement and the service agreements continue after the expiry of their existing terms, subject to three months' notice served by either party.

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.

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SHARES

At 31 March 2003, the directors of the Company and their associates held the following interests, which were beneficial unless otherwise stated, in the issued share capital of the Company, its subsidiaries and associated corporations, as recorded in the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

The Company

Name of director	Nature of interest	Number of ordinary shares beneficially held
Hui Leung Wah	Corporate (Note)	141,116,000
Hui Leung Wah	Personal	5,678,000
Poon Sui Hong	Personal	6,600,000
Leung Shu Sum	Personal	6,000,000
Fok Kwan Wing	Personal	150,000
Mario Pietribiasi	Personal	100,000

Note: 141,116,000 shares are held by Best Quality Limited, the entire issued voting share capital of which is 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 Mr. Hui Leung Wah's spouse and children.

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 16 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.

Report of the Directors (continued)

DIRECTORS' INTERESTS IN SHARES (continued)

Associated corporations

Each of Best Quality Limited, HLW Concept Company Limited, Brilliant Hill Investment Limited and Deluxe Concept Limited is a wholly-owned subsidiary of Wahyee Limited, the ultimate holding company of the Company. Wahyee Limited holds the shares of such companies as trustee for a unit trust which, in turn, is beneficially owned by a discretionary trust, the beneficiaries of which include Mr. Hui Leung Wah's spouse and children. Accordingly, Mr. Hui Leung Wah is deemed to be interested in the shares of each of Best Quality Limited, HLW Concept Company Limited, Brilliant Hill Investment Limited and Deluxe Concept Limited directly or indirectly held by Wahyee Limited, as described below:

Name of corporation	Nature of interest	Number of ordinary shares beneficially held
Best Quality Limited	Corporate	1 share of US\$1
HLW Concept Company Limited	Corporate	2 shares of HK\$0.10 each
Brilliant Hill Investment Limited	Corporate	100 shares of HK\$1 each
Deluxe Concept Limited	Corporate	2 shares of US\$1 each

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other beneficial interest in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 26 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 significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

SHARE OPTIONS

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, the detailed disclosures relating to the Company's share option scheme have been moved to note 26 to the financial statements.

Report of the Directors (continued)

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of shares	Percentage of the Company's issued share capital
Hui Leung Wah	146,794,000	45.36
Safilo Far East Limited	<u>74,599,123</u>	<u>23.05</u>

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company as at 31 March 2003 that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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 51.98% and 63.53% 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 32 to the financial statements.

During the year under review, the Group's largest supplier and the Group's five largest suppliers accounted for 10.70% and 36.21% of the Group's total purchases, respectively.

Apart from 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 owns 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.

Report of the Directors (*continued*)

CONNECTED TRANSACTIONS

- (i) The directors have reviewed the sale of optical frames and parts to the Safilo S.p.A. group of companies for which a conditional waiver (the “Waiver”) from compliance with the connected transaction requirements, as set out in Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), was obtained on 29 October 2001.

This new Waiver has replaced the expired Waiver granted by the Stock Exchange on 15 April 1997.

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

- (a) conducted on normal commercial terms and in the ordinary and usual course of business of the Group;
- (b) fair and reasonable so far as the shareholders of the Company were concerned;
- (c) entered into in accordance with the terms of the supply agreement governing such transactions, details of which are set out in the circulars to the Company’s shareholders dated 24 March 1997 and 18 July 2001; and
- (d) within an annual limit of 52% of the audited consolidated turnover of the Group for the year.

Further details of the sales to the Safilo S.p.A. group of companies are set out in note 32 to the financial statements.

Report of the Directors (continued)

CONNECTED TRANSACTIONS (continued)

- (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, 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	
	2003 HK\$'000	2002 HK\$'000
Gold Strong Industrial Limited	5,589	5,589
Grand Artic Limited	2,250	3,348
Leader Up Limited	2,769	2,570
	10,608	11,507

CODE OF BEST PRACTICE

The Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the year and up to the date of this report. The independent non-executive directors of the Company are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's bye-laws.

Report of the Directors *(continued)*

AUDIT COMMITTEE

In compliance with the Code of Best Practice, the Company established an Audit Committee in 1999 with written terms of reference, comprising Fok Kwan Wing and Poon Kwok Fai, Ronald, the independent non-executive directors of the Company. Two audit committee meetings have been held since the previous annual report date.

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
26 June 2003

Report of the Auditors



To the members

Elegance International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 25 to 66 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 statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of 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 the Group as at 31 March 2003 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

26 June 2003

Consolidated Profit and Loss Account

Year ended 31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	5	383,984	370,389
Cost of sales		<u>(238,472)</u>	<u>(218,077)</u>
Gross profit		145,512	152,312
Other revenue and gains	5	4,713	5,118
Selling and distribution expenses		(15,437)	(8,535)
General and administrative expenses		(57,722)	(52,262)
Other operating expenses		<u>(6,509)</u>	<u>(4,300)</u>
PROFIT FROM OPERATING ACTIVITIES	6	70,557	92,333
Finance costs	7	(262)	(489)
Share of profits and losses of associates		<u>(56)</u>	<u>24</u>
PROFIT BEFORE TAX		70,239	91,868
Tax	9	<u>(12,891)</u>	<u>(8,557)</u>
PROFIT BEFORE MINORITY INTERESTS		57,348	83,311
Minority interests		<u>(1,627)</u>	<u>(3,976)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>55,721</u>	<u>79,335</u>
DIVIDENDS	11		
– Interim		12,946	12,946
– Proposed final		24,274	24,274
		<u>37,220</u>	<u>37,220</u>
EARNINGS PER SHARE	12		
– Basic		<u>17.22 cents</u>	<u>24.51 cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

Consolidated Balance Sheet

31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	217,734	200,410
Investment properties	14	740	–
Interests in associates	17	2,115	2,629
Long term investment	18	650	650
		<u>221,239</u>	<u>203,689</u>
CURRENT ASSETS			
Inventories	19	65,338	58,758
Trade receivables	20	78,030	73,550
Prepayments, deposits and other receivables		4,975	5,869
Short term investments	18	496	731
Bills receivable		382	189
Tax recoverable		–	41
Cash and cash equivalents	21	188,211	173,849
		<u>337,432</u>	<u>312,987</u>
CURRENT LIABILITIES			
Trade payables	22	20,013	21,369
Bills payable		11,142	1,976
Other payables and accrued liabilities		20,795	18,449
Tax payable		7,674	–
Interest-bearing bank loans, secured	23, 24	2,000	2,000
		<u>61,624</u>	<u>43,794</u>
NET CURRENT ASSETS		<u>275,808</u>	<u>269,193</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>497,047</u>	<u>472,882</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured	23, 24	6,000	6,050
Deferred tax	9	7,400	5,000
		<u>13,400</u>	<u>11,050</u>
MINORITY INTERESTS		<u>19,845</u>	<u>18,218</u>
		<u>463,802</u>	<u>443,614</u>
CAPITAL AND RESERVES			
Issued capital	25	32,365	32,365
Reserves	27(a)	407,163	386,975
Proposed final dividend	11	24,274	24,274
		<u>463,802</u>	<u>443,614</u>

Hui Leung Wah
Director

Poon Sui Hong
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2003

	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Goodwill eliminated against reserves HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 April 2001		32,365	56,831	41,800	(1,839)	248,068	24,274	401,499
Net profit for the year		-	-	-	-	79,335	-	79,335
2001 final dividend declared		-	-	-	-	-	(24,274)	(24,274)
2002 interim dividend paid	11	-	-	-	-	(12,946)	-	(12,946)
2002 proposed final dividend	11	-	-	-	-	(24,274)	24,274	-
At 31 March and 1 April 2002		32,365	56,831	41,800	(1,839)	290,183	24,274	443,614
Net profit for the year		-	-	-	-	55,721	-	55,721
Impairment of goodwill remaining eliminated against reserves	15	-	-	-	1,687	-	-	1,687
2002 final dividend declared		-	-	-	-	-	(24,274)	(24,274)
2003 interim dividend paid	11	-	-	-	-	(12,946)	-	(12,946)
2003 proposed final dividend	11	-	-	-	-	(24,274)	24,274	-
At 31 March 2003		32,365	56,831*	41,800*	(152)*	308,684*	24,274	463,802
Reserves retained by:								
Company and subsidiaries		32,365	56,831	41,800	(152)	308,833	24,274	463,951
Associates		-	-	-	-	(149)	-	(149)
As at 31 March 2003		32,365	56,831	41,800	(152)	308,684	24,274	463,802
Reserves retained by:								
Company and subsidiaries		32,365	56,831	41,800	(1,839)	290,276	24,274	443,707
Associates		-	-	-	-	(93)	-	(93)
As at 31 March 2002		32,365	56,831	41,800	(1,839)	290,183	24,274	443,614

* These reserve accounts comprise the consolidated reserves of HK\$407,163,000 (2002: HK\$386,975,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		70,239	91,868
Adjustments for:			
Finance costs	7	262	489
Share of profits and losses of associates		56	(24)
Interest income	5	(4,064)	(3,617)
Dividend income	5	(18)	(18)
Gain on disposal of listed investments	5	–	(20)
Loss/(gain) on disposal of fixed assets	6	58	(854)
Depreciation	6	24,072	22,505
Provision for impairment of goodwill remaining eliminated against reserves	6	1,687	–
Provision for/(reversal of) bad and doubtful debts, net	6	2,071	(1,030)
Provision for/(reversal of) inventory obsolescence, net	6	516	(5,294)
Unrealised losses on short term investments	6	235	330
Deficit on revaluation of investment properties	6	716	2,100
Provision for impairment in value of leasehold land and buildings	6	1,800	2,900
Operating profit before working capital changes		97,630	109,335
Decrease/(increase) in inventories		(7,096)	13,014
Decrease/(increase) in trade receivables		(6,551)	27,133
Decrease/(increase) in prepayments, deposits and other receivables		894	(1,462)
Decrease/(increase) in bills receivable		(193)	605
Increase/(decrease) in trade payables		(1,356)	676
Increase/(decrease) in bills payable		9,166	(2,299)
Increase in other payables and accrued liabilities		(1,299)	(3,596)
Cash generated from operations		91,195	143,406
Interest paid		(262)	(489)
Hong Kong profits tax paid		(2,776)	(7,588)
Net cash inflow from operating activities		88,157	135,329

Consolidated Cash Flow Statement (continued)

Year ended 31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		4,064	3,617
Dividends received from listed investments		18	18
Purchases of fixed assets		(41,065)	(25,611)
Proceeds from disposal of fixed assets		–	2,084
Proceeds from disposal of listed investments		–	482
Decrease in advances to an associate		458	–
		<u>(36,525)</u>	<u>(19,410)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		(2,000)	(8,586)
New bank loans		1,950	8,050
Dividends paid		(37,220)	(37,220)
Dividends paid to a minority shareholder		–	(2,700)
		<u>(37,270)</u>	<u>(40,456)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		14,362	75,463
Cash and cash equivalents at beginning of year		<u>173,849</u>	<u>98,386</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>188,211</u>	<u>173,849</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	26,340	9,728
Time deposits	21	161,871	164,121
		<u>188,211</u>	<u>173,849</u>

Balance Sheet

31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	<u>246,963</u>	<u>246,977</u>
CURRENT ASSETS			
Prepayments		117	117
Cash and cash equivalents	21	<u>8</u>	<u>8</u>
		<u>125</u>	<u>125</u>
CURRENT LIABILITIES			
Other payables and accrued liabilities		<u>85</u>	<u>40</u>
NET CURRENT ASSETS			
		<u>40</u>	<u>85</u>
		<u>247,003</u>	<u>247,062</u>
CAPITAL AND RESERVES			
Issued capital	25	32,365	32,365
Reserves	27	190,364	190,423
Proposed final dividend	11	<u>24,274</u>	<u>24,274</u>
		<u>247,003</u>	<u>247,062</u>

Hui Leung Wah
Director

Poon Sui Hong
Director

Notes to Financial Statements

31 March 2003

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The Group is 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. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 27 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and an associate are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. Further details of these changes are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

Notes to Financial Statements (*continued*)

31 March 2003

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (*continued*)

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 3 and in note 28 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits except that additional disclosures are now required in respect of the Company’s share option scheme, as detailed in note 26 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 the periodic remeasurement of investment properties and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2003, together with the Group’s share of the results for the year of its associates as set out below. The results of subsidiaries acquired or disposed of during the year are consolidated with reference to their effective dates of acquisition or disposal, respectively. 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.

Notes to Financial Statements (*continued*)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Subsidiaries

A subsidiary is a company 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 profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company 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 and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company'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 company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Notes to Financial Statements (*continued*)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Associates

An associate is a company, 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 profit and loss account 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.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life or 20 years, whichever is shorter. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 April 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 April 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Notes to Financial Statements (*continued*)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

At each balance sheet date, an assessment is made of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Notes to Financial Statements (*continued*)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Construction in progress represents the cost of new factory buildings under construction and the cost of plant and machinery acquired pending installation, and is stated at cost less any impairment losses. No depreciation is provided on construction in progress until it is completed and put into use. Construction in progress is reclassified to the appropriate category of fixed assets when it is completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Notes to Financial Statements (*continued*)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Leased assets

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 profit and loss account 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 profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. Gains or losses on long term equity investments arising from changes in fair value are accounted for as movements in the investment revaluation reserve until the investment is sold or until the investment is determined to be impaired, at which time the cumulative gain or loss is included in the profit and loss account for the period in which the impairment arises.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated in the balance sheet at fair value. Changes in fair values are recognised in the profit and loss account as they arise. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis.

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.

Notes to Financial Statements (*continued*)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Cash and cash equivalents (*continued*)

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

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 or disposal of fixed assets and investments, 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 or assets sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental income, on an accrual basis; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

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.

Notes to Financial Statements (*continued*)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Employee benefits (continued)

Employment Ordinance long service payments (continued)

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.

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 Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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 profit and loss account in the year to which they relate.

Share option scheme

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

Notes to Financial Statements (*continued*)

31 March 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and an associate are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and an associate are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation 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.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and an associate and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

Notes to Financial Statements (continued)

31 March 2003

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment. Summary details of the geographical segments are as follows:

- (a) the North America segment mainly represents sales of eyewear products to customers located in the United States;
- (b) the Europe segment mainly represents sales of eyewear products to customers located in Italy, the United Kingdom and Spain;
- (c) the People's Republic of China (including Hong Kong) segment mainly represents sales 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 sales of eyewear products to customers located in Malaysia, Singapore, Taiwan and India; and
- (e) the "Others" segment mainly represents sales of eyewear products to customers located in Australia, South America and Africa.

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes to Financial Statements (continued)

31 March 2003

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.

	North America		Europe		People's Republic of China (including Hong Kong)		Other Asian countries		Others		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Revenue:												
External sales	179,939	147,185	135,726	121,388	46,732	79,527	14,709	13,816	6,878	8,473	383,984	370,389
Segment result	29,711	32,994	22,411	27,212	12,750	26,122	2,429	3,097	1,135	1,899	68,436	91,324
Interest and dividend income and gain											4,082	3,655
Unallocated corporate expenses											(1,961)	(2,646)
Profit from operating activities											70,557	92,333
Finance costs											(262)	(489)
Share of profits and losses of associates	-	-	-	-	(6)	1	(50)	23	-	-	(56)	24
Profit before tax											70,239	91,868
Tax											(12,891)	(8,557)
Profit before minority interests											57,348	83,311
Minority interests											(1,627)	(3,976)
Net profit from ordinary activities attributable to shareholders											55,721	79,335
Segment assets	29,242	21,476	28,319	30,477	494,942	456,372	3,024	3,960	1,029	1,762	556,556	514,047
Interests in associates	-	-	-	-	974	1,438	1,141	1,191	-	-	2,115	2,629
Total assets											558,671	516,676
Segment liabilities	60	20	1,529	2,127	62,894	41,944	2,541	2,703	-	-	67,024	46,794
Bank loans											8,000	8,050
Total liabilities											75,024	54,844
Other segment information:												
Capital expenditure	-	-	-	-	44,710	25,611	-	-	-	-	44,710	25,611
Depreciation	-	-	-	-	24,072	22,505	-	-	-	-	24,072	22,505
Provision for/(reversal of) inventory obsolescence, net	-	-	-	-	516	(5,294)	-	-	-	-	516	(5,294)
Provision for/(reversal of) bad and doubtful debts, net	1,058	6	818	(1,500)	(383)	120	578	344	-	-	2,071	(1,030)
Deficit on revaluation of investment properties	-	-	-	-	716	2,100	-	-	-	-	716	2,100
Impairment losses recognised in the profit and loss account	-	-	-	-	3,487	2,900	-	-	-	-	3,487	2,900

Notes to Financial Statements (continued)

31 March 2003

4. SEGMENT INFORMATION (continued)

Business segment

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

5. TURNOVER, REVENUE AND GAINS

Turnover represents the invoiced value of goods sold to third parties, net of trade discounts and returns.

An analysis of turnover, other revenue and gains is as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover	383,984	370,389
Other revenue		
Interest income	4,064	3,617
Net rental income	63	518
Dividend income from listed investments	18	18
Others	568	945
Other revenue	4,713	5,098
Gains		
Gain on disposal of listed investments	–	20
	4,713	5,118

Notes to Financial Statements (continued)

31 March 2003

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	<i>Note</i>	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold		237,956	223,371
Depreciation	13	24,072	22,505
Auditors' remuneration		915	940
Loss/(gain) on disposal of fixed assets		58	(854)
Minimum lease payments under operating leases in respect of land and buildings		2,562	2,698
Staff costs (excluding directors' remuneration, as set out in note 8):			
Wages and salaries		70,956	61,733
Pension scheme contributions		1,067	1,099
		<hr/>	<hr/>
		72,023	62,832
		<hr/>	<hr/>
Provision for/(reversal of) inventory obsolescence, net		516	(5,294)
Exchange losses, net		2,012	833
Gross rental income from investment properties		(112)	(571)
Less: Outgoings		49	53
		<hr/>	<hr/>
Net rental income from investment properties*		(63)	(518)
		<hr/>	<hr/>
Other operating expenses:			
Provision for/(reversal of) bad and doubtful debts, net		2,071	(1,030)
Unrealised losses on short term investments		235	330
Deficit on revaluation of investment properties		716	2,100
Provision for impairment in value of leasehold land and buildings		1,800	2,900
Impairment of goodwill		1,687	—
		<hr/>	<hr/>

* The rental income was earned from third parties where no tenancy agreement has been entered into between parties. Accordingly, no disclosure of future operating lease receivables has been made in these financial statements.

Notes to Financial Statements (continued)

31 March 2003

7. FINANCE COSTS

	2003 HK\$'000	Group 2002 HK\$'000
Interest on bank loans wholly repayable within five years	<u>262</u>	<u>489</u>

8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

	2003 HK\$'000	2002 HK\$'000
Directors' remuneration		
Executive:		
Fees	–	–
Other emoluments:		
Basic salaries and bonuses	2,452	2,425
Housing benefits	1,686	1,686
Pension scheme contributions	45	44
	<u>4,183</u>	<u>4,155</u>
Non-executive:		
Fees	50	100
Other emoluments	–	–
	<u>50</u>	<u>100</u>
Independent non-executive:		
Fees	200	200
Other emoluments	–	–
	<u>200</u>	<u>200</u>
	<u>4,433</u>	<u>4,455</u>

Three directors (2002: three) occupied certain of the Group's properties rent-free during the year. The estimated value of the accommodation provided for them was HK\$1,686,000 (2002: HK\$1,686,000) for the year ended 31 March 2003, which has been included in the amounts detailed above.

Notes to Financial Statements (continued)

31 March 2003

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

Directors' remuneration (continued)

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

Included in other emoluments, as set out above, is a consultancy fee of HK\$1,200,000 (2002: HK\$1,200,000) paid to HLW Concept Company Limited in respect of services rendered by Mr. Hui Leung Wah, a director of the Company. HLW Concept Company Limited is incorporated in Hong Kong and is beneficially owned by a unit trust, which is in turn beneficially owned by a discretionary trust, the beneficiaries of which included Mr. Hui Leung Wah's spouse and children.

The number of directors whose remuneration fell within the bands set out below is as follows:

	Number of directors	
	2003	2002
Nil – HK\$1,000,000	6	6
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
	<hr/>	<hr/>
	8	8
	<hr/>	<hr/>

Highest paid employees' emoluments

The five highest-paid individuals included three (2002: three) directors, details of whose remuneration are disclosed above. Details of the remuneration of the two (2002: two) non-director, highest-paid individuals are set out below:

	2003	2002
	HK\$'000	HK\$'000
Basic salaries and bonuses	1,603	1,587
Housing benefits	420	420
Pension scheme contributions	62	60
	<hr/>	<hr/>
	2,085	2,067
	<hr/>	<hr/>

Notes to Financial Statements (continued)

31 March 2003

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

Highest paid employees' emoluments (continued)

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

	Number of non-director, highest-paid individuals	
	2003	2002
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>2</u>	<u>2</u>

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\$420,000 (2002: HK\$420,000) for the year ended 31 March 2003, which has been included in the amounts detailed above.

9. TAX

Group:	Group	
	2003 HK\$'000	2002 HK\$'000
Hong Kong:		
Current year provision	5,681	4,530
Under/(over)-provision in prior years	4,810	(3,475)
Deferred	2,400	5,000
Elsewhere	–	2,500
	<u>12,891</u>	<u>8,555</u>
Share of tax attributable to an associate	–	2
	<u>12,891</u>	<u>8,557</u>

The provision for Hong Kong profits tax has been calculated at the rate of 16% (2002: 16%) on the estimated assessable profits for the year. Tax on the profits of subsidiaries/associates operating elsewhere is calculated at the rates applicable in the respective countries in which they operate, based on existing legislation, interpretation and practices in respect thereof.

Notes to Financial Statements (continued)

31 March 2003

9. TAX (continued)

The Inland Revenue Department (the "IRD") had tax disputes with certain subsidiaries of the Group and issued notices of additional assessments for prior years to those subsidiaries. The Group has recently settled the disputes with the IRD and additional tax was demanded by the IRD, resulting in a prior year under-provision of HK\$4,810,000 (2002: Nil) being included in the tax charge for the current year.

The movement in deferred tax, which consisted of accelerated depreciation allowances, is analysed below:

	Group	
	2003 HK\$'000	2002 HK\$'000
Balance at beginning of year	5,000	–
Charge for the year		
including the effect of the change in future rate from 16% to 17.5% of HK\$634,000 (2002: Nil)	2,400	5,000
At 31 March	<u>7,400</u>	<u>5,000</u>

The principal components of the unprovided deferred tax assets of the Group and the Company at the balance sheet date were as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Accelerated depreciation allowances	94	(11)	–	–
Tax losses	(1,787)	(1,812)	(259)	(1,255)
Others	(942)	–	–	–
Effect of the change in future rate from 16% to 17.5%	(247)	–	(24)	–
	<u>(2,882)</u>	<u>(1,823)</u>	<u>(283)</u>	<u>(1,255)</u>

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

Notes to Financial Statements (continued)

31 March 2003

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company was HK\$37,161,000 (2002: HK\$48,436,000).

11. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim – HK4.0 cents (2002: HK4.0 cents) per ordinary share	12,946	12,946
Proposed final – HK7.5 cents (2002: HK7.5 cents) per ordinary share	24,274	24,274
	<u>37,220</u>	<u>37,220</u>

The 2003 final dividend of HK7.5 cents per ordinary share is proposed to be paid to shareholders whose names appear on the register of members on 22 August 2003 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$55,721,000 (2002: HK\$79,335,000) and 323,649,123 (2002: 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 the years.

Notes to Financial Statements (continued)

31 March 2003

13. FIXED ASSETS

Group	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construc- tion in progress HK\$'000	Total HK\$'000
At cost:							
At beginning of year	94,058	27,463	147,874	27,077	9,425	28,401	334,298
Additions	-	1,192	18,232	1,249	1,050	22,987	44,710
Transfer to investment property	(1,775)	-	-	-	-	-	(1,775)
Disposals	-	(230)	(595)	(8)	-	-	(833)
At 31 March 2003	92,283	28,425	165,511	28,318	10,475	51,388	376,400
Accumulated depreciation and impairment:							
At beginning of year	11,631	14,423	83,928	15,921	7,985	-	133,888
Provided during the year	1,927	2,714	15,443	2,731	1,257	-	24,072
Impairment during the year	1,800	-	-	-	-	-	1,800
Transfer to investment property	(319)	-	-	-	-	-	(319)
Disposals	-	(179)	(591)	(5)	-	-	(775)
At 31 March 2003	15,039	16,958	98,780	18,647	9,242	-	158,666
Net book value:							
At 31 March 2003	77,244	11,467	66,731	9,671	1,233	51,388	217,734
At 31 March 2002	82,427	13,040	63,946	11,156	1,440	28,401	200,410

Notes to Financial Statements (continued)

31 March 2003

13. FIXED ASSETS (continued)

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

	2003 HK\$'000	2002 HK\$'000
Hong Kong	56,408	58,183
Elsewhere	35,875	35,875
	<u>92,283</u>	<u>94,058</u>

Certain of the Group's leasehold land and buildings situated in Hong Kong and elsewhere have been pledged to banks to secure the bank loans and general banking facilities granted to the Group (see note 24).

14. INVESTMENT PROPERTIES

	2003 HK\$'000	Group 2002 HK\$'000
At valuation:		
At beginning of year	–	9,057
Transfer from/(to) leasehold land and buildings (note 13)	1,456	(6,957)
Revaluation deficit charged to the profit and loss account	(716)	(2,100)
	<u>740</u>	<u>–</u>
At 31 March		

During the current year, certain of the Group's leasehold land and buildings situated in Hong Kong was leased to a third party and thus reclassified to investment property at its carrying value of HK\$1,456,000 at the date of transfer. At 31 March 2003, the investment property was revalued at HK\$740,000 on an open market and existing use basis by Vigers Hong Kong Limited, an independent professionally qualified valuer, resulting in a net revaluation deficit of HK\$716,000 which was charged to the profit and loss account (see note 6).

The investment property, which is situated in Hong Kong and held under a medium term lease, has been pledged to a bank to secure the bank loans and general banking facilities granted to the Group (see note 24).

Notes to Financial Statements (continued)

31 March 2003

15. GOODWILL

The amounts of the goodwill remaining in consolidated reserves as at 31 March 2003, arising from the acquisition of subsidiaries prior to 1 April 2001, are as follows:

	Goodwill eliminated against reserves HK\$'000
Cost:	
At beginning of year and at 31 March 2003	1,839
Accumulated impairment:	
At beginning of year	–
Provided during the year	1,687
At 31 March 2003	1,687
Net book value:	
At 31 March 2003	152
At 31 March 2002	1,839

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	147,173	147,173
Due from subsidiaries	99,790	99,804
	246,963	246,977

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements (continued)

31 March 2003

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at 31 March 2003 were as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct %	Indirect %	
Diamond Bright Industries Limited	Hong Kong	Hong Kong	Ordinary HK\$400	–	100	Investment holding
Dongguan Yick Yue Optical Limited **	PRC	Mainland China	Registered capital 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
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

Notes to Financial Statements (continued)

31 March 2003

16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct %	Indirect %	
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
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
Elegance Optical Production Limited	British Virgin Islands	Mainland China	Ordinary US\$1	–	100	Dormant
Elegance Global Marketing Limited	British Virgin Islands	North America/ Europe	Ordinary US\$1	–	100	Dormant

Notes to Financial Statements (continued)

31 March 2003

16. INTERESTS IN SUBSIDIARIES (continued)

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 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 or other Ernst & Young International member firms.

17. INTERESTS IN ASSOCIATES

	2003 HK\$'000	Group 2002 HK\$'000
Share of net assets	980	1,036
Loan to an associate	1,135	1,593
	<hr/>	<hr/>
	2,115	2,629

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associates at 31 March 2003 were as follows:

Name	Business Structure	Place of incorporation and operations	Percentage of equity attributable to the Group	Principal activities
Safint Optical Investments Limited	Corporate	Hong Kong/ Mainland China	24.5	Trading of eyewear products
Optics 2000 & Optics Café Pte., Ltd.	Corporate	Singapore	35	Retailing of eyewear products

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

Notes to Financial Statements (continued)

31 March 2003

18. INVESTMENTS

	2003 HK\$'000	Group 2002 HK\$'000
Long term investment		
Golf club debenture, at fair value	<u>650</u>	<u>650</u>
Short term investments		
Listed equity investments in Hong Kong, at market value	<u>496</u>	<u>731</u>

19. INVENTORIES

	2003 HK\$'000	Group 2002 HK\$'000
Raw materials	33,536	29,970
Work in progress	9,333	11,276
Finished goods	<u>22,469</u>	<u>17,512</u>
	<u>65,338</u>	<u>58,758</u>

As at the balance sheet date, none of the inventories included in the above balance were carried at net realisable value (2002: Nil).

20. TRADE RECEIVABLES

Credit is offered to customers following a financial assessment by the Group and with regard to their established payment record. The Group usually allows an average credit period of 90 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. The following is an aged analysis of the trade receivables (net of provision for bad and doubtful debts) as at 31 March 2003 and 2002:

	2003 HK\$'000	Group 2002 HK\$'000
Current to 90 days	72,894	64,191
91-180 days	4,781	3,630
181-360 days	<u>355</u>	<u>5,729</u>
Total	<u>78,030</u>	<u>73,550</u>

The trade balances of the Group include trade balances due from the Safilo S.p.A group of companies of HK\$45,555,000 (2002: HK\$22,599,000) in aggregate, which are unsecured, interest-free and are repayable in accordance with normal trading terms.

Notes to Financial Statements (continued)

31 March 2003

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	26,340	9,728	8	8
Time deposits	161,871	164,121	–	–
	<u>188,211</u>	<u>173,849</u>	<u>8</u>	<u>8</u>

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$5,086,000 (2002: HK\$4,922,000). 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.

22. TRADE PAYABLES

The following is an aged analysis of the trade payables as at 31 March 2003 and 2002:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 90 days	19,470	20,085
91 – 180 days	347	241
181 – 360 days	187	739
Over 360 days	9	304
Total	<u>20,013</u>	<u>21,369</u>

Notes to Financial Statements (continued)

31 March 2003

23. BANK LOANS, SECURED

	Group	
	2003 HK\$'000	2002 HK\$'000
Repayable:		
Within one year	2,000	2,000
After one year but within two years	2,000	2,000
After two years but within five years	4,000	4,050
	<hr/>	<hr/>
	8,000	8,050
Portion classified as current liabilities	(2,000)	(2,000)
	<hr/>	<hr/>
Long term portion	6,000	6,050
	<hr/>	<hr/>

24. PLEDGE OF ASSETS

The Group's leasehold land and buildings situated in Hong Kong and elsewhere (see note 13) with an aggregate net book value of HK\$16,692,000 (2002: HK\$18,972,000) and the investment property situated in Hong Kong with an aggregate valuation of HK\$740,000 (2002: Nil) (see note 14) 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 from the Company.

25. SHARE CAPITAL

	Company	
	2003 HK\$'000	2002 HK\$'000
Authorised:		
1,000,000,000 shares of HK\$0.10 each	100,000	100,000
	<hr/>	<hr/>
Issued and fully paid:		
323,649,123 shares of HK\$0.10 each	32,365	32,365
	<hr/>	<hr/>

Notes to Financial Statements (continued)

31 March 2003

26. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company’s share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

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.

On 21 March 1996, the Company conditionally approved a share option scheme (the “Scheme”) under which the directors may, at their discretion, grant options to employees and executive directors of the Group, to subscribe for shares of the Company during the 10 years from its date of approval. The existing Scheme became effective upon the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 11 April 1996 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Under the existing Scheme, the maximum number of shares over which options may be granted must not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose, shares issued pursuant to the Scheme. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person. The subscription price of the options is subject to a minimum which is the higher of the nominal value of a share and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options.

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

No options have been granted under the Scheme.

Notes to Financial Statements (*continued*)

31 March 2003

26. SHARE OPTION SCHEME (*continued*)

Subsequent to the adoption of the Scheme on 21 March 1996, the Stock Exchange introduced a number of changes to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. However, any option to be granted in the future under the Scheme shall be subject to the new changes which include, inter alia, the following:

- (a) the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares 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;
- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive directors; and
- (c) the exercise price of the share options is determined by the directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant 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 grant.

Subsequent to the balance sheet date, on 16 May 2003, a special general meeting of the Company was held, and resolutions were passed relating to the adoption of a new share option scheme and the termination of the existing Scheme in order to comply with the requirements of the amended Listing Rules. No options have been granted since the approval of this new option scheme on 16 May 2003. Further details of this new share option scheme are set out in the circular to the Company's shareholders dated 22 April 2003.

Notes to Financial Statements (continued)

31 March 2003

27. 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 27 of the financial statements.

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 by DSE Holdings Limited and MeesPierson N.V. Pursuant to a subscription agreement dated 27 October 1995 entered into between (1) Elegance Group Limited, (2) DSE Holdings Limited and (3) MeesPierson N.V., each of DSE Holdings Limited and MeesPierson N.V. subscribed for four shares of US\$1.00 each in the capital of Elegance Group Limited at a premium of HK\$2,750,000 per share. As a result, a sum of HK\$11,000,000 was paid by each of DSE Holdings Limited and MeesPierson N.V. to Elegance Group Limited. The entire amount of HK\$22,000,000 was credited to the capital reserve upon the aforesaid Group reorganisation, pursuant to which Elegance Group Limited became a wholly-owned subsidiary of the Company.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against reserves as explained in note 15 to the financial statements.

(b) Company

	Note	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2001		56,831	146,973	(24,597)	179,207
Net profit for the year		–	–	48,436	48,436
2002 interim dividend paid	11	–	–	(12,946)	(12,946)
2002 final dividend proposed	11	–	–	(24,274)	(24,274)
At 31 March and 1 April 2002		56,831	146,973	(13,381)	190,423
Net profit for the year		–	–	37,161	37,161
2003 interim dividend paid	11	–	–	(12,946)	(12,946)
2003 final dividend proposed	11	–	–	(24,274)	(24,274)
At 31 March 2003		<u>56,831</u>	<u>146,973</u>	<u>(13,440)</u>	<u>190,364</u>

The contributed surplus of the Company represents the difference between the consolidated net asset value of Elegance Group Limited on 8 February 1996, when its entire issued share capital was acquired by the Company pursuant to the Group reorganisation referred to in note 27(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.

Notes to Financial Statements (continued)

31 March 2003

28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Changes to the layout of the consolidated cash flow statement

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities, and dividends paid are now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now 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. Previously, the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. This has had no material effect on amounts previously reported in the prior year's financial statements.

29. CONTINGENT LIABILITIES

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

	Company	
	2003 HK\$'000	2002 HK\$'000
Guarantees given for banking facilities granted to subsidiaries	<u>65,500</u>	<u>79,000</u>

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

	Corporate guarantee given by the Company	
	2003 HK\$'000	2002 HK\$'000
Grand Artic Limited	2,000	2,000
Gold Strong Industrial Limited	<u>3,000</u>	<u>3,000</u>

These banking facilities were utilised to the extent of approximately HK\$2 million as at the balance sheet date (2002: Nil).

Notes to Financial Statements (continued)

31 March 2003

29. CONTINGENT LIABILITIES (continued)

- (b) The Group has 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\$3,240,000 as at 31 March 2003, as further explained under the heading “Employee benefits” in note 3 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.

30. OPERATING LEASE ARRANGEMENTS

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 2003 and 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2003 HK\$'000	Group 2002 HK\$'000
Within one year	599	618
In the second to fifth years, inclusive	1,395	1,428
After five years	25,760	26,275
	<hr style="border: none; border-top: 1px solid black; margin-bottom: 5px;"/> 27,754	<hr style="border: none; border-top: 1px solid black; margin-bottom: 5px;"/> 28,321

Notes to Financial Statements (continued)

31 March 2003

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments at the balance sheet date:

Capital commitments

	2003 HK\$'000	Group 2002 HK\$'000
Contracted, but not provided for:		
Land and buildings	14,937	18,348
Equipment and machinery	3,862	2,611
Capital contributions payable to subsidiaries	30,235	65
	<u>49,034</u>	<u>21,024</u>

32. 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 90 days (2002: 60 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.

Notes to Financial Statements (*continued*)

31 March 2003

32. 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 a sales value amounting to HK\$199,587,000 (2002: HK\$135,070,000). In accordance with the terms of the Supply Agreement, the corresponding sales volume discount amounted to HK\$5,809,000 (2002: HK\$3,905,000), out of which HK\$4,674,000 (2002: Nil) was paid during the year and HK\$1,135,000 (2002: HK\$3,905,000) has been 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 2003 in respect of these sales amounted to HK\$45,555,000 (2002: HK\$22,599,000).

(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 Investment 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.

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\$10,435,000 for the year (2002: HK\$7,920,000).

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.

Notes to Financial Statements (*continued*)

31 March 2003

32. RELATED PARTY TRANSACTIONS (*continued*)

(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 29 to the financial statements.

Except for the corporate guarantees granted by the Company to its wholly-owned subsidiaries, as set out in (b) above, all of the above transactions also constituted connected transactions, as defined under the Listing Rules.

33. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs 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 comparative amounts have been reclassified to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 June 2003.