ELEGANCE INTERNATIONAL HOLDINGS LIMITED

Annual Report 2004

CONTENTS

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
WONG Chung Mat, Ben

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

Richards Butler

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

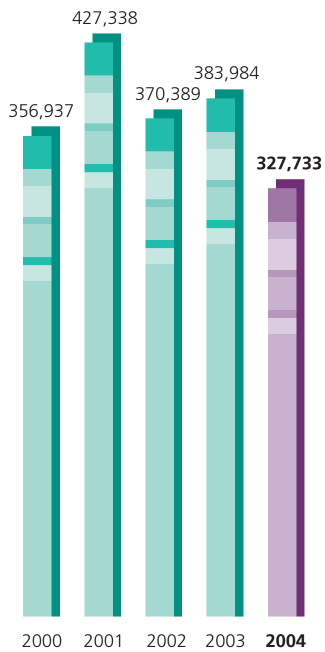
Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

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

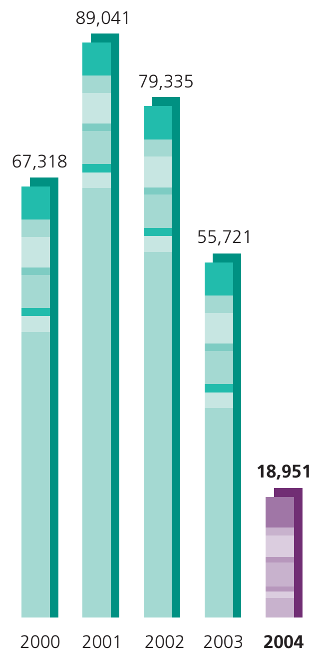
Turnover

(HK$'000)

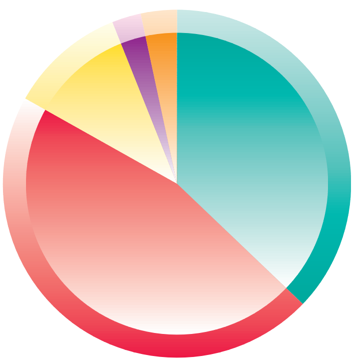


Net Profit from Ordinary Activities Attributable to Shareholders

(HK$'000)



Breakdown of turnover by geographical area for the year ended 31 March 2004



North America	37.15%
Europe	46.00%
The People's Republic of China (including Hong Kong)*	10.80%
Other Asian Countries	2.70%
Others	3.35%

**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.*

On behalf of the Board of Directors (the "Board"), I am pleased to present the 2003/2004 annual report of Elegance International Holdings Limited (the "Company" or "Elegance") and its subsidiaries (collectively, the "Group").

FINAL DIVIDENDS

The Board of Directors have resolved to recommend the payment of a final dividend of HK7 cents per ordinary share (2003: HK7.5 cents) for the year ended 31 March 2004 at the forthcoming Annual General Meeting to be held on 19 August 2004. The final dividend together with the interim dividend of HK4.0 cents per share, will make a total dividend for the year of HK11 cents per share (2003: HK11.5 cents). The final dividend, if approved by shareholders, is expected to be payable on 16 September 2004 to those shareholders whose names appear on the Register of the Members on 19 August 2004.

CLOSURE OF REGISTRAR

The Register of Members will be closed from 13 August 2004 to 19 August 2004 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 12 August 2004.

BUSINESS REVIEW

Performance Highlight

The turnover of the Group for the year ended 31 March 2004 was approximately HK$327,733,000 (2003: HK$383,984,000). Net profit attributable to shareholders was HK$18,951,000, compared to a reported profit of HK$55,721,000 for the financial year 2002/2003.

Basic earnings per share for the year ended 31 March 2004 amounted to HK5.86 cents (2003: HK17.22 cents) per share.

Review and Analysis

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

The financial performance of the Group fell short of expectations for the year 2003/2004. The outbreak of SARS in Hong Kong and Mainland China and the Iraqi War in the early period of the financial year 2003/2004 dealt a severe blow to optical industry and the Group was no exception. Due to SARS epidemic, marketing and sale activities of the Group were adversely affected. Number of customers from Europe and the United States postponed their schedule of plant visit and product inspections in Hong Kong and China and it affected confirmation of new orders. The delivery of sample and order placement was also delayed and number of orders obtained decreased since March 2003 and the sale of the Group were ultimately affected until the end of 2003.

The depreciation of US dollars, increase in prices of major commodities and raw materials since early 2003 and rising operational costs in China are also posing great challenges to us. Due to keen market competition, the Group has faced with pressures from both customers demanding for quality products with bargain price and competitors with new product and changing design, better customer services and attractive pricing policy. As a result, we have to encounter these pressures by continual investing in the development of products with new valued added features in design and materials for the customers. We believe our commitment to product development will bring encouraging results. But, these investments will increase our production costs and lower our gross profit margin in the short run. Together with the decrease of orders due to SARS epidemic and uncertain in economy prospect caused by Iraqi War in the first half of 2003, the production output decreased to a certain extent in the financial year 2003/2004. Therefore, it was difficult for our production plants to attain sound economies of scale as in previous financial years and it explained the reduction of profit margin for the financial year under review.

BUSINESS REVIEW *(continued)*

Review and Analysis *(continued)*

Despite the fact that the total sales of the Group failed to meet our expectations, sales to Europe increased by 11.06% to HK$150,744,000 (2003: HK$135,726,000) and it accounts for 46.00% (2003: 35.35%) of the total turnover of the Group. The appreciation of Euro stimulated demand in Europe and created favourable environment for the Group to seek larger market share. After relentless efforts made in recent years, we have succeeded in attracting satisfactory number of orders from new and existing customers in Western Europe. We believe that the demand from European buyers will grow further. We anticipate that sales to Europe will continue to be our major sources of sales income in medium term. Sales to North America reduced to HK$121,769,000 (2003: HK$179,939,000) and it accounted for approximately 37.15% (31 March 2003: 46.86%) of the Group's turnover. The market in the United States underwent consolidation in 2003. Thus, the decrease in sales to North America resulted in a drop of turnover of the Group. With the economic recovery in the U.S. lately, we are working harder to recoup the lost sales.

The challenges did not slow us down. In order to cope with the increasing market demand for precise and high quality optical products, we continued our commitment in expansion of our production capacity, enhancement of our product development team and refurbishing the set up at our existing production facilities in Shenzhen, China during the year under review.

The new factory complex located at Jin Quan, Shenzhen, China, adjacent to existing factory site opened and commenced operation by phases since April 2004. Following an opening ceremony of new factory complex in March 2004, we manage to expand our production capacity, design capabilities and equip more advanced machines and better facilities in product development to launch new design and product in a spacious and stimulating environment. The Group wholeheartedly invested in our human resources and new machines and factory set-up in the new factory complex to enhance our operational efficiency. We are working to lower our production costs and to increase the utilisation rate of facilities in the factory complex in the medium to long run. We expect to achieve reduction of operational costs when the new factory complex is fully occupied and utilised as a result of consolidating all production facilities at the new factory sites. Coupled with better scale of economies, higher utilisation rates and improved operational efficiency in new factory complex, the Group expects to achieve an ultimate increase in profit margin of our optical products.

In the financial year 2003/2004, we have intensified our aggressive marketing initiatives to broaden our customer's bases both in Europe and North America. The strategic combination of expanding the customer base, enhancement of sample production with creative design element and better customer service are starting to bear fruit. We expect this combination will further contribute to the business growth of the Group in coming years.

PROSPECT

The Group foresees that the economy of Europe and the United States will continue to grow steadily in year 2004. Encouraging sign was already reported that our order placements since the commencement of year 2004 have already exceeded the figures of corresponding period of 2003.

In order to maintain our growth in turnover and profitability and to lessen the pressure of increasing operational costs, we will strengthen our strategy of developing quality products with fashionable design to meet demand of our customers, implementation of cost control measures targeting improvement of overall operational efficiency. We are optimistic that it will bring us fruitful results by increase in our turnover and enlargement of our market share.

The success of the Group lies in our continual emphasis on new design capabilities, new product development, strengthening expertise in production know-how and improving marketing activities and good customer services. As a result, the Group will further invest in our product design and product development capabilities. We will further invest in new machineries, both through purchases and by self-development, to strengthen our competitiveness in costs and production technique. With the new factory complex to be equipped with advanced machines and enhanced facilities for sample production, the Group has set up a good foundation to establish a platform for our future expansion and growth. With our ample marketing experience and production know-how in optical industry and ongoing economic recovery in Europe and the United States, which will stimulate consumption and demand, we expect that the performance of the Group will reflect these positive business conditions in the coming financial year.

LIQUIDITY AND FINANCIAL RESOURCES

The management of the Group adopts a prudent policy in managing financial resources of the Group. The core operation and major capital investments of the Group are mostly financed by our internally generated cashflows and partially banking facilities.

During the year under review, the Group maintained a solid financial position. The cash and bank balance of the Group were reported at HK$124,055,000 (2003: HK$188,211,000) at the end of the financial year 2003/2004. Major capital expenditures included the payments for the construction of the new factory complex of HK$28,813,000 (2003: HK$19,342,000). The working capital, defined as current assets less current liabilities, of HK$222,989,000 (2003: HK$275,808,000) was maintained as at 31 March 2004. Gearing, representing total bank borrowings over shareholder's funds, was maintained at relatively sound level of below 3.69% (2003: 4.13%). Current ratio was also maintained at sound level of 4.17:1 (2003: 5.48:1).

The Group had banking facilities amounted to HK$50,500,000 (31 March 2003: HK$65,500,000), of which approximately HK$16,457,000 (31 March 2003: HK$19,142,000) were utilised. All outstanding bank borrowings were for purposes of trade-finance and working capital and short to medium term in nature.

As at 31 March 2004, the Group's capital commitment was HK$46,324,000 (31 March 2003: HK$49,034,000).

FOREIGN CURRENCY RISK

Since the income and expenditures of the Group were substantially 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 as at 31 March 2004 and 2003.

PLEDGE OF ASSETS

At 31 March 2004, the Group has pledged its leasehold and investment properties with an aggregate carrying value of approximately HK$16,284,000 (31 March 2003: HK$17,432,000) 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 2004, the Group had contingent liabilities of HK$50,500,000 (31 March 2003: HK$65,500,000), 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 2004 has increased to approximately 4,725 (2003: 4,200). 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$76,551,000 (31 March 2003: HK$72,023,000). 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

The management would like to take this opportunity to thank our shareholders for their support and our staff for their dedication and hard work. 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, 30 June 2004

EXECUTIVE DIRECTORS

HUI Leung Wah, aged 51, the chairman and managing director of the Group. He is the founder of the Group and has 38 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 45, is a general manager of the Group. He joined the Group in 1984 and has over 18 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 49, is one of the founding members of the Group and has over 28 years of experience in optical frames production. He is currently responsible for supervising the production and engineering activities at the PRC production facilities.

NON-EXECUTIVE DIRECTORS

Mario PIETRIBIASI, aged 47, 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 20 years of experience in the commercial field.

Vittorio TABACCHI, aged 64, 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 61, 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 55, is a solicitor and notary public practicing in Hong Kong and has over 23 years of experience in the legal profession.

WONG Chung Mat, Ben, aged 52, is the Chairman and CEO of Wong's International (Holdings) Limited, a Hong Kong listed company (Stock code: 099). He obtained a Master of Science Degree in Operations Research from Ohio State University and has over 29 years of experience in the electronics industry.

SENIOR MANAGEMENT

TSANG Tak Hung, Donald, aged 45, 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 44, is the assistant general manager supervising the Group's production and purchasing departments. He joined the Group in 1988 and has worked in various departments within the Group including the marketing, production and purchasing departments. Mr Cheng now oversees the production in Hong Kong and the PRC production facilities. Mr Cheng is a brother-in-law of Mr Hui Leung Wah and is the spouse of Ms Poon Kam Yee. He holds directorships in some of the subsidiaries in the Group.

POON Kam Yee, aged 43, 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 23 years of experience in accounting and administration. She is responsible for the Group's sales in the PRC market. Ms Poon is a sister-in-law of Mr Hui Leung Wah. She holds directorships in some of the subsidiaries in the Group.

KWAN Chi Kin, Wallace, aged 34, 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 12 years of experience in accounting with listed companies and an international accountancy firm.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 60.

An interim dividend of HK4.0 cents per share was paid on 20 January 2004. The directors recommend the payment of a final dividend of HK7.0 cents per share in respect of the year, to shareholders on the register of members on 19 August 2004. 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 does not form part of the audited financial statements.

Results

	Year ended 31 March				
	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**327,733**	383,984	370,389	427,338	356,937
Net profit from ordinary activities attributable to shareholders	**18,951**	55,721	79,335	89,041	67,318

SUMMARY FINANCIAL INFORMATION *(continued)*

Assets, liabilities and minority interests

	31 March				
	2004	2003	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**547,502**	558,671	516,676	478,032	423,025
TOTAL LIABILITIES	**(80,810)**	(75,024)	(54,844)	(59,591)	(63,114)
MINORITY INTERESTS	**(21,159)**	(19,845)	(18,218)	(16,942)	(13,469)
TOTAL NET ASSETS AND SHAREHOLDERS' EQUITY	**445,533**	463,802	443,614	401,499	346,442

FIXED ASSETS AND INVESTMENT PROPERTIES

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

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of the Company's share capital and share option schemes are set out in notes 26 and 27 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 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2004, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$180,805,000 of which HK$22,655,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$56,831,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1,624,000.

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

Independent non-executive directors

Fok Kwan Wing
Poon Kwok Fai, Ronald

Subsequent to the balance sheet date, on 21 June 2004, Mr. Wong Chung Mat, Ben was appointed as an independent non-executive director of the Company.

In accordance with the Company's bye-laws, Messrs. Mario Pietribiasi, Fok Kwan Wing and Wong Chung Mat, Ben 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 9 to 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Under an agreement dated 21 March 1996 (the "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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2004, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company. Pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of issued ordinary shares held	Nature of interest	Percentage of the issued share capital of the Company
Hui Leung Wah	6,678,000	Personal Interest	2.06
	141,316,000 *(note)*	Family Interest	43.67
Poon Sui Hong	6,800,000	Personal Interest	2.10
Leung Shu Sum	6,000,000	Personal Interest	1.85
Fok Kwan Wing	150,000	Personal Interest	0.05
Mario Pietribiasi	100,000	Personal Interest	0.03
	161,044,000		49.76

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

Long positions in ordinary shares of 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.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosures set out in note 27 to the financial statements, at no time during the year was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors of the Company, their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had a material interest, either 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.

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

Other than as disclosed above under the section headed "Directors' interests and short positions in shares and underlying shares", so far as is known to the directors of the Company, as at 31 March 2004, the following interests in the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Long positions:

Name	Number of issued ordinary shares held	Nature of Interest	Percentage of the issued share capital of the Company
Poon Yuk Yee	146,794,000 *(note)*	Family Interest	45.36
Ansbacher (BVI) Limited	141,316,000	Trustee	43.67
Wahyee Limited	141,316,000	Trustee	43.67
Safilo Far East Limited	74,599,123	Corporate Interest	23.05

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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 48.29% and 59.39% 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 14.76% and 48.58% 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, own more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

CONNECTED TRANSACTIONS

(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 14A of the Listing Rules, was obtained on 29 October 2001.

This new Waiver has replaced the expired Waiver granted by the SEHK 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 55% 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.

CONNECTED TRANSACTIONS *(continued)*

(i) *(continued)*

Pursuant to a special general meeting held on 31 March 2004 by the independent shareholders, an ordinary resolution was passed which approved the sale of optical frames, sunglasses and related products (the "Sales") by the Company and its subsidiaries to the Safilo S.p.A. group of companies for the three years ending 31 March 2007 subject to certain conditions. According to the resolution, the aggregate value of the Sales shall not exceed HK$230 million, HK$255 million and HK$280 million for each of the three years ending 31 March 2005, 2006 and 2007, respectively. This resolution replaces the waiver granted by the SEHK to the Company on 29 October 2001, which expired on 31 March 2004. Further details are set out in the circular to the Company's shareholders dated 15 March 2004.

(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	
	2004	2003
	HK$'000	*HK$'000*
Gold Strong Industrial Limited	**7,163**	5,589
Grand Artic Limited	**2,213**	2,250
Leader Up Limited	**3,072**	2,769
	12,448	10,608

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.

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, Poon Kwok Fai, Ronald and Wong Chung Mat, Ben, 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
30 June 2004

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements on pages 20 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

BASIS OF OPINION

We conducted our audit in accordance with 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 2004 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
30 June 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2004

	Notes	2004 HK$'000	2003 HK$'000
TURNOVER	5	**327,733**	383,984
Cost of sales		**(238,891)**	(238,472)
Gross profit		**88,842**	145,512
Other revenue	5	**4,722**	4,713
Selling and distribution costs		**(11,892)**	(15,437)
General and administrative expenses		**(56,780)**	(57,722)
Other operating expenses		**(1,357)**	(6,509)
PROFIT FROM OPERATING ACTIVITIES	6	**23,535**	70,557
Finance costs	7	**(174)**	(262)
Share of profits and losses of associates		**(405)**	(56)
PROFIT BEFORE TAX		**22,956**	70,239
Tax	9	**(2,691)**	(12,891)
PROFIT BEFORE MINORITY INTERESTS		**20,265**	57,348
Minority interests		**(1,314)**	(1,627)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	**18,951**	55,721
DIVIDENDS	11		
– Interim		**12,946**	12,946
– Proposed final		**22,655**	24,274
		35,601	37,220
EARNINGS PER SHARE	12		
– Basic		**5.86 cents**	17.22 cents
– Diluted		**N/A**	N/A

31 March 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**249,181**	217,734
Investment property	14	**810**	740
Interests in associates	17	**3,592**	2,115
Long term investment	18	**650**	650
		254,233	221,239
CURRENT ASSETS			
Inventories	19	**67,678**	65,338
Trade receivables	20	**94,869**	78,030
Prepayments, deposits and other receivables		**5,032**	4,975
Short term investments	18	**644**	496
Bills receivable		**130**	382
Tax recoverable		**861**	–
Cash and cash equivalents	21	**124,055**	188,211
		293,269	337,432
CURRENT LIABILITIES			
Trade payables	22	**36,886**	20,013
Bills payable		**2,457**	11,142
Other payables and accrued liabilities		**18,881**	20,795
Tax payable		**2,056**	7,674
Interest-bearing bank loans, secured	23, 24	**10,000**	2,000
		70,280	61,624
NET CURRENT ASSETS		**222,989**	275,808
TOTAL ASSETS LESS CURRENT LIABILITIES		**477,222**	497,047
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured	23, 24	**4,000**	6,000
Deferred tax liabilities	25	**6,530**	7,400
		10,530	13,400
MINORITY INTERESTS		**21,159**	19,845
		445,533	463,802
CAPITAL AND RESERVES			
Issued capital	26	**32,365**	32,365
Reserves	28(a)	**390,513**	407,163
Proposed final dividend	11	**22,655**	24,274
		445,533	463,802

Hui Leung Wah
Director

Poon Sui Hong
Director

	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 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		–	–	–	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 and 1 April 2003		32,365	56,831*	41,800*	(152)*	308,684*	24,274	463,802
Net profit for the year		–	–	–	–	18,951	–	18,951
2003 final dividend declared		–	–	–	–	–	(24,274)	(24,274)
2004 interim dividend paid	*11*	–	–	–	–	(12,946)	–	(12,946)
2004 proposed final dividend	*11*	–	–	–	–	(22,655)	22,655	–
At 31 March 2004		**32,365**	**56,831***	**41,800***	**(152)***	**292,034***	**22,655**	**445,533**
Reserves retained by:								
Company and subsidiaries		32,365	56,831	41,800	(152)	292,588	22,655	446,087
Associates		–	–	–	–	(554)	–	(554)
As at 31 March 2004		**32,365**	**56,831**	**41,800**	**(152)**	**292,034**	**22,655**	**445,533**
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

* These reserve accounts comprise the consolidated reserves of HK$390,513,000 (2003: HK$407,163,000) in the consolidated balance sheet.

Year ended 31 March 2004

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**22,956**	70,239
Adjustments for:			
Finance costs	7	**174**	262
Share of profits and losses of associates		**405**	56
Interest income	5	**(3,980)**	(4,064)
Dividend income	5	**(17)**	(18)
Loss on disposal of fixed assets	6	**34**	58
Depreciation	6	**27,359**	24,072
Impairment of goodwill	6	**–**	1,687
Provision for bad and doubtful debts, net	6	**1,575**	2,071
Provision for/(reversal of) inventory obsolescence, net	6	**(1,951)**	516
Unrealised loss/(gain) on short term investments	6	**(148)**	235
Deficit/(surplus) on revaluation of an investment property	6	**(70)**	716
Provision for impairment in value of leasehold land and buildings	6	**–**	1,800
Operating profit before working capital changes		**46,337**	97,630
Increase in inventories		**(389)**	(7,096)
Increase in trade receivables		**(18,414)**	(6,551)
Decrease/(increase) in prepayments, deposits and other receivables		**(57)**	894
Decrease/(increase) in bills receivable		**252**	(193)
Increase/(decrease) in trade payables		**16,873**	(1,356)
Increase/(decrease) in bills payable		**(8,685)**	9,166
Decrease in other payables and accrued liabilities		**(4,185)**	(1,299)
Cash generated from operations		**31,732**	91,195
Interest paid		**(174)**	(262)
Hong Kong profits tax paid		**(10,040)**	(2,776)
Net cash inflow from operating activities		**21,518**	88,157

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**3,980**	4,064
Dividends received from listed investments		**17**	18
Purchases of fixed assets		**(56,656)**	(41,065)
Proceeds from disposal of fixed assets		**87**	–
Decrease/(increase) in advances to an associate		**(1,882)**	458
Net cash outflow from investing activities		**(54,454)**	(36,525)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(2,000)**	(2,000)
New bank loans		**8,000**	1,950
Dividends paid		**(37,220)**	(37,220)
Net cash outflow from financing activities		**(31,220)**	(37,270)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(64,156)**	14,362
Cash and cash equivalents at beginning of year		**188,211**	173,849
CASH AND CASH EQUIVALENTS AT END OF YEAR		**124,055**	188,211
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**28,357**	26,340
Non-pledged time deposits	21	**95,698**	161,871
		124,055	188,211

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*16*	**269,955**	246,963
CURRENT ASSETS			
Prepayments		**117**	117
Cash and cash equivalents	*21*	**36**	8
		153	125
CURRENT LIABILITIES			
Other payables and accrued liabilities		**107**	85
NET CURRENT ASSETS		**46**	40
		270,001	247,003
CAPITAL AND RESERVES			
Issued capital	*26*	**32,365**	32,365
Reserves	*28(b)*	**214,981**	190,364
Proposed final dividend	*11*	**22,655**	24,274
		270,001	247,003

Hui Leung Wah
Director

Poon Sui Hong
Director

1. CORPORATE INFORMATION

The registered office of Elegance International Holdings Limited is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda.

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 A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. This SSAP prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 25 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes are included in the accounting policy for deferred tax in note 3 to the financial statements.

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 an investment property 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 2004, 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.

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.

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

Joint venture companies *(continued)*

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.

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.

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

Goodwill *(continued)*

Prior to the adoption of SSAP 30 "Business combinations" in 2002, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP 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.

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.

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

Impairment of assets *(continued)*

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.

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.

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

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.

Operating leases

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 and debt 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.

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

Inventories

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

Cash and cash equivalents

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

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

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

Income tax *(continued)*

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

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

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

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

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

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.

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

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.

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 MPF 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.

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

Employee benefits *(continued)*

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.

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 bye-laws 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 exchanges 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.

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 sale of eyewear products to customers located in the United States;

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

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

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

(e) the "Others" segment mainly represents sale 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.

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	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue:												
External sales	**121,769**	179,939	**150,744**	135,726	**35,399**	46,732	**8,843**	14,709	**10,978**	6,878	**327,733**	383,984
Segment result	**8,051**	29,711	**9,967**	22,411	**2,341**	12,750	**585**	2,429	**726**	1,135	**21,670**	68,436
Interest and dividend income											**3,997**	4,082
Unallocated corporate expenses											**(2,132)**	(1,961)
Profit from operating activities											**23,535**	70,557
Finance costs											**(174)**	(262)
Share of profits and losses of associates	**–**	–	**–**	–	**(296)**	(6)	**(109)**	(50)	**–**	–	**(405)**	(56)
Profit before tax											**22,956**	70,239
Tax											**(2,691)**	(12,891)
Profit before minority interests											**20,265**	57,348
Minority interests											**(1,314)**	(1,627)
Net profit from ordinary activities attributable to shareholders											**18,951**	55,721

4. SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

	North America		Europe		People's Republic of China (including Hong Kong)		Other Asian countries		Others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**30,845**	29,242	**40,049**	28,319	**343,518**	306,731	**1,921**	3,024	**3,522**	1,029	**419,855**	368,345
Interests in associates	**–**	–	**–**	–	**2,560**	974	**1,032**	1,141	**–**	–	**3,592**	2,115
Cash and cash equivalents											**124,055**	188,211
Total assets											**547,502**	558,671
Segment liabilities	**119**	60	**2,145**	1,529	**59,512**	62,894	**5,034**	2,541	**–**	–	**66,810**	67,024
Bank loans											**14,000**	8,000
Total liabilities											**80,810**	75,024
Other segment information:												
Capital expenditure	**–**	–	**–**	–	**58,927**	44,710	**–**	–	**–**	–	**58,927**	44,710
Depreciation	**–**	–	**–**	–	**27,359**	24,072	**–**	–	**–**	–	**27,359**	24,072
Provision for/(reversal of) inventory obsolescence, net	**–**	–	**–**	–	**(1,951)**	516	**–**	–	**–**	–	**(1,951)**	516
Provision for/(reversal of) bad and doubtful debts, net	**1,600**	1,058	**–**	818	**475**	(383)	**(500)**	578	**–**	–	**1,575**	2,071
Deficit/(surplus) on revaluation of an investment property	**–**	–	**–**	–	**(70)**	716	**–**	–	**–**	–	**(70)**	716
Impairment losses recognised in the profit and loss account	**–**	–	**–**	–	**–**	3,487	**–**	–	**–**	–	**–**	3,487

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 AND OTHER REVENUE

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

An analysis of turnover and other revenue is as follows:

	2004	2003
	HK$'000	*HK$'000*
Turnover	**327,733**	383,984
Other revenue		
Interest income	**3,980**	4,064
Net rental income	**112**	63
Dividend income from listed investments	**17**	18
Others	**613**	568
	4,722	4,713

6. PROFIT FROM OPERATING ACTIVITIES

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

		Group	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
Cost of inventories sold		**240,842**	237,956
Depreciation	*13*	**27,359**	24,072
Auditors' remuneration		**1,035**	915
Loss on disposal of fixed assets		**34**	58
Minimum lease payments under operating leases in respect of land and buildings		**2,961**	2,562
Staff costs (excluding directors' remuneration, as set out in note 8):			
Wages and salaries		**75,300**	70,956
Pension scheme contributions		**1,251**	1,067
		76,551	72,023
Provision for/(reversal of) inventory obsolescence, net		**(1,951)**	516
Exchange losses, net		**3,393**	2,012
Gross rental income from an investment property		**(112)**	(112)
Less: Outgoings		**–**	49
Net rental income from an investment property*		**(112)**	(63)
Other operating income/(expenses):			
Provision for bad and doubtful debts, net		**1,575**	2,071
Unrealised loss/(gain) on short term investments		**(148)**	235
Deficit/(surplus) on revaluation of an investment property	*14*	**(70)**	716
Provision for impairment in value of leasehold land and buildings		**–**	1,800
Impairment of goodwill		**–**	1,687

* The rental income was earned from a third party 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.

7. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**174**	262

8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Directors' remuneration

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
Executive:		
Fees	**–**	–
Other emoluments:		
Basic salaries and bonuses	**2,454**	2,452
Housing and other benefits	**1,908**	1,686
Pension scheme contributions	**54**	45
	4,416	4,183
Non-executive:		
Fees	**–**	50
Other emoluments	**–**	–
	–	50
Independent non-executive:		
Fees	**200**	200
Other emoluments	**–**	–
	200	200
	4,616	4,433

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

Directors' remuneration *(continued)*

Three directors (2003: three) occupied certain of the Group's properties rent-free during the year. The estimated value of the accommodation provided for them was HK$1,522,000 (2003: HK$1,686,000) for the year ended 31 March 2004, which has been included in the amounts detailed above.

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 (2003: 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	
	2004	2003
Nil – HK$1,000,000	**5**	6
HK$1,000,001 – HK$1,500,000	**1**	1
HK$2,000,001 – HK$2,500,000	**1**	1
	7	8

Highest paid employees' emoluments

The five highest-paid individuals included three (2003: three) directors, details of whose remuneration are disclosed above. Details of the remuneration of the two (2003: two) non-director, highest-paid individuals for the year are set out below:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Basic salaries and bonuses	**1,626**	1,603
Housing and other benefits	**471**	420
Pension scheme contributions	**68**	62
	2,165	2,085

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	
	2004	2003
Nil – HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**1**	1
	2	2

One of the non-director, highest-paid individuals occupied one of the Group's properties rent-free during the year. The estimated value of the accommodation provided for him was HK$252,000 (2003: HK$420,000) for the year ended 31 March 2004, which has been included in the amounts detailed above.

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16.0%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004	2003
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**3,434**	5,681
Underprovision in prior years	**127**	4,810
Deferred *(note 25)*	**(870)**	2,400
Total tax charge for the year	**2,691**	12,891

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

9. TAX *(continued)*

Group – 2004

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit before tax	**22,951**	**5**	**22,956**
Tax at the statutory tax rates	**4,017**	**2**	**4,019**
Lower tax rate for specific provinces	**–**	**(47)**	**(47)**
Adjustments in respect of current tax of previous periods	**127**	**–**	**127**
Income not subject to tax	**(1,993)**	**(444)**	**(2,437)**
Expenses not deductible for tax	**205**	**173**	**378**
Estimated tax losses not recognised	**166**	**316**	**482**
Tax losses utilised from previous periods	**(103)**	**–**	**(103)**
Others	**272**	**–**	**272**
Tax charge at the Group's effective rates	**2,691**	**–**	**2,691**

Group – 2003

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Profit/(loss) before tax	72,923	(2,684)	70,239
Tax at the statutory tax rates	11,668	(886)	10,782
Lower tax rate for specific provinces	–	135	135
Effect on opening deferred tax of increase in rates	469	–	469
Adjustments in respect of current tax of previous periods	4,810	–	4,810
Income not subject to tax	(5,123)	–	(5,123)
Expenses not deductible for tax	973	277	1,250
Estimated tax losses not recognised	100	474	574
Tax losses utilised from previous periods	(21)	–	(21)
Others	15	–	15
Tax charge at the Group's effective rates	12,891	–	12,891

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK$60,218,000 (2003: HK$37,161,000) (note 28(b)).

11. DIVIDENDS

	2004	2003
	HK$'000	*HK$'000*
Interim – HK4.0 cents (2003: HK4.0 cents) per ordinary share	**12,946**	12,946
Proposed final – HK7.0 cents (2003: HK7.5 cents) per ordinary share	**22,655**	24,274
	35,601	37,220

The 2004 final dividend of HK7.0 cents per ordinary share is proposed to be paid to shareholders whose names appear on the register of members on 19 August 2004 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$18,951,000 (2003: HK$55,721,000) and 323,649,123 (2003: 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.

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	92,283	28,425	165,511	28,318	10,475	51,388	376,400
Additions	–	5,395	18,595	1,515	2,338	31,084	58,927
Disposals	–	–	(108)	(144)	(130)	–	(382)
At 31 March 2004	**92,283**	**33,820**	**183,998**	**29,689**	**12,683**	**82,472**	**434,945**
Accumulated depreciation and impairment:							
At beginning of year	15,039	16,958	98,780	18,647	9,242	–	158,666
Provided during the year	1,981	2,858	17,866	2,853	1,801	–	27,359
Disposals	–	–	(32)	(99)	(130)	–	(261)
At 31 March 2004	**17,020**	**19,816**	**116,614**	**21,401**	**10,913**	**–**	**185,764**
Net book value:							
At 31 March 2004	**75,263**	**14,004**	**67,384**	**8,288**	**1,770**	**82,472**	**249,181**
At 31 March 2003	77,244	11,467	66,731	9,671	1,233	51,388	217,734

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

	2004 **HK$'000**	2003 HK$'000
Hong Kong	**56,408**	56,408
Elsewhere	**35,875**	35,875
	92,283	92,283

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

14. INVESTMENT PROPERTY

	Group	
	2004	2003
	HK$'000	*HK$'000*
At valuation:		
At beginning of year	**740**	–
Transfer from leasehold land and buildings	**–**	1,456
Revaluation surplus/(deficit) credited/(charged) to the profit and loss account	**70**	(716)
At 31 March	**810**	740

At 31 March 2004, the investment property was revalued at HK$810,000 (2003: 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 surplus of HK$70,000 (2003: deficit of HK$716,000) which was credited/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).

15. GOODWILL

The amounts of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2002, was HK$152,000 as at 1 April 2003 and 31 March 2004. The amount of goodwill is stated at its cost, less impairment of HK$1,687,000 which arose in prior years.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**147,173**	147,173
Due from subsidiaries	**122,782**	99,790
	269,955	246,963

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

16. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries at 31 March 2004 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 Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Diamond Bright Industries Limited	Hong Kong	Hong Kong	Ordinary HK$400	–	100	Investment holding
Dongguan Yick Yue Optical Limited**	People's Republic of China (the "PRC")***	Mainland China	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
Fortune Optical Limited**	PRC***	Mainland China	Registered capital HK$37,700,000 (2003: HK$26,880,000)	–	55	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
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

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 Direct	Indirect	Principal activities
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

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

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

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

*** Dongguan Yick Yue Optical Limited and Fortune Optical Limited are registered as wholly-foreign owned enterprises under the PRC law.

17. INTERESTS IN ASSOCIATES

	Group 2004 HK$'000	Group 2003 HK$'000
Share of net assets	**575**	980
Loan to an associate	**3,017**	1,135
	3,592	2,115

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

Particulars of the associates at 31 March 2004 were as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group	Principal activities
Safint Optical Investments Limited ("Safint")	Corporate	Hong Kong/ Mainland China	24.5	Trading of eyewear products
Safilo Trading (Shenzhen) Co., Ltd.	Corporate	Mainland China	24.5	Distribution and sale 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.

18. INVESTMENTS

	Group 2004 HK$'000	Group 2003 HK$'000
Long term investment		
Golf club debenture, at fair value	**650**	650
Short term investments		
Listed equity investments in Hong Kong, at market value	**644**	496

19. INVENTORIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**28,070**	33,536
Work in progress	**12,411**	9,333
Finished goods	**27,197**	22,469
	67,678	65,338

As at the balance sheet date, none of the inventories included in the above balance were carried at net realisable value (2003: 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 2004 and 2003:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Current to 90 days	**92,111**	72,894
91-180 days	**1,267**	4,781
181-360 days	**1,491**	355
Total	**94,869**	78,030

The trade balances of the Group include trade balances due from the Safilo S.p.A group of companies of HK$58,258,000 (2003: HK$45,555,000) in aggregate, which are unsecured, interest-free and are repayable in accordance with normal trading terms.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**28,357**	26,340	**36**	8
Time deposits	**95,698**	161,871	**–**	–
Cash and cash equivalents	**124,055**	188,211	**36**	8

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$10,153,000 (2003: HK$5,086,000). 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 2004 and 2003:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Current to 90 days	**33,706**	19,470
91 – 180 days	**1,524**	347
181 – 360 days	**1,653**	187
Over 360 days	**3**	9
Total	**36,886**	20,013

23. BANK LOANS, SECURED

	Group	
	2004	2003
	HK$'000	*HK$'000*
Repayable:		
Within one year	**10,000**	2,000
After one year but within two years	**2,000**	2,000
After two years but within five years	**2,000**	4,000
	14,000	8,000
Portion classified as current liabilities	**(10,000)**	(2,000)
Long term portion	**4,000**	6,000

24. PLEDGE OF ASSETS

The Group's leasehold land and buildings situated in Hong Kong (see note 13) with an aggregate net book value of HK$15,474,000 (2003: HK$16,692,000) and the investment property situated in Hong Kong with an aggregate valuation of HK$810,000 (2003: HK$740,000) (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. DEFERRED TAX LIABILITIES

The movement in deferred tax liabilities during the year is as follows:

Group

	Accelerated tax depreciation	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2002	6,085	(1,085)	5,000
Deferred tax charged/(credited) to the profit and loss account during the year, including a charge of HK$469,000 due to the effect of a change in tax rates *(note 9)*	2,563	(163)	2,400
At 31 March and 1 April 2003	8,648	(1,248)	7,400
Deferred tax credited to the profit and loss account during the year *(note 9)*	(509)	(361)	(870)
Gross deferred tax liabilities at 31 March 2004	8,139	(1,609)	6,530

The Group has tax losses arising in Hong Kong of HK$11,832,000 (2003: HK$11,473,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

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

26. SHARE CAPITAL

	Company	
	2004	2003
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
323,649,123 shares of HK$0.10 each	**32,365**	32,365

27. SHARE OPTION SCHEMES

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

During the year, the share option scheme of the Company adopted on 21 March 1996 (the "Old Share Option Scheme") was terminated and a new share option scheme was approved by the shareholders at a special general meeting of the Company held on 16 May 2003 to comply with Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the SEHK. The Scheme became effective on 16 May 2003 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

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

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

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

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

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

As at 31 March 2004, no options granted under the Old Share Option Scheme remained outstanding and no options have been granted since the approval of the Scheme on 16 May 2003. Further details of the Scheme are set out in the circular to the Company's shareholders dated 22 April 2003.

28. 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 22 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

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 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 and 1 April 2003		56,831	146,973	(13,440)	190,364
Net profit for the year		–	–	60,218	60,218
2004 interim dividend paid	11	–	–	(12,946)	(12,946)
2004 final dividend proposed	11	–	–	(22,655)	(22,655)
At 31 March 2004		**56,831**	**146,973**	**11,177**	**214,981**

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 28(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.

29. CONTINGENT LIABILITIES

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

	Company	
	2004	2003
	HK$'000	*HK$'000*
Guarantees given for banking facilities granted to subsidiaries	**50,500**	65,500

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	
	2004	2003
	HK$'000	*HK$'000*
Grand Artic Limited	**2,000**	2,000
Gold Strong Industrial Limited	**3,000**	3,000

These banking facilities were utilised to the extent of approximately HK$521,000 as at the balance sheet date (2003: approximately HK$2,000,000).

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1,904,000 (2003: HK$3,240,000) as at 31 March 2004, 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 2004 and 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**1,020**	599
In the second to fifth years, inclusive	**1,978**	1,395
After five years	**25,423**	25,760
	28,421	27,754

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

	Group	
	2004	2003
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Land and buildings	**1,631**	14,937
Leasehold improvements	**2,838**	–
Equipment and machinery	**800**	3,862
Capital contributions payable to subsidiaries	**41,055**	30,235
	46,324	49,034

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 120 days (2003: 90 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.

During the year, the Group sold goods to the Safilo S.p.A. group of companies with a sales value amounting to HK$158,275,000 (2003: HK$199,587,000). In accordance with the terms of the Supply Agreement, the corresponding sales volume discount amounted to HK$1,583,000 (2003: HK$5,809,000), out of which HK$1,099,000 (2003: HK$4,674,000) was paid during the year and HK$484,000 (2003: HK$1,135,000) was accrued in the financial statements at the balance sheet date.

The aggregate accounts receivable balance due from the Safilo S.p.A. group of companies as at 31 March 2004 in respect of these sales amounted to HK$58,258,000 (2003: HK$45,555,000).

32. RELATED PARTY TRANSACTIONS *(continued)*

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

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

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

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$12,617,000 for the year (2003: HK$10,435,000).

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

(b) Transactions among Group companies

The Company granted corporate guarantees to banks in favour of certain of its subsidiaries, wholly-owned and non wholly-owned, for no consideration to secure banking facilities available to these companies. Further details are set out in note 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. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 June 2004.