

ELEGANCE INTERNATIONAL HOLDINGS LIMITED



Annual Report

2005

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BOARD OF DIRECTORS

Executive Directors

HUI Leung Wah
POON Sui Hong
LEUNG Shu Sum

Non-Executive Directors

Mario PIETRIBIASI
Massimiliano TABACCHI
Vittorio TABACCHI (resigned on 24 September 2004)

Independent Non-Executive Directors

FOK Kwan Wing (deceased on 21 January 2005)
POON Kwok Fai, Ronald
TAM Hok Lam, Tommy
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

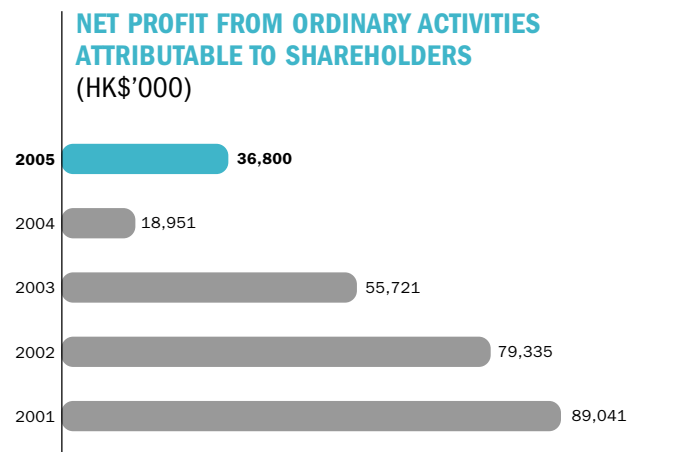
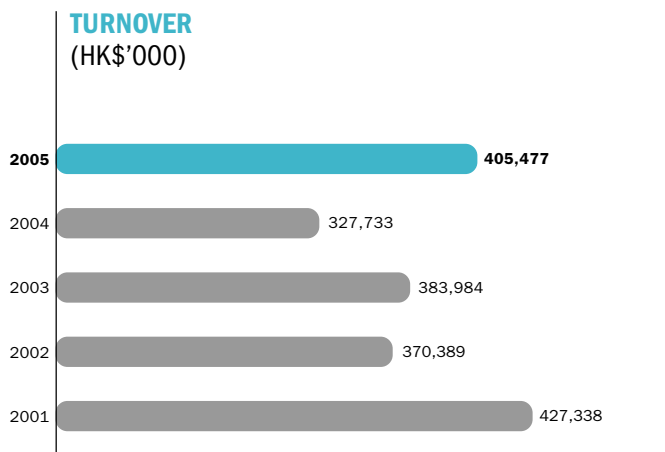
REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

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

FINANCIAL HIGHLIGHTS



BREAKDOWN OF TURNOVER BY GEOGRAPHICAL AREA FOR THE YEAR ENDED 31 MARCH 2005



■ Europe	49.37%
■ North America	37.62%
■ The People's Republic of China (including Hong Kong)*	7.14%
■ Other Asian Countries	2.61%
■ Others	3.26%

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

CHAIRMAN'S STATEMENT



On behalf of the Board of Directors (the "Board"), I am pleased to present the 2004/2005 annual report of Elegance International Holdings Limited (the "Company" or "Elegance") and its subsidiaries (collectively, the "Group").

DIVIDEND

The Board of Directors have resolved to recommend the payment of a final dividend of HK5 cents per share (2004: HK7 cents) for the year ended 31 March 2005 at the forthcoming Annual General Meeting to be held on 19 August 2005. The final dividend together with the interim dividend of HK3 cents per share, will make a total dividend for the year of HK8 cents per share. The final dividend, if approved by shareholders, is expected to be payable on 16 September 2005 to those shareholders whose names appear on the Register of Members on 19 August 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 13 August 2005 to 19 August 2005 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 2005.

BUSINESS REVIEW

Performance Highlight

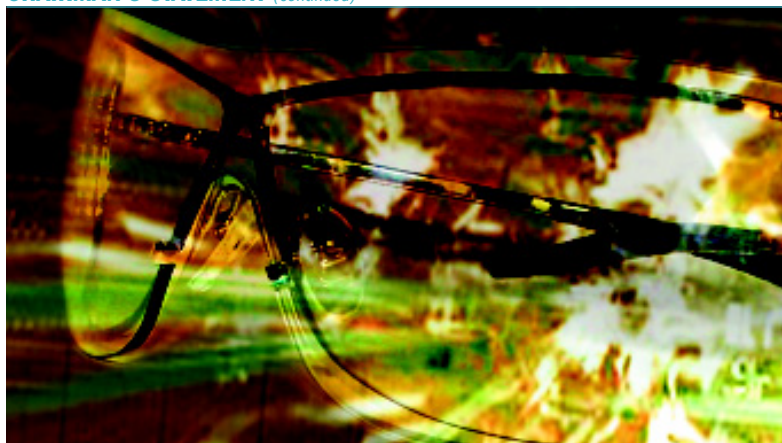
The Group achieved a satisfactory performance for the year ended 31 March 2005 compared to the prior year. The overall recovery of the optical industry continued its momentum throughout the year under review. The Group recorded a 23.72% growth in turnover to HK\$405,477,000

(31 March 2004: HK\$327,733,000) for the year. Net profit attributable to shareholders increased by 94.19% to HK\$36,800,000, compared to a reported profit of HK\$18,951,000 for the financial year 2003/04 with improved net profit margins of 9.08% (2004: 5.78%). Return on shareholders' funds increased to 8.14% (2004: 4.25%). Basic earnings per share for the year ended 31 March 2005 amounted to HK11.37 cents (2004: HK5.86 cents) per share.

The Group also recorded a net cash inflow from operating activities of HK\$52,177,000 (2004: HK\$21,518,000), representing an increase of 142.48%, which is a substantial improvement as compared to year 2003/04.

The margins of operating activities continued to improve, increasing from 7.18% to 10.21% though gross profit margins decreased to 25% from 27.11% of previous year due to rise in materials costs during the year concerned. The Group plans to widen gross profit margins by continual introduction of products with new design and new production techniques, leveraging sale volume and economies of scale as well as tightening the operating overheads.

Benefiting from the Group's products' design and quality, we have been able to secure more sale orders to capture the growing economies in Europe and North America. During the year under review, Europe was still the single largest market of the Group, contributing 49.37% (2004: 46.00%) of the Group's total turnover. Sales to Europe increased by more than 32.80% to HK\$200,194,000 (2004: HK\$150,744,000). The improving demand for optical products in Europe throughout 2004 and appreciation of Euro stimulated market demand for our optical products. The increasing outsourcing of manufacturing activities of



BUSINESS REVIEW (continued)

Performance Highlight (continued)

traditional European optical distributors has also helped the Group to secure sale orders from European customers whom brought satisfactory returns to us. The Group's sales to North America increased by 25.26% to HK\$152,528,000 (2004: HK\$121,769,000) and it accounted for approximately 37.62% (31 March 2004: 37.15%) of the Group's turnover. The rebound of sale performance in North America was due to favourable consumer sentiment.

Total selling and general and administrative expenses decreased to HK\$62,773,000 (2004: HK\$68,672,000) for the year 2004/05. It reflected the Group's commitment to achieve overall operating efficiencies and maintain reasonable cost structure.

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 year ended 31 March 2005 was a fruitful year for the Group. The Group continued to grow despite increases in raw material prices that put pressure on our margins. Continued investment in production capabilities made in previous years started to be rewarding and laid down a new foundation for prospects of further growth. With our vertically-integrated manufacturing platform, the Group had been able to capitalize on the recovery of optical industry and to maintain market share with support of production facilities at its new factory complex at Jin Quan, Shenzhen, the People's Republic of China ("PRC"). The new facilities commenced operation since April 2004 helped to foster operating synergies and savings in procurement costs.

The Group's factory in Dongguan, PRC also entered into a new stage as it started to move into a new plant since May 2005. The plan of the Group is to make the Dongguan factories a specialized facility in meeting the demand of mid-end optical products for the PRC and Asian market.

Though the optical market generally recovered in the financial year ended 31 March 2005, it is not a totally smooth year. As mentioned in our annual report for 2003/04, the Group had to encounter challenging operating environment due to increasing cost of raw materials and factory overheads and appreciation of Euro and Japanese Yen. The same trend continued to affect our gross profit margins throughout the financial year 2004/05. The price of certain raw materials continued to soar to a high level in the first quarter of 2005. Besides, the continuous appreciation of Euro and Japanese Yen also impacted our cost structure as major portion of our raw materials, components, machinery were imported from Europe and Japan. Rising overheads costs like wages, electricity and fuel charges in PRC also added further pressure to the production costs to the Group. Faced with a challenging operating environment with cost pressure and keen competition, the Group reacted to these challenges by focusing its core strategies of controlling overheads, improving production efficiency and logistics management. Inventory turnover was improved from 102 days for year 2003/04 to 79 days for current year. The Group was able to diversify our sourcing risk via increasing our portion of purchase from PRC and secured long-term stable price from suppliers. Largely because of increase in turnover, effect of economies of scale and our continuous effort to monitor general and administrative expenses, net profit margin increased to 9.08% as compared to 5.78% for 2003/04.

PROSPECT

For the coming financial year 2005/06, it is anticipated that raw material costs may show sign of stabilization but they still remains at high level and continue to constrain the operating performance of the Group. The Group remains confident that, through effective control on costs and overheads and improvements in inventory management, impacts from high production costs could be contained and gross profit can be maintained at a stable level. Looking forward, the Group will continue to invest further in production facilities, recruitment of skilled technicians and engineers and bring in more new advanced machineries to cater for customer's demand for quality and quick delivery.

The Group continues to strengthen our original design manufacturing ("ODM") business. The partnership with major optical brand-name customers contributes a healthy growth driven by our commitment to deliver quality products at attractive prices. Additional ODM opportunities have been developed with several customers during the year 2004/2005, which will have potential for further growth in turnover and profitability in the coming years. To optimize the profitability of the ODM business, the Group is making effort to securing orders with satisfactory gross profit margins while strengthening its relationship with major and long-established customers. In addition to striving for growth in its major markets, i.e., Europe and North America, the Group will also actively expand other potential overseas markets such as Japan, India and Eastern Europe.

Having considered the mentioned factors, both positive and negative, as one of the major manufacturers of optical frames for more than 30 years, the Group maintains the belief of steady growth of demand for optical products in the long run. The Group will continue to confront the challenges and move towards the goal of higher profitability.

APPRECIATION

The Board would like to convey its sincere gratitude towards all our customers, suppliers and shareholders for their long-term support. More importantly, we would like to thank all the employees of the Group for their efforts and passion, which is the foundation for future success of the Group.

The Board would like to take this opportunity to express our warmest welcome to Mr. Massimiliano Tabacchi, Mr. Tam Hok Lam, Tommy and Mr. Wong Chung Mat, Ben for joining the Group as the directors of the Company.

The Board also expresses its sincere thanks to the late Mr. Fok Kwan Wing, Phileas, deceased independent non-executive director, for his valuable guidance offered to the Group in the previous years.

LIQUIDITY AND FINANCIAL RESOURCES

Total shareholder's funds amounted to HK\$451,847,000 as at 31 March 2005, representing an increase of 1.42% from HK\$445,533,000 as reported last year.

It is the Group's policy to consistently maintain a healthy financial position and liquidity to meet funding requirement of the Group's operations. The Group adopted a prudent approach and attitude in treasury management. Funds were normally placed in HK dollar and US dollar short to medium term deposit to generate return without exposure to high risk. The cash and bank balances were reported at HK\$134,374,000 (2004: HK\$124,055,000) at the end of this financial year. The Group maintained strong working capital defined as current assets less current liabilities, of HK\$206,981,000 (2004: HK\$222,989,000) as at 31 March 2005. Current ratio was also maintained at a level of 2.75:1 (2004: 4.17:1).

Gearing, representing total bank borrowings over shareholder's funds, was maintained at a healthy level of 11.27% (2004: 3.69%). The increase in gearing was due to drawing banking facilities to finance the capital expenditures on the new production facilities at Shenzhen and Dongguan, PRC respectively. The Group had banking facilities amounted to HK\$122,000,000 (31 March 2004: HK\$50,500,000), of which approximately HK\$50,907,000 (31 March 2004: HK\$16,457,000) were utilised. All outstanding bank borrowings were for purposes of trade-finance and working capital and short to medium term in nature.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

The Group has adopted a prudent strategy to contain the inventory level, which decreased by 4.53% to HK\$64,614,000, despite an increase in turnover of 23.72%. Stock turnover days improved to 79 days as compared to 102 days in 2003/04.

As at 31 March 2005, the Group's capital commitment was HK\$48,892,000 (31 March 2004: HK\$46,324,000).

FOREIGN CURRENCY RISK

There is no material foreign exchange risk exposure to the Group. All of the bank borrowings are denominated in Hong Kong dollars. The revenue of the Group, being mostly denominated in US dollars, was fairly matched with the currency requirements of operating expenses.

PLEDGE OF ASSETS

At 31 March 2005, the Group has pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$17,203,000 (31 March 2004: HK\$16,284,000) 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 2005, the Company had contingent liabilities of HK\$122,000,000 (31 March 2004: HK\$50,500,000), comprised of guarantees given to banks in connection with facilities granted to its fellow subsidiaries.

EMPLOYEES

As at 31 March 2005, the Group employed a total of 4,846 employees. Most of them were stationed in the Mainland China while the rest were in Hong Kong and overseas. Employee costs (excluding directors' emoluments) amounting to approximately HK\$78,732,000 (31 March 2004: HK\$75,300,000). 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. Employees' remuneration is consistent with the prevailing industry practice in the respective countries where the Group operates.

By Order of the Board

Hui Leung Wah

Chairman

Hong Kong
29 June 2005

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

HUI Leung Wah, aged 52, the chairman and managing director of the Group. He is the founder of the Group and has 39 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 46, is a general manager of the Group. He joined the Group in 1984 and has over 19 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 50, is one of the founding members of the Group and has over 29 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 48, is the director of Safilo Far East Limited and Safilo Hong Kong Limited. He holds a Degree in Economics from University of Padova (Italy) and has over 21 years of experience in the commercial field.

Massimiliano TABACCHI, aged 34, joined the Company as a non-executive director on 24 September 2004. Mr. Tabacchi is a director of Safilo S.p.A., which is incorporated in Italy. He holds a Mechanical Engineering Degree from Padua University, Italy.

Vittorio TABACCHI, aged 65, is the Chairman of Safilo Group. He has established good track record and extensive experience in the eyewear industry. He resigned as a director on 24 September 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FOK Kwan Wing, 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 Institute of Certified Public 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 Institute of Certified Public Accountants and Systems Union. He deceased on 21 January 2005.

POON Kwok Fai, Ronald, aged 56, is a solicitor and notary public practicing in Hong Kong and has over 24 years of experience in the legal profession.

TAM Hok Lam, Tommy, J.P., aged 56, joined the Company as an independent non-executive director on 20 April 2005. Mr. Tam is an executive director of National Electronics Holdings Limited, a Hong Kong listed company (Stock Code: 213). He is also a director of The Hong Kong Watch Manufacturers Association and a council member of The Hong Kong Institute of Directors and a council member of The Singapore Chamber of Commerce (Hong Kong). Mr. Tam is a fellow member of The Association of International Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants.

WONG Chung Mat, Ben, aged 53, 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 30 years of experience in the electronics industry.

SENIOR MANAGEMENT

TSANG Tak Hung, Donald, aged 46, 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.

SENIOR MANAGEMENT (continued)

CHENG Wai Keung, Edmond, aged 45, 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 44, 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 24 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 35, is the financial controller and company secretary of the Group. He holds a Bachelor of Social Science Degree from The Chinese University of Hong Kong. He also holds a Master of Business Administration Degree from the University of Manchester. He is an associate of the Hong Kong Institute of Certified Public Accountants and also a fellow of the Association of Chartered Certified Accountants. Mr. Kwan joined the Group in 1997 and has over 13 years of experience in accounting with listed companies and an international accountancy firm.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2005.

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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 17 to 50.

An interim dividend of HK3.0 cents per share was paid on 20 January 2005. The directors recommend the payment of a final dividend of HK5.0 cents per share in respect of the year, to shareholders on the register of members on 19 August 2005. 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				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	405,477	327,733	383,984	370,389	427,338
Net profit from ordinary activities attributable to shareholders	36,800	18,951	55,721	79,335	89,041

Assets, liabilities and minority interests

	31 March				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TOTAL ASSETS	606,055	547,502	558,671	516,676	478,032
TOTAL LIABILITIES	(134,204)	(80,810)	(75,024)	(54,844)	(59,591)
MINORITY INTERESTS	(20,004)	(21,159)	(19,845)	(18,218)	(16,942)
TOTAL NET ASSETS AND SHAREHOLDERS' EQUITY	451,847	445,533	463,802	443,614	401,499

FIXED ASSETS AND INVESTMENT PROPERTIES

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

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 27 and 28 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 29(b) to the financial statements and in the consolidated statement of changes in equity set out on page 19 of this annual report, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2005, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$163,408,000 of which HK\$16,182,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$56,831,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$776,000.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Hui Leung Wah (*Chairman and managing director*)
Poon Sui Hong
Leung Shu Sum

Non-executive directors

Mario Pietribiasi
Massimiliano Tabacchi (appointed on 24 September 2004)
Vittorio Tabacchi (resigned on 24 September 2004)

Independent non-executive directors

Poon Kwok Fai, Ronald
Wong Chung Mat, Ben (appointed on 21 June 2004)
Fok Kwan Wing (deceased on 21 January 2005)

Subsequent to the balance sheet date, on 20 April 2005, Mr. Tam Hok Lam, Tommy was appointed as an independent non-executive director of the Company.

In accordance with the Company's bye-laws, Messrs. Leung Shu Sum, Massimiliano Tabacchi, Poon Kwok Fai, Ronald and Tam Hok Lam, Tommy will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In order to fully comply with the requirements as set out in Appendix 4.1 of the Code on Corporate Governance Practices of the Listing Rules, Messrs. Mario Pietribiasi and Wong Chung Mat, Ben will also retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

Mr. Poon Sui Hong and Mr. Leung Shu Sum have each entered into a renewed service agreement with the Company. Both agreements are for a term of three years commencing on 17 February 2005.

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

At 31 March 2005, 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 Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of issued ordinary shares held	Nature of interest	Percentage of the issued share capital of the Company
Hui Leung Wah	7,894,000	Personal interest	2.44
	141,316,000 (note)	Family interest	43.66
Poon Sui Hong	6,900,000	Personal interest	2.13
Leung Shu Sum	6,000,000	Personal interest	1.85
Mario Pietribiasi	100,000	Personal interest	0.03
	<u>162,210,000</u>		<u>50.11</u>

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, as at 31 March 2005, 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 28 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 2005, 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	149,210,000 (note)	Family interest	46.10
Ansbacher (BVI) Limited	141,316,000	Trustee	43.66
Wahyee Limited	141,316,000	Trustee	43.66
Safilo Far East Limited	74,599,123	Corporate interest	23.05

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's largest customer and the Group's five largest customers accounted for 51.96% and 64.45% 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 33 to the financial statements.

During the year under review, the Group's largest supplier and the Group's five largest suppliers accounted for 9.44% and 29.30% of the Group's total purchases, respectively.

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

CONNECTED TRANSACTIONS

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

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

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

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

CONNECTED TRANSACTIONS (continued)

(I) (continued)

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

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

(d) did not exceed HK\$230 million for the year.

Further details of the Sales to the Safilo S.p.A. group of companies are set out in note 33 to the financial statements.

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

Corporate guarantee to the extent of HK\$3 million
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	
	2005	2004
	HK\$'000	HK\$'000
Gold Strong Industrial Limited	11,066	7,163
Grand Artic Limited	2,210	2,213
Leader Up Limited	3,818	3,072
	17,094	12,448

DISCLOSURES PURSUANT TO RULES 13.13, 13.15 AND 13.20 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.20 of the Listing Rules, the following disclosures are included in respect of advances to entities. As at 31 March 2005, the Group had provided advances to one of its trade debtors, the Safilo S.p.A. group of companies, amounting to approximately HK\$78 million, which exceeded 8% of the market capitalisation of the Company as at 31 March 2005. The balance represented trade receivables from the sales of goods to the Safilo S.p.A. group of companies at the balance sheet date, which are interest-free. The Group normally allows credit terms of 120 days to these customers. Further details of such advances are disclosed in the announcement of the Company dated 20 August 2004.

As at 31 March 2005, the issued share capital of the Company comprised 323,649,123 shares in issue. Based on the average closing price of the Company's shares of HK\$1.372 per share by reference to the Stock Exchange's daily quotation sheets for the trading days from 22 March 2005 to 30 March 2005 (both days inclusive), being the five business days immediately preceding 31 March 2005, the total market capitalisation of the Company was approximately HK\$444 million as at 31 March 2005.

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 except that the non-executive directors and two independent non-executive directors of the Company were not appointed for a specific term. Non-executive directors and independent non-executive directors 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

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises Poon Kwok Fai, Ronald, Wong Chung Mat, Ben and Tam Hok Lam, Tommy, the independent non-executive directors of the Company.

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
29 June 2005



To the members

Elegance International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 17 to 50 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 Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2005 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
29 June 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT (Year ended 31 March 2005)

	Notes	2005 HK\$'000	2004 HK\$'000
TURNOVER	5	405,477	327,733
Cost of sales		<u>(304,119)</u>	<u>(238,891)</u>
Gross profit		101,358	88,842
Other revenue	5	4,653	4,722
Selling and distribution costs		(10,166)	(11,892)
General and administrative expenses		(52,607)	(56,780)
Other operating expenses		<u>(1,857)</u>	<u>(1,357)</u>
PROFIT FROM OPERATING ACTIVITIES	6	41,381	23,535
Finance costs	7	(296)	(174)
Share of profits less losses of associates		<u>(572)</u>	<u>(405)</u>
PROFIT BEFORE TAX		40,513	22,956
Tax	9	<u>(4,868)</u>	<u>(2,691)</u>
PROFIT BEFORE MINORITY INTERESTS		35,645	20,265
Minority interests		<u>1,155</u>	<u>(1,314)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>36,800</u>	<u>18,951</u>
DIVIDENDS	11		
Interim		9,710	12,946
Proposed final		<u>16,182</u>	<u>22,655</u>
		<u>25,892</u>	<u>35,601</u>
EARNINGS PER SHARE	12		
Basic		<u>11.37 cents</u>	<u>5.86 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET (31 March 2005)

	Notes	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	261,259	249,181
Investment properties	14	10,947	810
Interests in associates	17	5,023	3,592
Club debenture		650	650
Deposit paid for a land use right	18	2,838	–
		280,717	254,233
CURRENT ASSETS			
Inventories	19	64,614	67,678
Trade and bills receivables	20	117,464	94,999
Prepayments, deposits and other receivables		8,443	5,032
Short term investments	21	401	644
Tax recoverable		42	861
Cash and cash equivalents	22	134,374	124,055
		325,338	293,269
CURRENT LIABILITIES			
Trade payables	23	41,611	36,886
Bills payable		1,907	2,457
Other payables and accrued liabilities		29,435	18,881
Tax payable		5,070	2,056
Interest-bearing bank loans, secured	24, 25	40,334	10,000
		118,357	70,280
NET CURRENT ASSETS			
		206,981	222,989
TOTAL ASSETS LESS CURRENT LIABILITIES			
		487,698	477,222
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, secured	24, 25	8,666	4,000
Deferred tax liabilities	26	7,181	6,530
		15,847	10,530
MINORITY INTERESTS			
		20,004	21,159
		451,847	445,533
CAPITAL AND RESERVES			
Issued capital	27	32,365	32,365
Reserves	29(a)	403,300	390,513
Proposed final dividend	11	16,182	22,655
		451,847	445,533

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Hui Leung Wah
Director

Poon Sui Hong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Year ended 31 March 2005)

	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Goodwill eliminated against reserves HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 April 2003		32,365	56,831	41,800	-	(152)	308,684	24,274	463,802
2003 final dividend declared		-	-	-	-	-	-	(24,274)	(24,274)
Net profit for the year		-	-	-	-	-	18,951	-	18,951
2004 interim dividend paid	11	-	-	-	-	-	(12,946)	-	(12,946)
2004 proposed final dividend	11	-	-	-	-	-	(22,655)	22,655	-
At 31 March and 1 April 2004		32,365	56,831	41,800	-	(152)	292,034	22,655	445,533
Surplus on revaluation	14	-	-	-	1,879	-	-	-	1,879
Net gains and losses not recognised in the profit and loss account		-	-	-	1,879	-	-	-	1,879
2004 final dividend declared		-	-	-	-	-	-	(22,655)	(22,655)
Net profit for the year		-	-	-	-	-	36,800	-	36,800
2005 interim dividend paid	11	-	-	-	-	-	(9,710)	-	(9,710)
2005 proposed final dividend	11	-	-	-	-	-	(16,182)	16,182	-
At 31 March 2005		32,365	56,831*	41,800*	1,879*	(152)*	302,942*	16,182	451,847
Reserves retained by:									
Company and subsidiaries		32,365	56,831	41,800	1,879	(152)	304,068	16,182	452,973
Associates		-	-	-	-	-	(1,126)	-	(1,126)
As at 31 March 2005		32,365	56,831	41,800	1,879	(152)	302,942	16,182	451,847
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

* These reserve accounts comprise the consolidated reserves of HK\$403,300,000 (2004: HK\$390,513,000) in the consolidated balance sheet.

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, the then holding company of the Group's subsidiaries existing at that time, 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.

CONSOLIDATED CASH FLOW STATEMENT (Year ended 31 March 2005)

	Notes	2005 HK\$'000	2004 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		40,513	22,956
Adjustments for:			
Finance costs	7	296	174
Share of profits less losses of associates		572	405
Interest income	5	(3,927)	(3,980)
Dividend income from listed investments	5	(16)	(17)
Loss on disposal of fixed assets	6	1,838	34
Depreciation	6	27,194	27,359
Provision for bad and doubtful debts, net	6	725	1,575
Provision for/(reversal of) inventory obsolescence, net	6	1,363	(1,951)
Unrealised gain on short term investments	6	(37)	(148)
Gain on disposal of short term investments	6	(23)	–
Surplus on revaluation of an investment property	6	(646)	(70)
		<hr/>	<hr/>
Operating profit before working capital changes		67,852	46,337
Decrease/(increase) in inventories		1,701	(389)
Increase in trade and bills receivables		(23,190)	(18,162)
Increase in prepayments, deposits and other receivables		(3,411)	(57)
Increase in trade payables		4,725	16,873
Decrease in bills payable		(550)	(8,685)
Increase/(decrease) in other payables and accrued liabilities		5,730	(4,185)
		<hr/>	<hr/>
Cash generated from operations		52,857	31,732
Interest paid		(296)	(174)
Hong Kong profits tax paid		(384)	(10,040)
		<hr/>	<hr/>
Net cash inflow from operating activities		52,177	21,518
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		3,927	3,980
Dividend received from listed investments		16	17
Purchases of fixed assets		(51,678)	(56,656)
Proceeds from disposal of fixed assets		7,780	87
Increase in advances to an associate		(2,003)	(1,882)
Proceeds from disposal of short term investments		303	–
Deposit paid for a land use right		(2,838)	–
		<hr/>	<hr/>
Net cash outflow from investing activities		(44,493)	(54,454)
		<hr/>	<hr/>

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

	<i>Notes</i>	2005 HK\$'000	2004 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		(2,000)	(2,000)
New bank loans		37,000	8,000
Dividends paid		(32,365)	(37,220)
		<hr/>	<hr/>
Net cash inflow/(outflow) from financing activities		2,635	(31,220)
		<hr/>	<hr/>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		10,319	(64,156)
		<hr/>	<hr/>
Cash and cash equivalents at beginning of year		124,055	188,211
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		134,374	124,055
		<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	40,930	28,357
Non-pledged time deposits with original maturity of less than three months when acquired	22	93,444	95,698
		<hr/>	<hr/>
		134,374	124,055
		<hr/>	<hr/>

BALANCE SHEET (31 March 2005)

	Notes	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	16	<u>252,614</u>	<u>269,955</u>
CURRENT ASSETS			
Prepayments		<u>117</u>	<u>117</u>
Cash and cash equivalents	22	<u>379</u>	<u>36</u>
		<u>496</u>	<u>153</u>
CURRENT LIABILITIES			
Other payables and accrued liabilities		<u>506</u>	<u>107</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(10)</u>	<u>46</u>
		<u>252,604</u>	<u>270,001</u>
CAPITAL AND RESERVES			
Issued capital	27	<u>32,365</u>	<u>32,365</u>
Reserves	29(b)	<u>204,057</u>	<u>214,981</u>
Proposed final dividend	11	<u>16,182</u>	<u>22,655</u>
		<u>252,604</u>	<u>270,001</u>

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Hui Leung Wah
Director

Poon Sui Hong
Director

1. CORPORATE INFORMATION

The registered office of Elegance International Holdings Limited is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business is located at B2 & B4, 8/F, Block B, Mai Hing Industrial Building, 16-18 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong.

During the year, the Company was involved in investment holding and the Group was involved in the manufacture and trading of optical frames, sunglasses and optical cases.

The directors of the Company consider Wahyee Limited, a company incorporated in the British Virgin Islands, to be the Company's ultimate holding company.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also includes Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2005, 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 Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture 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 Group 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

Impairment of assets

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

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

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

Fixed assets and depreciation

Fixed assets, other than investment properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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. Deposit for land use right represents the cost of land use right acquired pending registration of title with the relevant authority. No depreciation is provided on construction in progress or deposit for the land use right until the related construction or the registration is completed and the assets are 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.

Club debenture

Club debenture is held for a long term basis, and is stated at cost less impairment losses.

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.

Short term investments

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

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.

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

Income tax *(continued)*

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.

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, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental income, on an accrual basis;
- (d) dividend income, when the shareholders' right to receive payment has been established; and
- (e) gain or loss on disposal of investments, on the transfer of risks and rewards of ownership which generally coincides with the time when investments are delivered and title has passed.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's 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 exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment.

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

Each of the Group's geographical segments, based on the location of customers (the destination of sales), represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

- (a) the North America segment mainly represents sale of eyewear products to customers located in the United States;
- (b) the Europe segment mainly represents sale of eyewear products to customers located in Italy, the United Kingdom 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;

4. SEGMENT INFORMATION (continued)

- (d) the Other Asian countries segment mainly represents sale of eyewear products to customers located in Malaysia, Singapore, the Philippines and India; and
- (e) the “others” segment mainly represents sale of eyewear products to customers located in Australia, South America and Africa.

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	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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:												
Sales to external customers	152,528	121,769	200,194	150,744	28,963	35,399	10,588	8,843	13,204	10,978	405,477	327,733
Segment results	15,560	8,051	20,422	9,967	2,954	2,341	1,080	585	1,347	726	41,363	21,670
Interest and dividend income											3,943	3,997
Unallocated corporate expenses											(3,925)	(2,132)
Profit from operating activities											41,381	23,535
Finance costs											(296)	(174)
Share of profits less losses of associates	-	-	-	-	(835)	(296)	263	(109)	-	-	(572)	(405)
Profit before tax											40,513	22,956
Tax											(4,868)	(2,691)
Profit before minority interests											35,645	20,265
Minority interests											1,155	(1,314)
Net profit from ordinary activities attributable to shareholders											36,800	18,951

4. SEGMENT INFORMATION (continued)

Geographical segments (continued)

	North America		Europe		People's Republic of China (including Hong Kong)		Other Asian countries		Others		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	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	40,666	30,845	52,785	40,049	368,509	343,518	1,725	1,921	2,973	3,522	466,658	419,855
Interests in associates	-	-	-	-	3,729	2,560	1,294	1,032	-	-	5,023	3,592
Cash and cash equivalents											134,374	124,055
Total assets											606,055	547,502
Segment liabilities	3,673	119	11,159	2,145	55,148	50,926	2,973	5,034	-	-	72,953	58,224
Bank loans											49,000	14,000
Unallocated liabilities											12,251	8,586
Total liabilities											134,204	80,810
Other segment information:												
Capital expenditure	-	-	-	-	59,340	58,927	-	-	-	-	59,340	58,927
Depreciation	-	-	-	-	27,194	27,359	-	-	-	-	27,194	27,359
Provision for/ (reversal of) inventory obsolescence, net	-	-	-	-	1,363	(1,951)	-	-	-	-	1,363	(1,951)
Provision for/ (recovery) bad and doubtful debts, net	99	1,600	-	-	(14)	475	640	(500)	-	-	725	1,575
Surplus on revaluation of an investment property	-	-	-	-	(646)	(70)	-	-	-	-	(646)	(70)

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:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover – sale of goods	405,477	327,733
Other revenue		
Interest income	3,927	3,980
Net rental income	135	112
Dividend income from listed investments	16	17
Others	575	613
	4,653	4,722

6. PROFIT FROM OPERATING ACTIVITIES

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

		Group	
	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cost of inventories sold		302,756	240,842
Depreciation	13	27,194	27,359
Auditors' remuneration		950	1,035
Minimum lease payments under operating leases in respect of land and buildings		2,130	2,961
Staff costs (excluding directors' remuneration, as set out in note 8):			
Wages and salaries		78,732	75,300
Pension scheme contributions		1,101	1,251
		79,833	76,551
Provision for/(reversal of) inventory obsolescence, net		1,363	(1,951)
Exchange losses, net		3,366	3,393
Other operating expenses/(income):			
Provision for bad and doubtful debts, net		725	1,575
Loss on disposal of fixed assets		1,838	–
Gain on disposal of short term listed investments		(23)	–
Unrealised gain on short term investments		(37)	(148)
Surplus on revaluation of an investment property	14	(646)	(70)

7. FINANCE COSTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	<u>296</u>	<u>174</u>

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	
	2005	2004
	HK\$'000	HK\$'000
Executive:		
Fees	-	-
Other emoluments:		
Basic salaries and bonuses	2,460	2,454
Housing and other benefits	1,506	1,908
Pension scheme contributions	54	54
	<u>4,020</u>	<u>4,416</u>
Non-executive:		
Fees	-	-
Other emoluments	-	-
	<u>-</u>	<u>-</u>
Independent non-executive:		
Fees	238	200
Other emoluments	-	-
	<u>238</u>	<u>200</u>
	<u>4,258</u>	<u>4,616</u>

Three directors (2004: three) occupied certain of the Group's properties rent-free during the year. The estimated value of the accommodation provided for them was HK\$1,506,000 (2004: HK\$1,522,000) for the year ended 31 March 2005, which has been included in the amounts detailed above.

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

Directors' remuneration (continued)

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

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2005	2004
Nil – HK\$1,000,000	7	5
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
	<u>9</u>	<u>7</u>

Highest paid employees' emoluments

The five highest-paid individuals included three (2004: three) directors, details of whose remuneration are disclosed above. Details of the remuneration of the two (2004: two) non-director, highest-paid individuals for the year are set out below:

	Group	
	2005 HK\$'000	2004 HK\$'000
Basic salaries and bonuses	1,633	1,626
Housing and other benefits	252	471
Pension scheme contributions	67	68
	<u>1,952</u>	<u>2,165</u>

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

	Number of non-director, highest-paid individuals	
	2005	2004
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>2</u>	<u>2</u>

One of the non-director, highest-paid individuals occupied one of the Group's properties rent-free during the year. The estimated value of the accommodation provided for him was HK\$252,000 (2004: HK\$252,000) for the year ended 31 March 2005, which has been included in the amounts detailed above.

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2005 HK\$'000	2004 HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	4,351	3,434
Under/(over) provision in prior years	(361)	127
Current – Elsewhere	227	–
Deferred (note 26)	651	(870)
	<hr/>	<hr/>
Total tax charge for the year	4,868	2,691

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 are as follows:

Group – 2005

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Profit/(loss) before tax	45,067	(4,554)	40,513
	<hr/>	<hr/>	<hr/>
Tax at the statutory tax rates	7,887	(1,503)	6,384
Lower tax rate for specific provinces	–	196	196
Adjustments in respect of current tax of previous periods	(361)	–	(361)
Results from offshore manufacturing operation not subject to tax	(3,415)	–	(3,415)
Income not subject to tax	(1,120)	–	(1,120)
Expenses not deductible for tax	906	572	1,478
Estimated tax losses not recognised	123	735	858
Tax losses utilised from previous periods	(10)	–	(10)
Others	631	227	858
	<hr/>	<hr/>	<hr/>
Tax charge at the Group's effective rates	4,641	227	4,868

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
Results from offshore manufacturing operation not subject to tax	(1,283)	–	(1,283)
Income not subject to tax	(710)	(444)	(1,154)
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

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10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company was HK\$14,968,000 (2004: net profit of HK\$60,218,000) (note 29(b)).

11. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim – HK3.0 cents (2004: HK4.0 cents) per ordinary share	9,710	12,946
Proposed final – HK5.0 cents (2004: HK7.0 cents) per ordinary share	16,182	22,655
	25,892	35,601

The 2005 final dividend of HK5 cents per ordinary share is proposed to be paid to shareholders whose names appear on the register of members on 19 August 2005 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\$36,800,000 (2004: HK\$18,951,000) and 323,649,123 (2004: 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	Note	Leasehold	Leasehold	Plant and	Furniture,	Motor	Construction	Total
		land and buildings	improvements	machinery	and office equipment	vehicles	in progress	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost:								
At beginning of year		92,283	33,820	183,998	29,689	12,683	82,472	434,945
Additions		5,705	9,945	24,069	2,684	359	13,740	56,502
Transfers		88,090	7,374	-	-	-	(95,464)	-
Transfer to investment properties	14	(8,359)	-	-	-	-	-	(8,359)
Disposals/write-offs		(3,670)	(6,661)	(4,630)	(741)	(919)	(686)	(17,307)
At 31 March 2005		174,049	44,478	203,437	31,632	12,123	62	465,781
Accumulated depreciation and impairment:								
At beginning of year		17,020	19,816	116,614	21,401	10,913	-	185,764
Provided during the year		2,839	3,753	17,807	2,452	343	-	27,194
Transfer to investment properties	14	(747)	-	-	-	-	-	(747)
Disposals		(3,670)	(626)	(1,988)	(486)	(919)	-	(7,689)
At 31 March 2005		15,442	22,943	132,433	23,367	10,337	-	204,522
Net book value:								
At 31 March 2005		158,607	21,535	71,004	8,265	1,786	62	261,259
At 31 March 2004		75,263	14,004	67,384	8,288	1,770	82,472	249,181

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

	2005 HK\$'000	2004 HK\$'000
Hong Kong	52,108	56,408
Elsewhere	121,941	35,875
	174,049	92,283

During the current year, certain of the Group's leasehold land and buildings situated in Hong Kong and Mainland China were leased to third parties and thus reclassified to investment properties at their carrying value of HK\$7,612,000 at the date of transfer (note 14).

Certain of the Group's 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 25).

14. INVESTMENT PROPERTIES

	Group	
	2005 HK\$'000	2004 HK\$'000
At valuation:		
At beginning of year	810	740
Transfer from leasehold land and buildings (note 13)	7,612	–
Revaluation surplus credited to the profit and loss account	646	70
Revaluation surplus credited to the investment property revaluation reserve	<u>1,879</u>	–
At 31 March	<u>10,947</u>	<u>810</u>

At 31 March 2005, the investment properties were revalued at HK\$10,947,000 (2004: HK\$810,000) on an open market and existing use basis by Vigers Appraisal & Consulting Limited, an independent professionally qualified valuer, resulting in a net revaluation surplus of HK\$2,525,000 (2004: HK\$70,000), of which HK\$646,000 (2004: HK\$70,000), representing revaluation surplus to the extent of deficit previously charged, was credited to the profit and loss account (see note 6) and HK\$1,879,000 (2004: Nil), representing revaluation surplus of investment properties not otherwise credited to the profit and loss account as noted above, was credited to the investment property revaluation reserve.

Certain of the Group's investment properties which are situated in Hong Kong and held under a medium term lease have been pledged to a bank to secure the bank loans and general banking facilities granted to the Group (see note 25).

15. GOODWILL

The amount 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 2004 and 31 March 2005. The amount of goodwill is stated at cost less impairment of HK\$1,687,000 which arose in prior years.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	147,173	147,173
Due from subsidiaries	<u>105,441</u>	<u>122,782</u>
	<u>252,614</u>	<u>269,955</u>

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 2005 were as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued share capital/ paid-in capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Diamond Bright Industries Limited	Hong Kong	Hong Kong	Ordinary HK\$400	–	100	Investment holding
Dongguan Yick Yue Optical Limited**	People's Republic of China (the "PRC")***	Mainland China	HK\$15,005,000	–	55	Manufacture of optical frames
Elegance Group Limited	British Virgin Islands	Hong Kong	Ordinary US\$80	100	–	Investment holding
Elegance Optical Investments Limited	Hong Kong	Hong Kong	Ordinary HK\$200 Non-voting deferred HK\$20,000,000*	–	100	Investment and property holding
Elegance Optical Manufactory Limited	Hong Kong	Hong Kong	Ordinary HK\$2	–	100	Trading and manufacture of optical frames
Fortune Optical Limited**	PRC***	Mainland China	HK\$12,450,000	–	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

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at 31 March 2005 were as follows: (continued)

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued share capital/ paid-in capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Great Champ Asia Limited**	Hong Kong	Hong Kong	Ordinary HK\$2	–	100	Investment holding
Leader Up Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	–	60	Trading of spectacles
Million Wave Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	–	100	Property holding
Standard Sun International Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	–	100	Trading of eyewear products
United Wish Company Limited	Hong Kong	Mainland China	Ordinary HK\$100	–	100	Retailing of optical frames
Yieldly (International) Investment Limited	Hong Kong	Hong Kong	Ordinary HK\$400	–	100	Investment holding
Winston Technology Limited**	Hong Kong	Hong Kong	Ordinary HK\$1	–	100	Investment holding
東莞精奇機械科技 有限公司 **	PRC***	Mainland China	Registered capital HK\$15,600,000	–	100	Trading and manufacture of machineries

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

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

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

*** Dongguan Yick Yue Optical Limited, Fortune Optical Limited and 東莞精奇機械科技有限公司 are registered as wholly foreign-owned enterprises under the PRC law.

17. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Share of net assets	3	575
Loan to an associate	5,020	3,017
	5,023	3,592

The loan to an associate is unsecured, interest-free and not repayable within one year.

Particulars of the associates at 31 March 2005 were as follows:

Name	Business Structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group	Principal activities
Safint Optical Investments Limited*	Corporate	Hong Kong/ Mainland China	24.5	Trading of eyewear products
Safilo Trading (Shenzhen) Co., Ltd.	Corporate	PRC/ 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. DEPOSIT PAID FOR A LAND USE RIGHT

During the year, a deposit amounting to RMB3,000,000 was paid by 東莞精奇機械科技有限公司 for the purchase of a land use right in Mainland China. The directors are in the process of obtaining from the relevant authority the land use right certificate which, in the opinion of the directors, will be issued in due course. The land use right will be used for the construction of a factory in Dongguan and is for a lease of 50 years.

19. INVENTORIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Raw materials	27,079	28,070
Work in progress	23,582	12,411
Finished goods	13,953	27,197
	64,614	67,678

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

20. TRADE AND BILLS 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 (2004: 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 and bills receivables (net of provision for bad and doubtful debts) as at 31 March 2005 and 2004:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current to 90 days	114,741	92,241
91-180 days	2,387	1,267
181-360 days	336	1,491
	<hr/>	<hr/>
Total	117,464	94,999

The trade balances of the Group include trade balances due from the Safilo S.p.A group of companies of HK\$77,651,000 (2004: HK\$58,258,000) in aggregate, which are unsecured, interest-free and are repayable in accordance with normal trading terms of 120 days.

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21. SHORT TERM INVESTMENTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Listed equity investments in Hong Kong, at market value	401	644

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances	40,930	28,357	379	36
Time deposits	93,444	95,698	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents	134,374	124,055	379	36

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$13,800,000 (2004: HK\$10,153,000). 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.

23. TRADE PAYABLES

The following is an aged analysis of the trade payables as at 31 March 2005 and 2004:

	Group	
	2005 HK\$'000	2004 HK\$'000
Current to 90 days	38,990	33,706
91 – 180 days	647	1,524
181 – 360 days	576	1,653
Over 360 days	1,398	3
	<hr/>	<hr/>
Total	41,611	36,886
	<hr/>	<hr/>

24. INTEREST-BEARING BANK LOANS, SECURED

	Group	
	2005 HK\$'000	2004 HK\$'000
Amounts repayable:		
Within one year	40,334	10,000
In the second year	5,333	2,000
In the third to fifth years, inclusive	3,333	2,000
	<hr/>	<hr/>
	49,000	14,000
Portion classified as current liabilities	(40,334)	(10,000)
	<hr/>	<hr/>
Long term portion	8,666	4,000
	<hr/>	<hr/>

25. 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\$12,374,000 (2004: HK\$15,474,000) and the investment properties situated in Hong Kong with an aggregate valuation of HK\$4,829,000 (2004: HK\$810,000) (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.

26. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

Group	Accelerated tax	Others	Total
	depreciation HK\$'000	HK\$'000	HK\$'000
At 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)
At 31 March and 1 April 2004	8,139	(1,609)	6,530
Deferred tax charged to the profit and loss account during the year (note 9)	579	72	651
Gross deferred tax liabilities at 31 March 2005	8,718	(1,537)	7,181

At the balance sheet date, the Group had tax losses arising in Hong Kong of HK\$12,559,000 (2004: HK\$11,832,000) 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 2005, there was no significant unrecognised deferred tax liability (2004: 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.

27. SHARE CAPITAL

	Company	
	2005 HK\$'000	2004 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

28. 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.

28. SHARE OPTION SCHEMES (continued)

In the prior 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 2005 and 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.

29. 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 19 of this annual report.

(b) Company

	<i>Notes</i>	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003		56,831	146,973	(13,440)	190,364
Net profit for the year		–	–	60,218	60,218
2004 interim dividend paid	<i>11</i>	–	–	(12,946)	(12,946)
2004 final dividend proposed	<i>11</i>	–	–	(22,655)	(22,655)
		<hr/>	<hr/>	<hr/>	<hr/>
At 31 March and 1 April 2004		56,831	146,973	11,177	214,981
Net profit for the year		–	–	14,968	14,968
2005 interim dividend paid	<i>11</i>	–	–	(9,710)	(9,710)
2005 final dividend proposed	<i>11</i>	–	–	(16,182)	(16,182)
		<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005		56,831	146,973	253	204,057

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 29(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.

30. CONTINGENT LIABILITIES

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

	Company	
	2005	2004
	HK\$'000	HK\$'000
Guarantees given for banking facilities granted to:		
– wholly-owned subsidiaries	117,000	45,500
– non wholly-owned subsidiaries	5,000	5,000
	122,000	50,500

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	
	2005	2004
	HK\$'000	HK\$'000
Grand Artic Limited	2,000	2,000
Gold Strong Industrial Limited	3,000	3,000

These banking facilities were utilised by these subsidiaries to the extent of approximately HK\$326,000 as at the balance sheet date (2004: approximately HK\$521,000).

(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\$929,000 (2004: HK\$1,904,000) as at 31 March 2005, 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.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases one of its investment properties (note 14) under operating lease arrangements, with leases negotiated for a term of four years. The terms of the lease generally also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	102	–
In the second to fifth years, inclusive	76	–
	<hr/>	<hr/>
	178	–
	<hr/>	<hr/>

(b) As lessee

The Group leases certain of its office premises under operating lease arrangements. Leases for office premises are negotiated for terms ranging from one to 50 years.

At 31 March 2005 and 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	2,730	1,020
In the second to fifth years, inclusive	7,896	1,978
After five years	28,086	25,423
	<hr/>	<hr/>
	38,712	28,421
	<hr/>	<hr/>

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
	2005	2004
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Land and buildings	1,081	1,631
Leasehold improvements	–	2,838
Equipment and machinery	3,192	800
Capital contributions payable to subsidiaries	44,619	41,055
	<u>48,892</u>	<u>46,324</u>

33. 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 (2004: 120 days) from the end of the month in which these products are delivered to the Safilo S.p.A. group of companies. The terms of the Supply Agreement are set out in greater detail in the circulars to the shareholders of the Company dated 24 March 1997 and 18 July 2001.

During the year, the Group sold goods to the Safilo S.p.A. group of companies with aggregate sales value amounting to HK\$214,773,000 (2004: HK\$158,275,000). In accordance with the terms of the Supply Agreement, the corresponding sales volume discount for the year amounted to HK\$7,277,000 (2004: HK\$1,583,000). No payment of such discount was made during the year (2004: HK\$1,099,000) and HK\$7,761,000 (2004: HK\$484,000) 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 2005 in respect of these sales amounted to HK\$77,651,000 (2004: HK\$58,258,000).

33. 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 (note 17).

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\$12,127,000 for the year (2004: HK\$12,617,000).

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 30 to the financial statements.

(c) Transactions with a director of the Company

During the year, a director's quarter was rented by the Group from Mr. Hui Leung Wah, the chairman and managing director of the Company. The annual rental amounted to HK\$444,000 for the year (2004: HK\$460,000) were mutually agreed by both parties and has been included in director's remuneration in note 8 to the financial statements.

The related party transactions as set out in (a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 June 2005.