



# ELEGANCE INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

2004/2005  
interim report

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

#### **Executive Directors**

HUI Leung Wah  
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**

FOK Kwan Wing  
POON Kwok Fai, Ronald  
WONG Chung Mat, Ben  
(Appointed on 21 June 2004)

#### **COMPANY SECRETARY**

KWAN Chi Kin, Wallace

#### **PRINCIPAL BANKERS**

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

#### **AUDITORS**

Ernst & Young

#### **HONG KONG LEGAL ADVISERS**

Richards Butler

#### **BERMUDA LEGAL ADVISERS**

Conyers, Dill & Pearman

### **HONG KONG SHARE REGISTRARS**

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

### **PRINCIPAL SHARE REGISTRARS**

The Bank of Bermuda  
6 Front Street  
Hamilton HM 11  
Bermuda

### **REGISTERED OFFICE**

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

### **PRINCIPAL OFFICE**

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

## FINANCIAL RESULTS

The Board of Directors of Elegance International Holdings Limited (the “Company” or “Elegance”) are pleased to present the Interim Report of the Company and its subsidiaries (collectively referred to as the “Group”) to the shareholders of the Company for the six months ended 30 September 2004. These interim results have not been audited, but have been reviewed by the Company’s audit committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2004

		<b>For the six months ended 30 September</b>	
		<b>2004</b>	2003
	<i>Notes</i>	<b>(Unaudited) HK\$'000</b>	(Unaudited) HK\$'000
Turnover	2,3	<b>211,169</b>	164,149
Cost of sales		<b>(152,245)</b>	(108,789)
Gross profit		<b>58,924</b>	55,360
Other revenue	3	<b>2,624</b>	2,339
Selling and distribution expenses		<b>(9,460)</b>	(6,802)
General and administrative expenses		<b>(27,692)</b>	(30,208)
Other operating expenses		<b>–</b>	(348)
<b>PROFIT FROM OPERATING ACTIVITIES</b>		<b>24,396</b>	20,341
Finance costs		<b>(33)</b>	(112)
Share of losses of associates		<b>(22)</b>	(99)
<b>PROFIT BEFORE TAX</b>	4	<b>24,341</b>	20,130
Tax	5	<b>(2,721)</b>	(1,685)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>21,620</b>	18,445
Minority interests		<b>(128)</b>	(226)
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>21,492</b>	18,219
Earnings per share	6		
– Basic		<b>HK 6.6 cents</b>	HK 5.6 cents
– Diluted		<b>N/A</b>	N/A
Dividend per share	7	<b>HK 3.0 cents</b>	HK 4.0 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

30 September 2004

		<b>30 September 2004 (Unaudited) HK\$'000</b>	31 March 2004 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>253,969</b>	249,181
Investment properties		<b>810</b>	810
Interests in associates		<b>5,182</b>	3,592
Long term investment		<b>650</b>	650
		<b>260,611</b>	254,233
<b>CURRENT ASSETS</b>			
Inventories		<b>73,547</b>	67,678
Trade receivables	8	<b>116,110</b>	94,869
Prepayments, deposits and other receivables		<b>6,966</b>	5,032
Short term investments		<b>364</b>	644
Bills receivable		<b>2,114</b>	130
Tax recoverable		<b>-</b>	861
Pledged time deposits		<b>62,244</b>	-
Cash and cash equivalents		<b>68,208</b>	124,055
		<b>329,553</b>	293,269
<b>CURRENT LIABILITIES</b>			
Trade payables	9	<b>45,759</b>	36,886
Bills payable		<b>2,692</b>	2,457
Other payables and accrued liabilities		<b>26,216</b>	18,881
Tax payable		<b>3,010</b>	2,056
Interest-bearing bank loans, secured	10	<b>37,000</b>	10,000
		<b>114,677</b>	70,280
<b>NET CURRENT ASSETS</b>			
		<b>214,876</b>	222,989
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>475,487</b>	477,222
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured	10	<b>3,000</b>	4,000
Deferred tax liabilities		<b>6,830</b>	6,530
		<b>9,830</b>	10,530
<b>MINORITY INTERESTS</b>			
		<b>21,287</b>	21,159
		<b>444,370</b>	445,533
<b>CAPITAL AND RESERVES</b>			
Issued capital		<b>32,365</b>	32,365
Reserves		<b>402,296</b>	390,513
Proposed dividend		<b>9,709</b>	22,655
		<b>444,370</b>	445,533

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2004

	Issued capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Goodwill eliminated against reserves HK\$'000	Proposed dividend HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2004 (audited)	32,365	56,831	41,800	(152)	22,655	292,034	445,533
Net profit for the period (unaudited)	-	-	-	-	-	21,492	21,492
Final dividend for the year ended 31 March 2004 declared and paid	-	-	-	-	(22,655)	-	(22,655)
Interim dividend for the year ending 31 March 2005	-	-	-	-	9,709	(9,709)	-
At 30 September 2004 (unaudited)	<u>32,365</u>	<u>56,831*</u>	<u>41,800*</u>	<u>(152)*</u>	<u>9,709</u>	<u>303,817*</u>	<u>444,370</u>
At 1 April 2003 (audited)	32,365	56,831	41,800	(152)	24,274	308,684	463,802
Net profit for the period (unaudited)	-	-	-	-	-	18,219	18,219
Final dividend for the year ended 31 March 2003 declared and paid	-	-	-	-	(24,274)	-	(24,274)
Interim dividend for the year ended 31 March 2004	-	-	-	-	12,946	(12,946)	-
At 30 September 2003 (unaudited)	<u>32,365</u>	<u>56,831</u>	<u>41,800</u>	<u>(152)</u>	<u>12,946</u>	<u>313,957</u>	<u>457,747</u>

\* These reserve accounts comprise the consolidated reserve of HK\$402,296,000 (30 September 2003: HK\$412,436,000) in the consolidated balance sheet.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

	For the six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Net cash inflow from operating activities	31,199	33,090
Net outflow from investing activities	(90,391)	(23,223)
Net cash inflow/(outflow) from financing activities	3,345	(25,274)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(55,847)</b>	<b>(15,407)</b>
Cash and cash equivalents at beginning of period	124,055	188,211
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>68,208</b>	<b>172,804</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	37,008	23,938
Time deposits	31,200	148,866
	<b>68,208</b>	<b>172,804</b>

### NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 September 2004

#### 1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the audited financial statements for the year ended 31 March 2004.

## 2. SEGMENT INFORMATION

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. No business segment analysis is presented as management considers that the Group has operated in one single business segment.

An analysis of the Group's turnover and contribution to profit from operating activities by geographical area of market for the six months ended 30 September 2004 and 2003 is as follows:

	For the six months ended 30 September		2003	
	2004		2003	
	Turnover (Unaudited) HK\$'000	Contribution to profit from operating activities (Unaudited) HK\$'000	Turnover (Unaudited) HK\$'000	Contribution to profit from operating activities (Unaudited) HK\$'000
By geographical area:				
Europe	105,110	11,552	69,921	8,322
North America	80,737	8,874	64,820	7,714
The People's Republic of China (including Hong Kong) (Note a)	15,396	1,692	16,977	2,021
Other Asian countries	6,473	711	5,067	602
Others	3,453	380	7,364	876
	<b>211,169</b>	<b>23,209</b>	<b>164,149</b>	19,535
Interest income		2,319		2,035
Unallocated corporate expenses		(1,132)		(1,229)
Profit from operating activities		<b>24,396</b>		<b>20,341</b>

Note:

- (a) Sales were primarily made to agents in Hong Kong, but were also made to local retailers. The directors believe that the agents export most of the Group's products to Europe and North America.

## 3. TURNOVER AND REVENUE

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

An analysis of the Group's turnover and other revenue is as follows:

	For the six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	<b>211,169</b>	<b>164,149</b>
Interest income	2,319	2,035
Others	305	304
Other revenue	<b>2,624</b>	<b>2,339</b>

**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Continued)**

30 September 2004

**4. PROFIT BEFORE TAX**

Profit before tax was determined after charging/(crediting):

	<b>For the six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Depreciation	15,553	13,004
Interest on bank loans wholly repayable within five years	33	112
Minimum lease payments under operating leases in respect of land and buildings	808	601
Staff costs	41,062	38,469
(Gain)/loss on disposal of fixed assets	(127)	15
Provision for bad and doubtful debts	34	500
Provision for inventory obsolescence	705	286
Unrealised gains on short term investments	–	(152)
Realised gain on short term investments	(23)	–
	<u>          </u>	<u>          </u>

**5. TAX**

	<b>For the six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Group:		
Current – Hong Kong	2,401	2,985
Deferred tax	320	(1,300)
	<u>          </u>	<u>          </u>
Total tax charge for the period	<u>2,721</u>	<u>1,685</u>

The Group provides for tax on the basis of their income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Hong Kong profits tax for the Company and subsidiaries in Hong Kong has been provided at a rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. The subsidiaries operating in Mainland China (the "PRC") were not subject to the PRC income tax in the current or prior periods as they did not generate any taxable income in the PRC.

No recognition of the potential deferred tax assets relating to tax losses of certain subsidiaries has been made as the recoverability of the potential deferred tax assets is uncertain.



## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

30 September 2004

### 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the net profit attributable to shareholders for the period of HK\$21,492,000 (six months ended 30 September 2003: HK\$18,219,000) and 323,649,123 (2003: 323,649,123) shares in issue.

Diluted earning per share has not been calculated for the current and prior periods as no diluting events existed throughout the periods.

### 7. DIVIDENDS

At a meeting of board of directors held on 10 December 2004, the directors resolved to pay an interim dividend of HK 3 cents (2003: HK 4 cents) to shareholders whose name appear on the Register of Members of the Company on 13 January 2005. The interim dividend will be paid on or before 20 January 2005.

### 8. TRADE RECEIVABLES

Credit is offered to customers following a financial assessment by the Group and with regard to their established payment record. The Group usually allows an average credit period of 30 to 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 trade receivables (net of provision for bad and doubtful debts) as at 30 September 2004 and 31 March 2004:

Ageing	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Current to 90 days	110,322	92,111
91-180 days	5,665	1,267
181-360 days	123	1,491
Total	<u>116,110</u>	<u>94,869</u>

### 9. TRADE PAYABLES

The following is an aged analysis of trade payables as at 30 September 2004 and 31 March 2004:

Ageing	30 September 2004 (Unaudited) HK\$'000	31 March 2004 (Audited) HK\$'000
Current to 90 days	42,168	33,706
91-180 days	775	1,524
181-360 days	2,652	1,653
Over 360 days	164	3
Total	<u>45,759</u>	<u>36,886</u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

30 September 2004

### 10. BANK LOANS, SECURED

	<b>30 September 2004 (Unaudited) HK\$'000</b>	31 March 2004 (Audited) HK\$'000
Repayable within a period of:		
Within one year	37,000	10,000
After one year but within two years	2,000	2,000
After two years but within five years	1,000	2,000
	<u>40,000</u>	<u>14,000</u>
Portion classified as current liabilities	<u>(37,000)</u>	<u>(10,000)</u>
Long term portion	<u>3,000</u>	<u>4,000</u>

The Group's leasehold land and buildings situated in Hong Kong and elsewhere with an aggregate net book value of HK\$15,238,000 (31 March 2004: HK\$15,474,000) and the investment property situated in Hong Kong with an aggregate valuation of HK\$810,000 (31 March 2004: HK\$810,000) and bank deposits of approximately HK\$62,244,000 (31 March 2004: Nil) were pledged to secure the bank loans and general banking facilities granted to the Group. The banking facilities were also secured by corporate guarantees from the Company.

### 11. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group sold goods to the Safilo S.p.A group of companies with a net sales value amounting to HK\$104,233,000 (six months ended 30 September 2003: HK\$72,967,000). The aggregate trade receivable due from the Safilo S.p.A. group of companies as at 30 September 2004 in respect of these sales amounted to HK\$77,018,000 (31 March 2004: HK\$58,258,000).
- (b) The Company executed guarantees in respect of banking facilities granted to certain wholly-owned and non wholly-owned subsidiaries for no consideration. Further details are set out in note 12 below.

The transaction set out in note (a) above also constituted connected transactions as defined under the Listing Rules.

### 12. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

	<b>30 September 2004 (Unaudited) HK\$'000</b>	31 March 2004 (Audited) HK\$'000
Guarantees given by the Company for banking facilities granted to subsidiaries	<u>50,500</u>	<u>50,500</u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

30 September 2004

### 12. CONTINGENT LIABILITIES (Continued)

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:

	<b>Corporate guarantee given by the Company</b>	
	<b>30 September 2004 (Unaudited) HK\$'000</b>	<b>31 March 2004 (Audited) HK\$'000</b>
Grand Artic Limited	<b>2,000</b>	2,000
Gold Strong Industrial Limited	<b>3,000</b>	<b>3,000</b>

These banking facilities were utilised to the extent of approximately HK\$1,378,000 as at the balance sheet date (31 March 2004: approximately HK\$521,000).

### 13. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

	<b>30 September 2004 (Unaudited) HK\$'000</b>	<b>31 March 2004 (Audited) HK\$'000</b>
(a) Commitments for the acquisition of land and buildings, equipment and machinery: Contracted for	<b>46,418</b>	<b>46,324</b>
(b) Total future minimum lease payments commitment for non-cancellable operating leases in respect of land and buildings falling due in the following periods:		
Within one year	<b>910</b>	1,020
In the second to fifth years, inclusive	<b>1,989</b>	1,978
After five years	<b>27,444</b>	25,423
	<b>30,343</b>	<b>28,421</b>

### 14. SUBSEQUENT EVENT

Subsequent to the balance sheet date, a fire accidentally occurred at certain parts of the colouring unit of the Group's factory complex in Jin Quan, Shenzhen, China on 26 October 2004. The fire caused damage on certain production machines, fixtures and inventories of an approximately estimated net book value of HK\$9,000,000, out of net asset value of HK\$444,370,000 as at 30 September 2004. The Group has lodged insurance claims for property damage and business interruption with relevant insurance companies and as at the date of this report, the claims is still being processed. The majority of the production was not affected by the fire. For the affect unit, the management has undertaken interim measures which has already brought the unit back to normal production and the management are satisfied that the accident has not caused material disruption to the Group's production. As at the date of this report, recovery renovation and installation of new machines and facilities are being carried out.

### 15. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the board of directors on 10 December 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The total turnover of the Group for the six month ended 30 September 2004 was HK\$211,169,000, which was 28.64% higher than the HK\$164,149,000 for the same period last year. The Group also achieved a profit attributable to shareholders for the six month ended 30 September 2004 of HK\$21,492,000 (2003: HK\$18,219,000), representing an increase of 17.96% over the same period of last financial year. The increases in sales and net profit were due to recovery of market demand of optical products from Europe and North America. Earnings per share were 6.6 HK cents (six month ended 30 September 2003: 5.6 HK cents), which was resulted from the continuing fulfillment of marketing target and strong market demand in developed countries. The Group has strengthened their business ties with major customers and it was reflected in the encouraging performance of the growth of the Group of 28.64% during the period. For the period concerned, the optical industry remains strong, particularly in the middle and upper product categories in which the Group has excelled.

During the period, our turnover in Europe and North America registered a 50.33% and 24.56% of growth respectively over that of the same period last year. The sales to Europe and North America accounted for 49.78% and 38.23% (2003: 42.60% and 39.49%) respectively of the total sale of the Group. Due to appreciation of Euro against US dollars and continual shift of manufacturing order to Asian suppliers from European brand distributors, the sales to Europe reported an outstanding performance compared to previous year. The sales to North America also showed a healthy growth amid the strong consumer confidence and market demand of optical products in the United States.

The operating environment of the manufacturing business of the Group in China remained challenging during the period under review. The decrease of gross profit margin of the Group to 27.90% (30 September 2003: 33.73%) was mainly attributable to the increasing cost of materials and factory overheads incurred in China. Selling price of optical products remained stable amid strong Euro in the period under review. However, the continued rise of metal prices, appreciation of Euro and Japanese Yen against US dollars and increased cost of factory overheads narrowed the gross profit margin.

Construction of new factory complex located at Jin Quan, Shenzhen, China was fully completed in March 2004. The new factory complex commenced operation since April 2004 and new production capacity came on stream gradually throughout the period under review. The new factory complex has been utilised for consolidation of production facilities in the vicinity. The favourable spatial environment of new factory complex facilitated better deployment of new machine and production planning. The new factory complex also enabled the Group to expand its teams of product design and product development to enhance our capabilities in development of trendier product and shortening delivery of quality sample, which further enhanced its services and business opportunities. The Group has fulfilled its previously projected business plan which included the completion of new production line for plastic based optical frames and sunglasses and process of electroplating and colour coating.

Subsequent to the balance sheet date, a fire occurred at certain of the Group's factory complex in Jin Quan, Shenzhen, China on 26 October 2004. The details of the fire accident is disclosed in Note 14 to the Condensed Consolidated Interim Financial Statements.

The Group's subsidiary is currently constructing a new factory complex at Dongguan, Guangdong province, China to streamline the existing production base in Dongguan to cater demand for middle-end products in mainland China and Southeast Asia. The construction of this complex in Dongguan is due to be completed by first half of 2005.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

### **PROSPECT**

The Group will continue to enhance its productivity as well as cost effectiveness to cope with improving market demand for optical products for the period under review. The Group will keep on introducing new fashionable and attractive design with use of different materials to put in greater flexibility in our design and production to satisfy diversified needs of customers. The Group also strategically places more emphasis on our key customers in both Europe and North America. Despite market competition, the improving economies of Europe and North America continue to provide sound business environment and opportunities for our optical business.

Management of the Group views the second half of the year with cautious optimism. Management will strengthen its efforts in re-aligning the Group's business focus, streamlining operations in under-performing areas and concentrating resources in our edge with a view to stabilizing in performance amidst challenges in rising cost of materials and depreciation of US dollars.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Group continued to maintain a stable liquidity position throughout the period under review. The Group had available aggregate banking facilities of HK\$125,000,000 of which about HK\$42,692,000 were utilised (2003: HK\$11,117,000). The Group utilised additional banking facilities of HK\$26,000,000 during the period under review to finance the construction of new factory complex and installation of new production facilities at Jin Quan, Shenzhen as well as construction of factory plant at Dongguan in China. The management believed that the greater degree of utilisation of banking facilities would enhance the return of capital in view of favourable low interest rate environment in Hong Kong. As such, both the bank borrowings and the Group's gearing ratio of 9.61% (2003: 2.43%) at 30 September 2004, defined as the total bank borrowings over shareholder's funds, went up to a certain extent. A current ratio of 2.87:1 (2003: 5.03:1) and the quick acid ratio of 2.23:1 (2003: 4.06:1) were maintained as at the end of the period under review.

Capital expenditure for the period under review on additions of new machinery and construction of new factory complex amounted to HK\$30,741,000 (2003: HK\$25,282,000) and it was mostly funded by internal generated working capital and banking facilities.

The Group contracts business transactions mainly in Hong Kong dollars, Renminbi and US dollars. As Hong Kong dollars is pegged to US dollars and there has not been any major fluctuation in the exchange rate between Renminbi and Hong Kong dollars, the Group does not foresee any high exchange risk in this respect.

### **THE PLEDGE OF ASSETS**

The Group's leasehold land and buildings situated in Hong Kong and elsewhere with an aggregate net book value of HK\$15,238,000 (31 March 2004: HK\$15,474,000) and the investment property situated in Hong Kong with an aggregate valuation of HK\$810,000 (31 March 2004: HK\$810,000) and bank deposits of approximately HK\$62,244,000 (31 March 2004: Nil) were pledged to secure the bank loans and general banking facilities granted to the Group. The banking facilities were also secured by corporate guarantees from the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### EMPLOYEES

As at 30 September 2004, the Group employed approximately 4,887 full time staff in China and in Hong Kong. The Group remunerates its employees based on their performance, working experience and the prevailing labour market. Performance related bonuses are granted on a discretionary basis. The Group also provides medical insurance coverage and provident fund to employees in Hong Kong.

### APPRECIATION

On behalf of the Board of Directors, I would like to take this occasion to sincerely thank our customers, suppliers, and shareholders for their support and the staff for their devotion and commitment.

By Order of the Board  
**Hui Leung Wah**  
*Chairman*

Hong Kong, 10 December 2004

## OTHER INFORMATION

### CLOSURE OF THE REGISTER

The Register of Members will be closed from 7 January 2005 to 13 January 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 6 January 2005.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2004, the interests and short positions of the directors of the Company in the shares and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

#### Shares in the Company (Long Position)

Name of Director	Nature of Interest	Number of Ordinary Shares Beneficially Held
Hui Leung Wah	Family Interest (Note)	141,316,000
Hui Leung Wah	Personal Interest	7,168,000
Poon Sui Hong	Personal Interest	6,900,000
Leung Shu Sum	Personal Interest	6,000,000
Fok Kwan Wing	Personal Interest	150,000
Mario Pietribiasi	Personal Interest	100,000

Note: 141,116,000 shares are held by Best Quality Limited and 200,000 shares held by Deluxe Concept Limited, the entire issue 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 The Docater Trust, a discretionary trust with Ansbacher (BVI) Limited as trustee, 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).

## OTHER INFORMATION (Continued)

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

#### Long Position in Ordinary Shares in the 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 disclosed in the audited financial statements for the year ended 31 March 2004.

In addition to the above, certain directors of the Company 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.

Saved as disclosed above, none of the directors had any interest or short position in the shares, underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or 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, at no time during the period 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 period.

#### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES

Other than as disclosed above under the section headed "Director's Interests and Short Positions in Shares, Underlying Shares and Debentures" so far as is known to the directors of the Company, as at 30 September 2004, the following interests in the shares and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### Long positions:

Name	Number of Issued Ordinary Shares Held	Percentage of Issued Shares
Poon Yuk Yee (Note 1)	148,484,000	45.88
Ansbacher (BVI) Limited (Note 2)	141,316,000	43.66
Wahyee Limited (Note 2)	141,316,000	43.66
Safilo Far East Limited	74,599,123	23.05



## **OTHER INFORMATION (Continued)**

### **SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)**

*Note:*

1. Ms. Poon Yuk Yee is the wife of Mr. Hui Leung Wah and is deemed to be interested in shares held by and shares taken to be interested by Mr. Hui Leung Wah.
2. Details are stated in above section "Director's Interests and Short Positions in Shares, Underlying Shares and Debentures".

Saved as disclosed above, as at 30 September 2004, no person, other than the directors and chief executives of the Company, whose interests are set out in "Director's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short positions in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### **SHARE OPTIONS**

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 (the "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.

As at 30 September 2004, no options granted under the Old Share Option Scheme remained outstanding and no options was granted under the New Share Option Scheme during the period.

### **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 period.

### **AUDIT COMMITTEE**

The Company has established an audit committee comprising of all three independent non-executive directors. The Audit Committee has reviewed with management the accounting principle and practices adopted by the Group and discussed internal control and financial reporting matters including a general review of the unaudited interim financial report for the six month ended 30 September 2004. The Audit Committee meeting has been held to review the interim results of the Group.

### **CODE OF BEST PRACTICE**

The directors are not aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules of the SEHK, for any part of the accounting period covered by the interim report. Independent non-executive directors of the Company are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's bye-laws.