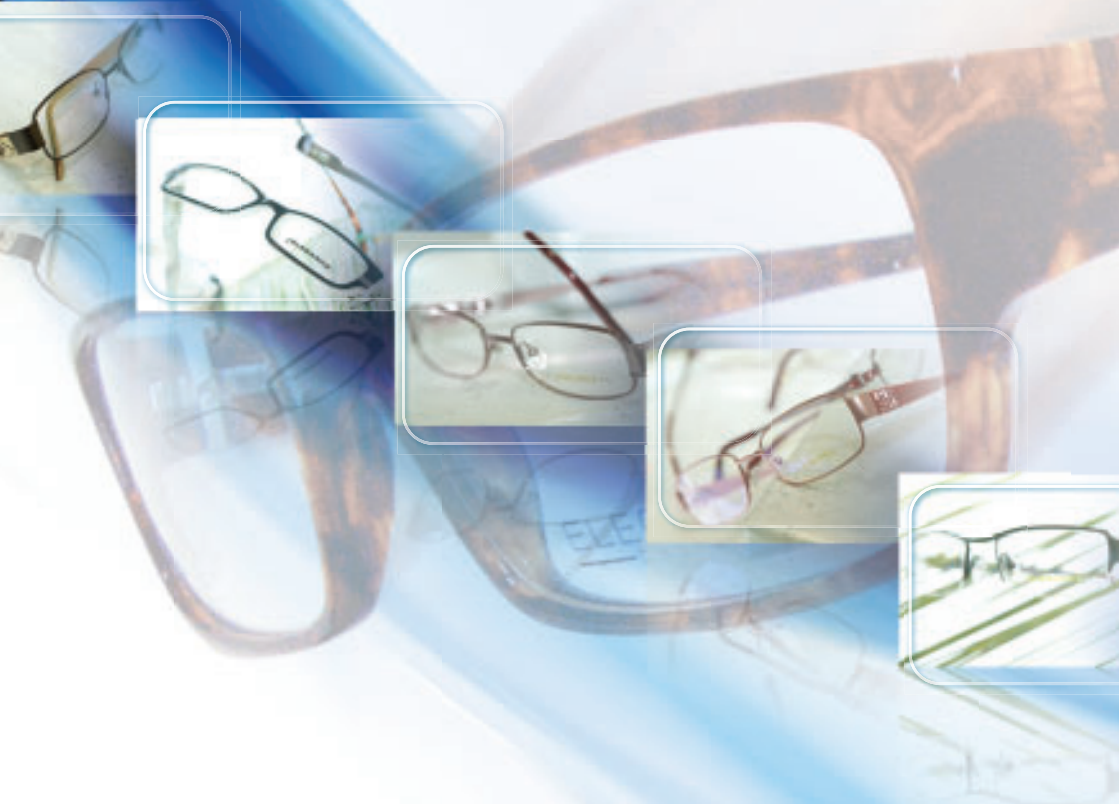




# Elegance International Holdings Limited

(Incorporated in Bermuda with limited liability) (Stock Code : 907)



Interim Report

2009/2010

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

HUI Leung Wah (*Chairman*)

POON Sui Hong

LEUNG Shu Sum

#### Non-Executive Directors

LISSI Barbara

MARCHISIO Paola

#### Independent Non-Executive Directors

POON Kwok Fai, Ronald

TAM Hok Lam, Tommy, PhD, JP

WONG Chung Mat, Ben, JP

### AUDIT COMMITTEE

POON Kwok Fai, Ronald

TAM Hok Lam, Tommy, PhD, JP

WONG Chung Mat, Ben, JP

### REMUNERATION COMMITTEE

POON Kwok Fai, Ronald

TAM Hok Lam, Tommy, PhD, JP

WONG Chung Mat, Ben, JP

### NOMINATION COMMITTEE

POON Kwok Fai, Ronald

TAM Hok Lam, Tommy, PhD, JP

WONG Chung Mat, Ben, JP

### QUALIFIED ACCOUNTANT & COMPANY SECRETARY

TSUI Choi Yee, Connie

### PRINCIPAL BANKERS

Hang Seng Bank Limited

Standard Chartered Bank

(Hong Kong) Limited

Chong Hing Bank Limited

Dah Sing Bank Limited

The Hongkong and Shanghai

Banking Corporation Limited

### AUDITORS

Ernst & Young

### HONG KONG LEGAL ADVISERS

Richards Butler

### BERMUDA LEGAL ADVISERS

Conyers, Dill & Pearman

### HONG KONG SHARE REGISTRAR

Tricor Tengis Limited

26/F Tesbury Centre

28 Queen's Road East

Wanchai Hong Kong

### PRINCIPAL SHARE REGISTRAR

Codan Services Limited

Clarendon House

2 Church 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

### WEBSITE

[www.elegance-group.com](http://www.elegance-group.com)

### STOCK CODE

907

## INTERIM RESULTS

The Board of Directors of Elegance International Holdings Limited (the “Company”) is pleased to present the Interim Report of the Company and its subsidiaries (the “Group”) to the shareholders of the Company for the six months ended 30 September 2009, together with the comparative figures. These interim condensed consolidated financial statements have not been audited, but have been reviewed by the Company’s audit committee.

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months  
ended 30 September

	Notes	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
REVENUE	3	208,775	282,369
Cost of sales		(171,852)	(241,953)
Gross profit		36,923	40,416
Other income and gain	3	1,305	2,244
Selling and distribution costs		(2,751)	(4,902)
Administrative expenses		(26,063)	(27,715)
Other operating expenses, net		(15)	(293)
Finance costs	5	–	(50)
Share of profits of:			
Jointly-controlled entities		226	323
Associates		134	4,662
PROFIT BEFORE TAX	4	9,759	14,685
Tax	6	(605)	(349)
PROFIT FOR THE PERIOD		9,154	14,336
Attributable to:			
Equity holders of the parent		9,784	14,717
Minority interests		(630)	(381)
		9,154	14,336
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7	HK3.02 cents	HK4.55 cents
Basic and diluted			

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
<b>PROFIT FOR THE PERIOD</b>	<b>9,154</b>	14,336
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Exchange differences on translation of foreign operations	(88)	893
Net loss on available-for-sale financial assets	—	(273)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>	<b>(88)</b>	620
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>9,066</b>	14,956
Total comprehensive income attributable to: Equity holders of the parent	<b>9,597</b>	15,131
Minority interests	(531)	(175)
	<b>9,066</b>	14,956

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Notes	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>		
	226,533	229,636
Property, plant and equipment	2,800	2,800
Investment property	44,941	45,451
Prepaid land lease payments	4,779	4,775
Interests in jointly-controlled entities	2,336	3,179
Interests in associates	32,279	32,279
Available-for-sale financial assets	807	807
Deferred tax assets	104	2,227
Deposits paid for items of property, plant and equipment	<u>314,579</u>	<u>321,154</u>
Total non-current assets		
<b>CURRENT ASSETS</b>		
	75,426	78,393
Inventories	111,216	125,894
Trade and bills receivables	10,292	13,301
Prepayments, deposits and other receivables	32	835
Equity investments at fair value through profit or loss	270	1,068
Tax recoverable	111,319	78,119
Cash and cash equivalents	<u>308,555</u>	<u>297,610</u>
Total current assets		
<b>CURRENT LIABILITIES</b>		
	39,878	34,764
Trade and bills payables	39,521	39,335
Other payables and accruals	3,901	3,838
Tax payable	<u>83,300</u>	<u>77,937</u>
Total current liabilities		
<b>NET CURRENT ASSETS</b>		
	225,255	219,673
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>539,834</u>	<u>540,827</u>
<b>NON-CURRENT LIABILITIES</b>		
	5,200	5,550
Deferred tax liabilities	<u>534,634</u>	<u>535,277</u>
Net assets		
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the parent</b>		
	32,365	32,365
Issued capital	483,609	474,012
Reserves	-	9,709
Proposed dividend	<u>515,974</u>	<u>516,086</u>
Total equity		
<b>Minority interests</b>		
	18,660	19,191
Total equity	<u>534,634</u>	<u>535,277</u>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2009

	Attributable to equity holders of the parent										
	Issued capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Available-for-sale financial asset revaluation reserve HK\$'000	Goodwill eliminated against reserves HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 April 2009	32,365	56,831	41,800	-	(152)	4,343	371,190	9,709	516,086	19,191	535,277
Profit for the period	-	-	-	-	-	-	9,784	-	9,784	(630)	9,154
Other comprehensive loss for the period	-	-	-	-	-	(187)	-	-	(187)	99	(88)
Total comprehensive income for the period	-	-	-	-	-	(187)	9,784	-	9,597	(531)	9,066
2009 dividend paid	-	-	-	-	-	-	-	(9,709)	(9,709)	-	(9,709)
At 30 September 2009 (unaudited)	<u>32,365</u>	<u>56,831*</u>	<u>41,800*</u>	<u>-*</u>	<u>(152)*</u>	<u>4,156*</u>	<u>380,974*</u>	<u>-</u>	<u>515,974</u>	<u>18,660</u>	<u>534,634</u>
At 1 April 2008	32,365	56,831	41,800	273	(152)	4,293	363,288	19,419	518,117	20,802	538,919
Profit for the period	-	-	-	-	-	-	14,717	-	14,717	(381)	14,336
Other comprehensive income for the period	-	-	-	(273)	-	687	-	-	414	206	620
Total comprehensive income for the period	-	-	-	(273)	-	687	14,717	-	15,131	(175)	14,956
2008 dividend paid	-	-	-	-	-	-	-	(19,419)	(19,419)	-	(19,419)
At 30 September 2008 (unaudited)	<u>32,365</u>	<u>56,831</u>	<u>41,800</u>	<u>-</u>	<u>(152)</u>	<u>4,980</u>	<u>378,005</u>	<u>-</u>	<u>513,829</u>	<u>20,627</u>	<u>534,456</u>

\* These reserve accounts comprise the consolidated reserves of HK\$483,609,000 (31 March 2009: HK\$474,012,000) in the interim condensed consolidated statement of financial position.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months  
ended 30 September

	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Net cash inflow from operating activities	52,144	13,493
Net cash inflow/(outflow) from investing activities	(9,386)	4,973
Net cash outflow from financing activities	(9,709)	(21,919)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>33,049</b>	<b>(3,453)</b>
Cash and cash equivalents at beginning of period	78,119	76,082
Effects of foreign exchange rate changes, net	151	115
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>111,319</b>	<b>72,744</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	87,891	28,451
Non-pledged time deposits with original maturity of less than three months when acquired	23,428	44,293
	<b>111,319</b>	<b>72,744</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### I. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the six months ended 30 September 2009 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “SEHK”). The accounting policies and the basis of preparation adopted in the preparation of the interim financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 March 2009, except as described below. In the current period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which included all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA which are first effective for the current accounting period of the Group.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC) – Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC) – Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC) – Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC) – Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC) – Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC) – Int 18	<i>Transfers of Assets from Customers</i>
HKFRSs Amendments	<i>Improvements to HKFRSs issued in 2008</i>



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

### **1. BASIS OF PREPARATION AND ACCOUNTING POLICIES** *(Continued)*

The adoption of the new and revised standards, amendments and interpretations, except for HKAS 1 (Revised) and HKFRS 8 as described below, has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The adoption of this standard did not have any effect on the financial position or performance of the Group.

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective.

### **2. SEGMENT INFORMATION**

For the purpose of resources allocation and performance assessment, the Group's senior management reviews operating results and financial information on an entity by entity basis. As the Group is principally engaged in the manufacture and trading of eyewear products in the People's Republic of China including Hong Kong ("the Greater China") and each entity is manufacturing and trading similar products to the same group of customers. The Group's operating segments are aggregated into a single reportable segment and accordingly no separate segment information is presented.

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

### 2. SEGMENT INFORMATION (Continued)

The following table presents the revenue of the Group by the geographical location of customers:

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Europe	121,636	170,951
North America	63,687	94,737
The Greater China*	14,325	10,133
Other Asian countries	4,041	2,788
Others	5,086	3,760
	<u>208,775</u>	<u>282,369</u>

For the six months ended 30 September 2009, revenue of approximately HK\$73,410,000 (2008: HK\$108,040,000) is derived from a single external customer.

As at 30 September 2009 and 31 March 2009, all of the Group's non-current assets are located in one geographical location, which is the Greater China region, accordingly, no further analysis of the Group's non-current assets is disclosed.

\* Sales were primarily made to agents in Hong Kong, but were also made to local retailers. The directors believe that the agents exported most of the Group's products to Europe and North America.

### 3. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of trade discounts and returns.

An analysis of revenue, other income and gain is as follows:

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Revenue – net sales of goods	<u>208,775</u>	<u>282,369</u>
Sale of scrap materials	502	680
Bank interest income	238	1,054
Gross rental income	56	100
Dividend income from equity investments at fair value through profit or loss	28	16
Others	481	394
Other income and gain	<u>1,305</u>	<u>2,244</u>

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

### 4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Cost of inventories sold	174,087	238,570
Depreciation	16,466	15,969
Amortisation of prepaid land lease payments	597	597
Minimum lease payments under operating leases in respect of buildings	1,061	1,254
Employee benefits expenses (including directors' remunerations):		
Wages and salaries	70,134	84,597
Pension scheme contributions	455	489
	<u>70,589</u>	<u>85,086</u>
Gain on disposal of items of property, plant and equipment	(67)	(420)
Provision/(write-back of provision) for inventory obsolescence	(2,235)	3,383
Foreign exchange differences, net	<u>2,182</u>	<u>(275)</u>

### 5. FINANCE COSTS

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	<u>-</u>	<u>50</u>

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

### 6. TAX

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Current – Hong Kong		
Charge for the period	1,326	1,603
Overprovision in prior periods	(370)	(154)
Current – Elsewhere	–	58
Deferred	(351)	(1,158)
	<hr/>	<hr/>
Total tax charge for the period	<b>605</b>	<b>349</b>
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

### 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$9,784,000 (2008: HK\$14,717,000) and 323,649,123 (2008: 323,649,123) shares in issue during the period.

A diluted earnings per share has not been calculated for the current and prior periods as no diluting events existed throughout the periods.

### 8. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2009 (2008: Nil).

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

### 9. TRADE AND BILLS RECEIVABLES

Credit is offered to customers following a financial assessment by the Group with regard to their established payment records. The Group usually allows average credit periods ranging from 45 to 120 days (2008: 45 to 120 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. Trade and bills receivables are non-interest bearing.

The following is an aged analysis of trade and bills receivables (net of impairment of trade receivables) as at 30 September 2009 and 31 March 2009:

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
Trade receivables		
Current to 90 days	<b>102,298</b>	119,021
91 – 180 days	<b>443</b>	1,990
181 – 360 days	<b>487</b>	138
	<b>103,228</b>	121,149
Bills receivables	<b>7,988</b>	4,745
Total	<b>111,216</b>	125,894

### 10. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
Listed equity investments in Hong Kong, at market value	<b>32</b>	835

The above equity investments at 30 September 2009 and 31 March 2009 were classified as held for trading.

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

### 11. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables as at 30 September 2009 and 31 March 2009:

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
Current to 90 days	<b>37,993</b>	31,694
91 – 180 days	<b>422</b>	2,327
181 – 360 days	<b>865</b>	145
Over 360 days	<b>598</b>	598
Total	<b>39,878</b>	34,764

### 12. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating lease arrangements. Leases for office premises are negotiated for terms ranging from 1 to 50 years.

At 30 September 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
Within one year	<b>1,777</b>	2,578
In the second to fifth years, inclusive	<b>3,459</b>	3,342
After five years	<b>49,639</b>	49,614
	<b>54,875</b>	55,534

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

### 13. COMMITMENTS

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
Capital expenditure contracted, but not provided for:		
Land and buildings	114	113
Equipment and machinery	–	2,240
	<u>114</u>	<u>2,353</u>

### 14. RELATED PARTY TRANSACTIONS

#### (a) Transactions with related parties

	<b>For the six months ended 30 September 2009 (Unaudited) HK\$'000</b>	2008 (Unaudited) HK\$'000
Transactions with a substantial shareholder:		
Sale of goods to Safilo S.p.A group of companies	73,410	108,040
Sale of goods to an associate	–	253
Sale of goods to a jointly-controlled entity	172	32
Purchase of goods from a jointly-controlled entity	62	–
Rental expenses paid to a director	222	222
	<u>222</u>	<u>222</u>

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

### 14. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Outstanding balances with related parties

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
Amount due from a substantial shareholder: Trade receivables from Safilo S.p.A group of companies	<u>56,743</u>	<u>62,532</u>
Loan to a jointly-controlled entity	<u>3,497</u>	<u>3,720</u>

#### (c) Compensation of key management personnel of the Group

	<b>For the six months ended 30 September</b>	
	<b>2009 (Unaudited) HK\$'000</b>	2008 (Unaudited) HK\$'000
Short term employee benefits	<u>2,921</u>	<u>2,910</u>

### 15. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 16 December 2009.



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group's business operation for the six months ended 30 September 2009 was still significantly affected by the global financial crisis. Consumer confidence has not fully resumed, especially in the Group's two largest geographical markets, Europe and North America. As such, customers are cautious when placing orders, and therefore turnover in these two markets dropped by 28.85% and 32.77% respectively as compared to that of the corresponding period in 2008. As a result, the Group's turnover decreased by 26.06% to HK\$208,775,000 when compared to HK\$282,369,000 in the last corresponding period.

The shortage in the supply of labour forces in Southern China during the latter part of the period under review had affected the manufacturing operation of the Group, which in turn has slowed down the recovery of the Group's turnover.

With effective control over costs, the pressure on the Group's gross profit margin due to the decrease in turnover has been mitigated. The Group's gross profit margin has slightly improved. The Group's profit attributable to equity holder of the Company dropped by 33.52% to HK\$9,784,000 as compared to that of last period, which was partially due to the decrease in turnover and partially due to the significant decrease in the share of profit of associates, as a result of the reclassification of the Group's unlisted equity investment from an associate to available-for-sale financial assets on 1 January 2009.

### PROSPECT

Although it is anticipated that full economic recovery will take some time, market sentiment has improved, and signs of economic upturn have been seen in the third quarter of 2009. Barring unforeseen circumstances, the Group is cautiously optimistic about its business operation for the rest of this financial year as orders from existing customers have rebounded lately.

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

### **PROSPECT** *(Continued)*

The Group expects that the labour shortage problem may not be resolved in a short period of time due to the increase in customer orders. To cope with this situation, the Group will streamline its production process to better utilise its manpower and will step up the selective automation process.

Furthermore, the Group will reinforce its sales efforts to strengthen its relationship with its existing customers and will at the same time actively solicit new customers, so as to compete for more market share. The Group will continue using its cost control methods to reduce costs at all level to ensure its profitability.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2009, the Group continued to maintain a strong financial position with cash and bank balances of HK\$111,319,000 (31 March 2009: HK\$78,119,000) and without any bank borrowing (31 March 2009: Nil). The Group's equity attributable to equity holders of the parent as at 30 September 2009 amounted to HK\$515,974,000 (31 March 2009: HK\$516,086,000). The Group's gearing ratio, calculated on the basis of total bank borrowings as a percentage of equity attributable to equity holders of the parent, was nil as at 30 September 2009 (31 March 2009: Nil).

### **FOREIGN CURRENCY RISK**

The Group conducts its business transactions mainly in Hong Kong dollars, Renminbi and the U.S. dollars. It is subject to certain foreign exchange impacts caused by the appreciation of Renminbi. The Group has not entered into any foreign exchange contract. However, the management closely monitors foreign exchange exposure.

### **EMPLOYEES AND REMUNERATION POLICY**

As at 30 September 2009, the Group employed 4,774 (30 September 2008: 6,041) full time employees in China and in Hong Kong. Salaries, bonuses and benefits are determined with reference to market terms and the performance, qualifications and experience of the individual employee, and are subject to review from time to time.

## OTHER INFORMATION

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

As at 30 September 2009, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (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 SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

#### Long position in ordinary shares of the Company:

Name of director	Number of shares held and capacity in which the shares are held		Total	Percentage of the issued share capital of the Company
	Beneficial owner	Other interests		
Hui Leung Wah (Note)	8,308,000	141,316,000	149,624,000	46.23
Poon Sui Hong	7,000,000	–	7,000,000	2.16
Leung Shu Sum	6,000,000	–	6,000,000	1.85
Paola Marchisio	198,000	–	198,000	0.06
	<u>21,506,000</u>	<u>141,316,000</u>	<u>162,822,000</u>	<u>50.30</u>

Note: The 141,316,000 shares held as other interests of Mr. Hui comprised 141,116,000 shares held by Best Quality Limited and 200,000 shares held by Deluxe Concept Limited. The entire issued share capital of both Best Quality Limited and Deluxe Concept Limited is held by Wahyee Limited as trustee for a unit trust, which, in turn, is beneficially owned by Docater Trust, a discretionary trust with LGT Trustees 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 AND UNDERLYING SHARES** *(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 2009.

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, as at 30 September 2009, none of the directors or chief executive of the Company had any interest in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the SEHK.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from the share option scheme disclosures set out below, at no time during the period was the Company, or any of its 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, or any of its subsidiaries was a party during the period.

**OTHER INFORMATION** (Continued)**SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES**

At 30 September 2009, the following interest of 5% or more of the issued share capital and share options of the Company were recorded in the register of interest required to be kept by the Company pursuant to Section 336 of the SFO:

**Long positions:**

Name	Number of issued ordinary shares held	Capacity in which the shares are held	Percentage of issued share capital of the Company
Poon Yuk Yee (Note 1)	149,624,000	Beneficiary of a trust	46.23
LGT Trustees Limited (Note 2)	141,316,000	Trustee	43.66
Wahyee Limited (Note 2)	141,316,000	Trustee	43.66
Safilo Far East Limited ("SFEL") (Note 3)	74,599,123	Beneficial owner	23.05
Safilo S.p.A. (Note 3)	<u>74,599,123</u>	Controlled corporation	<u>23.05</u>

## Notes:

- Ms. Poon Yuk Yee is the spouse 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.
- Details are stated in the above section headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES".
- SEFL is a wholly-owned subsidiary of Safilo S.p.A.

Save as disclosed above, as at 30 September 2009, no person, other than the directors of the Company, whose interest are set out in the section "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

**SHARE OPTION SCHEME**

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 Listing Rules on the SEHK.

As at 30 September 2009, 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.

## **OTHER INFORMATION** *(Continued)*

### **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.

### **CORPORATE GOVERNANCE**

During the six months ended 30 September 2009, the Group has adopted and met the Code Provisions as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Listing Rules on the SEHK, except for the following deviation:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title "chief executive officer". Mr. Hui Leung Wah assumes the role of both Chairman and Managing Director of the Company and he is in charge of the overall management of the Company. The Company does not have a separate Chairman and Managing Director as Mr. Hui currently holds both positions. The Board believes that the combination of the roles of Chairman and Managing Director can promote the efficient formulation and implementation of the strategies of the Company, which will enable the Group to grasp business opportunities efficiently and promptly. The Board also believes that through the supervision of its Board and its Independent Non-Executive Directors, a balancing mechanism exist so that the interests of the shareholders are adequately and fairly represented.

The Company has set up a remuneration committee in June 2005 to review and determine the remuneration packages of the directors of the Company, and to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee comprises three Independent Non-Executive Directors.

The Company has also set up a nomination committee in June 2005 to review the structure and composition of the Board on a regular basis. The committee assists the Board to fulfill its supervisory role over the Group in nominating new directors to the Board and assessing the performance and skills of Directors.

## **OTHER INFORMATION** *(Continued)*

### **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the code of conducts regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code in Appendix 10 to the Listing Rules. The Company, having made specific enquiry, confirms that all Directors complied throughout the period with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

### **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 unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 September 2009 have been reviewed by the Company's audit committee. The audit committee comprises Mr. Poon Kwok Fai, Ronald, Dr. Tam Hok Lam, Tommy, PhD, JP and Mr. Wong Chung Mat, Ben, JP, the Independent Non-Executive Directors of the Company.

### **APPRECIATION**

The Board would like to take this opportunity to express its deepest gratitude to all of the staff for their contributions, support and dedication. The Board would also like to thank our customers, shareholders, bankers, suppliers and other business partners for their continuous support.

By order of the Board  
**Elegance International Holdings Limited**  
**Hui Leung Wah**  
*Chairman*

Hong Kong, 16 December 2009