



Interim Report
2011/2012



Elegance International Holdings Limited

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

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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 (*Chairman*)

TAM Hok Lam, Tommy, PhD, JP

WONG Chung Mat, Ben, JP

REMUNERATION COMMITTEE

WONG Chung Mat, Ben, JP (*Chairman*)

POON Kwok Fai, Ronald

TAM Hok Lam, Tommy, PhD, JP

NOMINATION COMMITTEE

TAM Hok Lam, Tommy, PhD, JP

(*Chairman*)

POON Kwok Fai, Ronald

WONG Chung Mat, Ben, JP

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

AUDITORS

Ernst & Young

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

STOCK CODE

907

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2011, the Group suffered a loss for the first time since the Company was listed on The Stock Exchange of Hong Kong Limited (the “SEHK”) on 11 April 1996 as a result of, inter alia, decrease in revenue and surging in production costs. The Group’s revenue dropped by 14.50% from HK\$268,147,000 for the six months ended 30 September 2010 to HK\$229,264,000 for the same period in 2011. The ongoing European sovereign debt crisis and the poor economic situation and market sentiment in Europe and North America adversely affected the sales of the Group to these two largest markets of the Group. Hence, sales to Europe and North America for the six months ended 30 September 2011 decreased by 3.08% and 34.30% respectively as compared with those for the same period last year. Sales to the People’s Republic of China (the “PRC”) including Hong Kong also declined by 12.96% during the period under review.

The operating environment in the PRC is getting tougher and tougher, as all sorts of costs keep increasing. First, the minimum wage was further increased by 20% during the period under review, while the Renminbi keeps hitting new highs against the United States Dollar. Besides, persistent inflation remains at a high level. All the above unfavourable factors have pushed up the Group’s production costs.

Despite the management’s continuous effort in cost control, the decrease in revenue together with the jump in production costs caused the Group’s gross profit margin to decline to 4.71% for the six months ended 30 September 2011 as compared to the 15.77% for the same period last year. As a result, the Group recorded a loss of HK\$15,465,000 for the six months ended 30 September 2011 in contrast to a profit of HK\$13,555,000 attributable to owners of the Company for the same period last year.

PROSPECTS

The global economy is still facing the issues of European sovereign debt crisis and the uncertainty about the path of US monetary and fiscal policy. These uncertainties will inevitably affect the Group’s sales to the two largest markets in Europe and North America.

Locally, production costs and wages in the PRC are expected to continue with an upward trend, while the Renminbi is expected to appreciate continuously in response to the market need. The board of directors (the “Board”) of the Company believes that the operating environment in the PRC will remain to be difficult for the rest of the financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

Facing the challenging and competitive operating environment, the management of the Group will continue to manage its operating costs prudently and will carry out various measures to improve management efficiency. The Group will also actively seek more orders from its existing customers and explore new market segments to widen its customer base.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a strong financial position with cash and bank balances of HK\$114,179,000 (31 March 2011: HK\$112,076,000) and a zero gearing ratio as at 30 September 2011. The Group's equity attributable to owners of the Company as at 30 September 2011 amounted to HK\$488,020,000 (31 March 2011: HK\$512,331,000).

FOREIGN CURRENCY RISK

The Group conducts its business transactions mainly in Hong Kong Dollar, Renminbi and United States Dollar. As Hong Kong Dollar is pegged to the United States Dollar, the Group does not foresee any material exchange risk in this respect. However, the Group is subject to certain foreign exchange impacts caused by the appreciation of Renminbi. The Group has not entered into any foreign exchange contract. The management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2011, the Group employed 4,663 (30 September 2010: 5,459) full time employees in Mainland 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.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the board of directors of Elegance International Holdings Limited
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial information of Elegance International Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 6 to 20 which comprises the interim condensed consolidated statement of financial position as at 30 September 2011 and the related interim condensed consolidated income statement, interim condensed consolidated statements of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants

Hong Kong
29 November 2011

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months
ended 30 September

	Notes	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
REVENUE	3	229,264	268,147
Cost of sales		(218,462)	(225,859)
Gross profit		10,802	42,288
Other income	3	1,152	1,214
Selling and distribution costs		(4,091)	(3,715)
Administrative expenses		(24,369)	(24,182)
Other operating expenses, net		(5)	(99)
Share of profits and losses of:			
Jointly-controlled entities		(11)	(2)
An associate		(335)	56
PROFIT/(LOSS) BEFORE TAX	4	(16,857)	15,560
Income tax expense	5	1,213	(1,302)
PROFIT/(LOSS) FOR THE PERIOD		(15,644)	14,258
Attributable to:			
Owners of the Company		(15,465)	13,555
Non-controlling interests		(179)	703
		(15,644)	14,258
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	6		
Basic and diluted		(4.78) cents	4.19 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	(15,644)	14,258
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	1,133	886
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	(14,511)	15,144
Attributable to:		
Owners of the Company	(14,602)	14,216
Non-controlling interests	91	928
	(14,511)	15,144

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		230,641	238,990
Investment property		5,300	5,300
Prepaid land lease payments		15,221	15,168
Investment in a jointly-controlled entity		4,817	5,023
Investment in an associate		1,507	1,842
Available-for-sale financial assets		32,149	32,149
Deferred tax assets		179	179
Deposits paid for items of property, plant and equipment		595	64
Total non-current assets		<u>290,409</u>	<u>298,715</u>
CURRENT ASSETS			
Inventories		88,268	78,056
Trade and bills receivables	8	110,329	125,181
Prepayments, deposits and other receivables		4,879	3,354
Equity investments at fair value through profit or loss	9	47	52
Tax recoverable		1,779	1,737
Cash and cash equivalents		114,179	112,076
Total current assets		<u>319,481</u>	<u>320,456</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
CURRENT LIABILITIES			
Trade and bills payables	10	50,725	44,601
Other payables and accruals		48,599	38,538
Tax payable		3,118	3,132
		<hr/>	<hr/>
Total current liabilities		102,442	86,271
		<hr/>	<hr/>
NET CURRENT ASSETS		217,039	234,185
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		507,448	532,900
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,893	3,125
		<hr/>	<hr/>
Net assets		505,555	529,775
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Issued capital		32,365	32,365
Reserves		455,655	470,257
Proposed dividends		–	9,709
		<hr/>	<hr/>
		488,020	512,331
		<hr/>	<hr/>
Non-controlling interests		17,535	17,444
		<hr/>	<hr/>
Total equity		505,555	529,775
		<hr/> <hr/>	<hr/> <hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2011

	Attributable to owners of the Company										
	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 dividends HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2011	32,365	56,831	41,800	(130)	(152)	5,725	366,183	9,709	512,331	17,444	529,775
Loss for the period	-	-	-	-	-	-	(15,465)	-	(15,465)	(179)	(15,644)
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	863	-	-	863	270	1,133
Total comprehensive loss for the period	-	-	-	-	-	863	(15,465)	-	(14,602)	91	(14,511)
2011 dividend paid	-	-	-	-	-	-	-	(9,709)	(9,709)	-	(9,709)
At 30 September 2011 (unaudited)	<u>32,365</u>	<u>56,831*</u>	<u>41,800*</u>	<u>(130)*</u>	<u>(152)*</u>	<u>6,588*</u>	<u>350,718*</u>	<u>-</u>	<u>488,020</u>	<u>17,535</u>	<u>505,555</u>
At 1 April 2010	32,365	56,831	41,800	(130)	(152)	4,204	373,239	9,709	517,866	16,808	534,674
Profit for the period	-	-	-	-	-	-	13,555	-	13,555	703	14,258
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	661	-	-	661	225	886
Total comprehensive income for the period	-	-	-	-	-	661	13,555	-	14,216	928	15,144
2010 dividend paid	-	-	-	-	-	-	-	(9,709)	(9,709)	-	(9,709)
At 30 September 2010 (unaudited)	<u>32,365</u>	<u>56,831</u>	<u>41,800</u>	<u>(130)</u>	<u>(152)</u>	<u>4,865</u>	<u>386,794</u>	<u>-</u>	<u>522,373</u>	<u>17,736</u>	<u>540,109</u>

* These reserve accounts comprise the consolidated reserves of HK\$455,655,000 (31 March 2011: HK\$470,257,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Net cash flows from operating activities	16,285	7,392
Net cash flows used in investing activities	(5,465)	(8,902)
Net cash flows used in a financing activity	(9,709)	(9,709)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,111	(11,219)
Cash and cash equivalents at beginning of period	112,076	118,186
Effects of foreign exchange rate changes, net	992	405
CASH AND CASH EQUIVALENTS AT END OF PERIOD	114,179	107,372
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	65,116	52,676
Non-pledged time deposits with original maturity of less than three months when acquired	49,063	54,696
	114,179	107,372

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 2011 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 of Securities (the “Listing Rules”) on the SEHK. The accounting policies and the basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 March 2011, 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 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HK(IFRIC)-Int 14 Amendments	<i>Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19 Improvements to HKFRSs 2010	<i>Extinguishing Financial Liabilities with Equity Instruments</i> Amendments to a number of HKFRSs issued in 2010

The adoption of these new and revised HKFRSs has had no significant financial effect on these interim condensed consolidated financial statements.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

The Group is engaged in the manufacture and trading of optical frames, sunglasses and optical cases. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment which is the manufacture and sales of eyewear products.

No operating segments have been aggregated to form the above reportable operating segment.

Geographical information

(a) Revenue from external customers

	For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Europe	144,955	149,556
North America	61,347	93,381
The PRC (including Hong Kong)	15,943	18,317
Other Asian countries	5,747	5,741
Others	1,272	1,152
	<u>229,264</u>	<u>268,147</u>

The revenue information above is based on the location of the customers.

(b) Non-current assets

All significant operating assets of the Group are located in the PRC. Accordingly, no geographical information of segment assets is presented.

Information about a major customer

Revenue of approximately HK\$61,083,000 (2010: HK\$92,187,000) was derived from a single customer, including sales to a group of entities which are known to be under common control with that customer.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold to third parties, after allowances for returns and trade discounts.

An analysis of revenue and other income is as follows:

	For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue – sales of goods	229,264	268,147
Sales of scrap materials	54	361
Bank interest income	367	125
Gross rental income	390	412
Dividend income from equity investments at fair value through profit or loss	2	2
Others	339	314
Other income	1,152	1,214

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Cost of inventories sold	216,706	224,506
Depreciation	15,138	16,043
Amortisation of prepaid land lease payments	189	184
Minimum lease payments under operating leases in respect of land and buildings	1,698	1,159
Employee benefits expenses (including directors' remunerations):		
Wages and salaries	105,200	98,600
Pension scheme contributions	463	448
	105,663	99,048
Gain on disposal of items of property, plant and equipment	-	(289)
Provision for impairment of trade receivables	-	396
Provision for inventory obsolescence	1,756	1,353
Foreign exchange differences, net	420	(385)
	107,847	101,775

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. INCOME TAX EXPENSE

	For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Current – Hong Kong		
Charge for the period	–	2,107
Current – Elsewhere	19	10
Deferred	(1,232)	(815)
	<hr/>	<hr/>
Total tax charge/(credit) for the period	(1,213)	1,302
	<hr/> <hr/>	<hr/> <hr/>

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the period. In the prior period, Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. 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.

6. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the loss for the period attributable to ordinary equity holders of the Company of HK\$15,465,000 (2010: profit of HK\$13,555,000) and 323,649,123 (2010: 323,649,123) shares in issue during the period.

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

7. INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 September 2011 (2010: Nil).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. 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 (2010: 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 2011 and 31 March 2011:

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Current to 90 days	90,242	112,624
91 – 180 days	3,273	145
181 – 360 days	130	–
Over 360 days	64	32
	<u>93,709</u>	<u>112,801</u>
Bills receivable	16,620	12,380
Total	<u><u>110,329</u></u>	<u><u>125,181</u></u>

9. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Listed equity investments in Hong Kong, at market value	<u>47</u>	<u>52</u>

The above equity investments at 30 September 2011 and 31 March 2011 were classified as held for trading.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. TRADE AND BILLS PAYABLES

The following is an aged analysis of the trade and bills payables as at 30 September 2011 and 31 March 2011:

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Current to 90 days	46,689	41,143
91 – 180 days	2,082	1,792
181 – 360 days	1,398	771
Over 360 days	556	895
	<hr/>	<hr/>
Total	50,725	44,601
	<hr/> <hr/>	<hr/> <hr/>

11. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group subleases certain of its office premises under an operating lease arrangement, with the lease negotiated for a term of two years. The terms of the lease also require the tenant to pay security deposits and provided for periodic rent adjustments according to the then prevailing market conditions.

At 30 September 2011, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Within one year	312	617
In the second to fifth years, inclusive	8	30
	<hr/>	<hr/>
	320	647
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. OPERATING LEASE ARRANGEMENTS (Continued)

(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 fifty years.

At 30 September 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Within one year	2,011	2,641
In the second to fifth years, inclusive	3,907	3,751
After five years	51,447	50,590
	57,365	56,982

12. COMMITMENTS

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Capital expenditure contracted, but not provided for:		
Leasehold improvements	3,264	–
Equipment and machinery	77	132
	3,341	132

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Transactions with a substantial shareholder:		
Sales of goods to Sâfilo S.p.A group of companies	61,083	92,187
Sales of goods to a jointly-controlled entity	152	228
Purchases of goods from a jointly-controlled entity	5	63
Rental expenses paid to a director	222	222
	<u>61,462</u>	<u>92,640</u>

(b) Outstanding balances with related parties

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
	Amount due from a substantial shareholder:	
Trade receivables from Sâfilo S.p.A group of companies	38,800	48,791
Loan to a jointly-controlled entity	3,498	3,498
	<u>42,298</u>	<u>52,289</u>

(c) Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Short term employee benefits	2,925	2,925
	<u>2,925</u>	<u>2,925</u>

SUPPLEMENTARY INFORMATION

DIRECTORS' INTERESTS

At 30 September 2011, the interests and short positions of the directors and chief executive of the Company in the shares, 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")) 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).

SUPPLEMENTARY INFORMATION

DIRECTORS' INTERESTS *(Continued)*

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

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 these non-voting deferred shares are disclosed in the audited financial statements of the Company for the year ended 31 March 2011.

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 2011, none of the directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 spouses 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.

SUPPLEMENTARY INFORMATION

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

At 30 September 2011, the following interests of 5% or more of the issued share capital and share options 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	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
Sáfico S.p.A. (Note 3)	74,599,123	Controlled corporation	23.05

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 in by Mr. Hui Leung Wah.
- Details are stated in the above section headed "Directors' interests".
- SFEL is a wholly-owned subsidiary of Sáfico S.p.A.

Save as disclosed above, as at 30 September 2011, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests" 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.

SUPPLEMENTARY INFORMATION

SHARE OPTION SCHEME

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.

No options have been granted since the approval of the Scheme on 16 May 2003.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company’s listed securities by the Company or by any of its subsidiaries during the six months ended 30 September 2011.

CORPORATE GOVERNANCE

During the six months ended 30 September 2011, the Group has adopted and met the Code Provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules, 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 assumption of the roles of Chairman and Managing Director can, as far as the Group is concerned, 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 exists so that the interests of the shareholders are adequately and fairly represented.

SUPPLEMENTARY INFORMATION

CORPORATE GOVERNANCE *(Continued)*

The Company has set up a remuneration committee since June 2005. The duties of the remuneration committee set out in its terms of references include review and determination of the remuneration packages of the Executive Directors and senior management of the Company, making recommendations to the Board on the remuneration of the Independent Non-Executive Directors and 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 since June 2005 to review the structure and composition of the Board on a regular basis. The duties of the nomination committee set out in its terms of references include selection or making recommendations to the Board on the selection of individuals nominated for directorships and on relevant matters relating to the appointment or re-appointment of Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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. Having made specific enquiry of all Directors, the Company has received confirmations from all of them that they have complied with the required standard set out in the Model Code throughout the period.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing oversight of 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 2011 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.

SUPPLEMENTARY INFORMATION

REVIEW OF INTERIM RESULTS

The unaudited interim condensed consolidated financial information for the six months ended 30 September 2011 have been reviewed by the audit committee of the Company, and the Company's external auditors in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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 continuing support.

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

Hong Kong, 29 November 2011