

Notes to Financial Statements

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The Group is involved in the manufacturing and trading of optical frames, sunglasses and optical cases.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2001, together with the Group's share of the results for the year of its associates as set out below. The results of subsidiaries acquired or disposed of during the year are consolidated with reference to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Notes to Financial Statements *(continued)*

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

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis. Gains or losses on long term equity investments arising from changes in fair value are accounted for as movements in the investment revaluation reserve until the investment is sold or until the investment is determined to be impaired, at which time the cumulative gain or loss is included in the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are stated in the balance sheet at fair value. Changes in fair values are recognised in the profit and loss account as they arise. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair value on an individual investment basis.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation.

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

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2%
Leasehold improvements	Shorter of lease terms and the rate of 5% - 10%
Plant and machinery	10% - 20%
Furniture, fixtures and office equipment	10% - 20%
Motor vehicles	20%

Notes to Financial Statements *(continued)*

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

Fixed assets and depreciation (continued)

Construction in progress represents the cost of new factory buildings under construction and the cost of plant and machinery acquired pending installation. No depreciation is provided on construction in progress until it is completed and put into use. Construction in progress is reclassified to the appropriate category of fixed assets when it is completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Inventories

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Notes to Financial Statements *(continued)*

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to produce a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are recorded in the profit and loss account on the straight-line basis over the lease terms.

Related parties

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

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) sale of goods and disposal of fixed assets and investments, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (c) rental income, on an accruals basis; and
- (d) dividends, when the shareholders' right to receive payment is established.

Notes to Financial Statements *(continued)*

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

Pension scheme

The Group operates a defined contribution pension scheme (the "Pension Scheme") for its employees in Hong Kong, the assets of which are held separately from those of the Group in an independently administered fund. Prior to 1 December 2000, the Group contributions under the Pension Scheme were charged to the profit and loss account as incurred. The amount of Group contributions was based on specified percentages of the basic salaries of the employees. When an employee left the Pension Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

On 1 December 2000, all of the members of the existing Pension Scheme were transferred to a Mandatory Provident Fund (the "MPF Scheme"). Nevertheless, all of the underlying assets of the existing Pension Scheme remained under the administration of an independent insurance company. Contributions to the MPF Scheme are made based on rates applicable to the respective employees' monthly salaries and are charged to the profit and loss account as they become payable in accordance with government regulations. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions to the MPF Scheme vest fully with the employees when contributed into the Scheme.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates expressed in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature of cash, which are not restricted as to use.

Notes to Financial Statements *(continued)*

3. TURNOVER AND OTHER REVENUE

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

An analysis of turnover and other revenue is as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover	<u>427,338</u>	<u>356,937</u>
Interest income	3,920	4,126
Net rental income	1,474	861
Gain on disposal of listed investments	155	62
Dividend income from listed investments	–	67
Surplus/(deficit) on revaluation of investment properties	(300)	216
Others	<u>852</u>	<u>1,404</u>
Other revenue	<u>6,101</u>	<u>6,736</u>
Total revenue	<u>433,439</u>	<u>363,673</u>

Notes to Financial Statements *(continued)*

4. PROFIT FROM OPERATING ACTIVITIES

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

	2001 HK\$'000	2000 HK\$'000
Depreciation:		
Owned fixed assets	22,003	17,778
Leased fixed assets	–	220
Auditors' remuneration	904	820
Loss on disposal of fixed assets	697	802
Operating lease rentals in respect of land and buildings	2,158	2,340
Staff costs (excluding directors' remuneration, as set out in note 6):		
Wages and salaries	60,422	54,449
Pension scheme contributions	809	846
Less: Forfeited contributions refunded	–	(71)
Net pension scheme contributions *	<u>809</u>	<u>775</u>
Provision for inventory obsolescence	3,558	1,906
Other operating expenses:		
Provision for bad and doubtful debts	12,560	13,119
Unrealised losses on short term investments	777	–
Impairment in value of a long term investment	–	343
Exchange losses/(gains), net	(2,796)	255
Gross rental income from investment properties	(1,691)	(865)
Less: Outgoings	<u>217</u>	<u>4</u>
Net rental income from investment properties	<u>(1,474)</u>	<u>(861)</u>

* There were no forfeited pension scheme contributions available at the current or prior year ends to reduce contributions in future years.

5. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on bank loans wholly repayable:		
– within five years	27	68
– after five years	721	281
Interest on bank overdrafts	–	2
Interest on finance leases	3	64
	<u>751</u>	<u>415</u>

Notes to Financial Statements *(continued)*

6. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Directors' remuneration

	2001 HK\$'000	2000 HK\$'000
Executive:		
Fees	–	–
Other emoluments:		
Basic salaries and bonuses	2,395	2,352
Housing benefits	1,423	605
Pension scheme contributions	48	53
	<u>3,866</u>	<u>3,010</u>
Non-executive:		
Fees	100	100
Other emoluments	–	–
	<u>100</u>	<u>100</u>
Independent non-executive:		
Fees	200	200
Other emoluments	–	–
	<u>200</u>	<u>200</u>
	<u>4,166</u>	<u>3,310</u>

Three directors (2000: three) occupy certain of the Group's properties rent-free. The estimated value of the accommodation provided for them was HK\$1,423,000 (2000: HK\$605,000) for the year ended 31 March 2001, which has been included in the amounts detailed above.

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

Included in other emoluments, as set out above, was a consultancy fee of HK\$1,200,000 (2000: HK\$1,200,000) paid to HLW Concept Company Limited in respect of services rendered by Mr. Hui Leung Wah, a director of the Company. HLW Concept Company Limited is incorporated in Hong Kong and is beneficially owned by a unit trust, which is in turn, beneficially owned by a discretionary trust, the beneficiaries of which included Mr. Hui Leung Wah's spouse and children.

Notes to Financial Statements *(continued)*

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

Directors' remuneration *(continued)*

The number of directors whose remuneration fell within the bands set out below is as follows:

	Number of directors	
	2001	2000
Nil - HK\$1,000,000	6	7
HK\$1,000,001 - HK\$1,500,000	1	1
HK\$1,500,001 - HK\$2,000,000	1	–
	<u>8</u>	<u>8</u>

Highest paid employees' emoluments

The five highest-paid individuals included three (2000: three) directors, details of whose remuneration are disclosed above. The remuneration of the two (2000: two) non-director, highest-paid individuals are set out below:

	2001	2000
	HK\$'000	HK\$'000
Basic salaries and bonuses	1,542	1,504
Housing benefits	140	117
Pension scheme contributions	59	24
	<u>1,741</u>	<u>1,645</u>

The number of non-director highest-paid individuals whose remuneration fell within the bands set out below is as follows:

	Number of non-director highest-paid individuals	
	2001	2000
Nil - HK\$1,000,000	1	2
HK\$1,000,001 - HK\$1,500,000	1	–
	<u>2</u>	<u>2</u>

One of the non-director, highest-paid individuals occupies one of the Group's properties rent-free. The estimated value of the accommodation provided for him was HK\$140,000 (2000: HK\$117,000) for the year ended 31 March 2001.

Notes to Financial Statements *(continued)*

7. TAX

	Group	
	2001 HK\$'000	2000 HK\$'000
Group:		
Current year provision	10,835	8,369
Over provision in prior years	<u>(1,367)</u>	<u>(422)</u>
	9,468	7,947
Share of tax attributable to associates	<u>–</u>	<u>–</u>
Tax charge for the year	<u>9,468</u>	<u>7,947</u>

The provision for Hong Kong profits tax has been calculated at the rate of 16% (2000: 16%) on the estimated assessable profits for the year. A subsidiary operating in other areas in the People's Republic of China (the "PRC") was not subject to the PRC income tax in the current or prior years as it did not generate any profit subject to PRC income tax. Tax on the profits of subsidiaries/associates operating elsewhere is calculated at the rates applicable in the respective countries in which they operate, based on existing legislation, interpretation and practices in respect thereof.

The principal components of the unprovided deferred tax assets of the Group and the Company at the balance sheet date were as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	882	602	–	–
Tax losses	(2,437)	(1,301)	(1,005)	(810)
Others	<u>(2,467)</u>	<u>(139)</u>	<u>–</u>	<u>–</u>
	<u>(4,022)</u>	<u>(838)</u>	<u>(1,005)</u>	<u>(810)</u>

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

Notes to Financial Statements *(continued)*

8. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company was HK\$36,725,000 (2000: HK\$30,181,000).

Profit/(loss) for the year retained by:

	2001 HK\$'000	2000 HK\$'000
The Company and subsidiaries	88,927	67,547
Associates	114	(229)
	<u>89,041</u>	<u>67,318</u>

9. DIVIDENDS

	Group and Company	
	2001 HK\$'000	2000 HK\$'000
Interim paid - HK4.0 cents (2000: HK3.0 cents) per share	12,946	9,709
Final proposed - HK7.5 cents (2000: HK6.5 cents) per share to shareholders on the register of members on 7 September 2001	<u>24,274</u>	<u>21,038</u>
	<u>37,220</u>	<u>30,747</u>

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$89,041,000 (2000: HK\$67,318,000) and 323,649,123 (2000: weighted average of 321,438,405) shares in issue.

The diluted earning per share has not been calculated for the current year as no diluting events existed throughout the year.

The diluted earnings per share in the prior year was based on the net profit attributable to shareholders of HK\$67,318,000 and the weighted average of 321,438,405 shares in issue during the year plus 1,522,000 dilutive shares deemed to have been issued for no consideration in respect of share options outstanding during prior year.

Notes to Financial Statements *(continued)*

11. FIXED ASSETS

Group	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construc- tion in progress HK\$'000	Total HK\$'000
At cost:							
At beginning of year	83,001	24,357	118,267	20,788	8,308	13,495	268,216
Additions	3,998	3,086	23,987	3,166	1,277	5,239	40,753
Transfers	4,059	-	-	-	-	(4,059)	-
Disposals	(2,998)	(14)	(244)	(56)	-	-	(3,312)
At 31 March 2001	88,060	27,429	142,010	23,898	9,585	14,675	305,657
Accumulated depreciation:							
At beginning of year	5,591	9,113	57,765	11,227	5,982	-	89,678
Provided during the year	1,885	2,680	13,831	2,473	1,134	-	22,003
Disposals	(300)	(4)	(166)	(31)	-	-	(501)
At 31 March 2001	7,176	11,789	71,430	13,669	7,116	-	111,180
Net book value:							
At 31 March 2001	80,884	15,640	70,580	10,229	2,469	14,675	194,477
At 31 March 2000	77,410	15,244	60,502	9,561	2,326	13,495	178,538

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

	2001 HK\$'000	2000 HK\$'000
Hong Kong	58,901	53,842
Elsewhere	29,159	29,159
	88,060	83,001

Certain of the Group's leasehold land and buildings situated in Hong Kong and elsewhere have been pledged to banks to secure the bank loans, and general banking and other loan facilities granted to the Group (see note 22).

As at 31 March 2001, no fixed assets were held under finance leases (2000: HK\$1,540,000). The depreciation charge for the prior year in respect of such assets amounted to HK\$220,000.

Notes to Financial Statements *(continued)*

12. INVESTMENT PROPERTIES

	Group	
	2001 HK\$'000	2000 HK\$'000
At valuation:		
At beginning of year	9,357	6,500
Additions	–	2,641
Revaluation surplus/(deficit) credited/(charged) to the profit and loss account	<u>(300)</u>	<u>216</u>
At 31 March 2001	<u>9,057</u>	<u>9,357</u>
Analysed by geographical location and terms of lease:		
Hong Kong under long term leases	6,400	6,700
Elsewhere under medium term leases	<u>2,657</u>	<u>2,657</u>
	<u>9,057</u>	<u>9,357</u>

Certain of the investment properties situated in Hong Kong have been pledged to banks to secure the bank loans, and general banking and other loan facilities granted to the Group (see note 22).

At 31 March 2001, the Group's investment properties situated in Hong Kong were revalued at HK\$6,400,000 (2000: HK\$6,700,000) on an open market and existing use basis by HSBC Property (Asia) Limited, independent professional valuers, resulting in a net revaluation deficit of HK\$300,000 (2000: surplus of HK\$200,000) which was charged to the profit and loss account (see note 4).

At 31 March 2001, the Group's investment properties situated elsewhere were revalued at HK\$2,657,000 (2000: HK\$2,657,000) on an open market basis by Vigers Hong Kong Limited, independent professional valuers. In prior year, a net revaluation surplus of HK\$16,000 resulted.

13. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	147,173	147,173
Due from subsidiaries	<u>88,755</u>	<u>89,693</u>
	<u>235,928</u>	<u>236,866</u>

Notes to Financial Statements *(continued)*

13. INTERESTS IN SUBSIDIARIES *(continued)*

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Particulars of the principal subsidiaries at 31 March 2001 are as follows:

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct %	Indirect %	
Diamond Bright Industries Limited	Hong Kong	Hong Kong	Ordinary HK\$400	–	100	Investment holding
Dongguan Yick Yue Optical Limited **	PRC	PRC	Registered capital HK\$13,215,000	–	55	Manufacturing of optical frames
Elegance Global Marketing Limited	British Virgin Islands	North America/ Europe	Ordinary US\$1	–	100	Overseas marketing
Elegance Group Limited	British Virgin Islands	Hong Kong	Ordinary US\$80	100	–	Investment holding
Elegance Optical Investments Limited	Hong Kong	Hong Kong	Ordinary HK\$200 non-voting deferred HK\$20,000,000 *	–	100	Investment and property holding
Elegance Optical Production Limited	British Virgin Islands	PRC	Ordinary US\$1	–	100	Manufacturing of optical frames
Elegance Optical Manufactory Limited	Hong Kong	Hong Kong	Ordinary HK\$2	–	100	Trading of optical frames

Notes to Financial Statements *(continued)*

13. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct %	Indirect %	
Glory (Hui's) Trading Limited	Hong Kong	Hong Kong	Ordinary HK\$200	–	100	Trading of optical frames in Hong Kong and South East Asia
Gold Strong Industrial Limited **	Hong Kong	Hong Kong	Ordinary HK\$100	–	55	Investment holding and trading of optical frames
Grand Artic Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	–	76	Manufacturing of optical cases
Grand River Investments Limited **	Hong Kong	Hong Kong	Ordinary HK\$2	–	100	Property holding
Great Champ Asia Limited **	Hong Kong	Hong Kong	Ordinary HK\$2	–	100	Investment holding
Leader Up Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	–	60	Trading of spectacles
Million Wave Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	–	100	Property holding
Promisewell Company Limited	British Virgin Islands	–	Ordinary US\$1	–	100	Dormant
Standard Sun International Limited	Hong Kong	Hong Kong	Ordinary HK\$10,000	–	100	Trading of eyewear products

Notes to Financial Statements *(continued)*

13. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration	Place of operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
				%	%	
United Wish Company Limited	Hong Kong	PRC	Ordinary HK\$100	–	100	Retailing of optical frames
Yieldly (International) Investment Limited	Hong Kong	Hong Kong	Ordinary HK\$400	–	100	Investment holding

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

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

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

14. INTERESTS IN ASSOCIATES

	Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	1,014	900
Loans to associates	1,593	980
	<u>2,607</u>	<u>1,880</u>

The loans to associates are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements *(continued)*

14. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the associates at 31 March 2001 are as follows:

Name	Business Structure	Place of incorporation and operations	Percentage of equity attributable to the Group %	Principal activity
Safint Optical Investments Limited ("Safint")	Corporate	Hong Kong/ PRC	24.5	Trading of eyewear products
Optics 2000 & Optics Café Pte., Ltd. ("Optics 2000")	Corporate	Singapore	35.0	Retailing of eyewear products

These associates are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms and their financial statements are not coterminous with those of the Group. As Safint and Optics 2000 have financial years ending on 31 December and 30 September, respectively, the consolidated financial statements have been adjusted for the effects of any significant events or transactions between these associates and the Group companies that occur between the respective dates of these associates' financial year ends and 31 March.

15. INVESTMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Long term investments		
Golf club debenture, at fair value	<u>650</u>	<u>650</u>
Short term investments		
Listed equity investments in Hong Kong, at market value	<u>1,523</u>	<u>–</u>

Notes to Financial Statements *(continued)*

16. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	37,707	38,438
Work in progress	12,768	12,290
Finished goods	16,003	14,008
	<u>66,478</u>	<u>64,736</u>

The carrying amount of inventories carried at net realisable value included in the above is HK\$31,132,000 (2000: HK\$28,797,000).

17. 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 allow an average credit period of 60 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 31 March 2001 and 2000:

Ageing	Group	
	2001 HK\$'000	2000 HK\$'000
Current to 90 days	97,116	78,478
91 – 180 days	1,820	8,577
181 – 360 days	717	–
Total	<u>99,653</u>	<u>87,055</u>

Notes to Financial Statements *(continued)*

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	19,262	12,889	8	8
Time deposits	79,124	60,811	–	–
	<u>98,386</u>	<u>73,700</u>	<u>8</u>	<u>8</u>

19. TRADE PAYABLES

The following is an aged analysis of trade payables as at 31 March 2001 and 2000.

Ageing	Group	
	2001 HK\$'000	2000 HK\$'000
Current to 90 days	19,171	28,205
91 – 180 days	1,130	646
181 – 360 days	296	19
Over 360 days	96	417
Total	<u>20,693</u>	<u>29,287</u>

20. BANK LOANS, SECURED

	Group	
	2001 HK\$'000	2000 HK\$'000
Repayable within a period of:		
Within one year	1,261	1,134
After one year but within two years	1,352	1,134
After two years but within five years	4,685	3,402
After five years	1,288	4,054
	<u>8,586</u>	<u>9,724</u>
Portion classified as current liabilities	<u>(1,261)</u>	<u>(1,134)</u>
Long term portion	<u>7,325</u>	<u>8,590</u>

Notes to Financial Statements *(continued)*

21. OTHER LOANS, SECURED

	Group	
	2001 HK\$'000	2000 HK\$'000
Repayable within a period of:		
Within one year	–	692
After one year but within two years	–	692
After two years but within five years	–	347
	<u>–</u>	<u>1,731</u>
Portion classified as current liabilities	–	(692)
	<u>–</u>	<u>1,039</u>
Long term portion	–	1,039

The loans were repaid in full during the year without incurring any penalty on early repayment.

22. PLEDGE OF ASSETS

The Group's leasehold land and buildings situated in Hong Kong and elsewhere (see note 11) with an aggregate net book value of HK\$52,123,000 (2000: HK\$51,044,000) and the investment properties situated in Hong Kong with an aggregate valuation of HK\$4,100,000 (2000: HK\$5,298,000) (see note 12) were pledged to secure the bank loans, and general banking and other loan facilities granted to the Group. The banking facilities were also secured by corporate guarantees from the Company and certain subsidiaries.

23. FINANCE LEASE PAYABLES

There were commitments under non-cancellable finance leases at the balance sheet date as set out below:

	Group	
	2001 HK\$'000	2000 HK\$'000
Amounts payable within one year and total minimum lease payments	–	229
Future finance charges	–	(2)
	<u>–</u>	<u>227</u>
Total net finance lease payables	–	227
Portion classified as current liabilities	–	(227)
	<u>–</u>	<u>–</u>
Long term portion	–	–

Notes to Financial Statements *(continued)*

24. SHARE CAPITAL

	Company	
	2001 HK\$'000	2000 HK\$'000
<i>Authorised:</i>		
1,000,000,000 shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
323,649,123 shares of HK\$0.10 each	<u>32,365</u>	<u>32,365</u>

Share options

- (i) On 21 March 1996, the Company conditionally approved a share option scheme (“the Option Scheme”) under which the directors may, at their discretion, grant options to employees and executive directors of the Group, to subscribe for shares of the Company during the ten years from the Option Scheme’s date of approval. The subscription price is subject to a minimum which is the higher of (i) the nominal value of a share; and (ii) 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the five trading days immediately preceding the date of grant of the option. The maximum number of shares over which options may be outstanding may not exceed 10% of the share capital of the Company in issue from time-to-time excluding, for this purpose, shares issued on the exercise of options granted pursuant to the Option Scheme. The Option Scheme became effective upon the listing of the Company’s shares on the Stock Exchange on 11 April 1996. No options have been granted since the approval of the Option Scheme.
- (ii) Pursuant to an Option Agreement, as approved by shareholders of the Company in the Special General Meeting held on 10 April 1997, the Company granted two options to Safilo, a connected person under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), to subscribe for new shares of the Company. These two options were exercised by Safilo during the years ended 31 March 1999 and 2000. Further details of this arrangement are set out in note 29.

Notes to Financial Statements *(continued)*

25. RESERVES

Group	Share premium HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 1999	50,070	39,961	(641)	159,676	249,066
Premium on issue of shares	6,797	–	–	–	6,797
Share issue expenses	(36)	–	–	–	(36)
Released to profit and loss account on disposal	–	–	641	–	641
Net profit for the year	–	–	–	67,318	67,318
Dividends – note 9	–	–	–	(30,747)	(30,747)
At 31 March 2000 and 1 April 2000	56,831	39,961	–	196,247	293,039
Net profit for the year	–	–	–	89,041	89,041
Dividends – note 9	–	–	–	(37,220)	(37,220)
At 31 March 2001	56,831	39,961	–	248,068	344,860
Reserves retained by:					
Company and subsidiaries	56,831	39,961	–	248,183	344,975
Associates	–	–	–	(115)	(115)
As at 31 March 2001	56,831	39,961	–	248,068	344,860
Reserves retained by:					
Company and subsidiaries	56,831	39,961	–	196,476	293,268
Associates	–	–	–	(229)	(229)
As at 31 March 2000	56,831	39,961	–	196,247	293,039

Notes to Financial Statements *(continued)*

25. RESERVES *(continued)*

Company	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 1999	50,070	146,973	1,464	198,507
Premium on issue of shares	6,797	–	–	6,797
Share issue expenses	(36)	–	–	(36)
Net profit for the year	–	–	30,181	30,181
Dividends – note 9	–	–	(30,747)	(30,747)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2000 and 1 April 2000	56,831	146,973	898	204,702
Net profit for the year	–	–	36,725	36,725
Dividends – note 9	–	–	(37,220)	(37,220)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001	<u>56,831</u>	<u>146,973</u>	<u>403</u>	<u>204,207</u>

The capital reserve of the Group represents (i) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 8 February 1996, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the premium arising on the subscription of shares of Elegance Group Limited by DSE Holdings Limited and MeesPierson N.V.. Pursuant to a subscription agreement dated 27 October 1995 entered into between (1) Elegance Group Limited, (2) DSE Holdings Limited and (3) MeesPierson N.V., each of DSE Holdings Limited and MeesPierson N.V. subscribed for four shares of US\$1.00 each in the capital of Elegance Group Limited at a premium of HK\$2,750,000 per share. As a result, a sum of HK\$11,000,000 was paid by each of DSE Holdings Limited and MeesPierson N.V. to Elegance Group Limited. The entire amount of HK\$22,000,000 was credited to the capital reserve upon the aforesaid Group reorganisation, pursuant to which Elegance Group Limited became a wholly-owned subsidiary of the Company.

The contributed surplus of the Company represents the difference between the consolidated net asset value of Elegance Group Limited on 8 February 1996, when its entire issued share capital was acquired by the Company pursuant to the Group reorganisation, and the nominal amount of the Company's shares issued in consideration for such acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders under certain circumstances.

Notes to Financial Statements *(continued)*

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities:

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	102,619	78,201
Provision for bad and doubtful debts	12,560	13,119
Provision for inventory obsolescence	3,558	1,906
Unrealised losses on short term investments	777	–
Impairment in value of a long term investment	–	343
Deficit/(surplus) on revaluation of investment properties	300	(216)
Interest income	(3,920)	(4,126)
Dividend income	–	(67)
Depreciation	22,003	17,998
Loss on disposal of fixed assets	697	802
Gain on disposal of listed investments	(155)	(62)
Increase in inventories	(5,300)	(5,456)
Increase in trade receivables	(25,158)	(40,109)
Decrease/(increase) in prepayments, deposits and other receivables	2,559	(1,836)
Decrease/(increase) in bills receivable	(651)	3,923
Increase/(decrease) in trade payables	(8,594)	10,689
Increase/(decrease) in bills payable	(1,325)	3,655
Increase in other payables and accrued liabilities	10,905	3,227
	<hr/>	<hr/>
Net cash inflow from operating activities	110,875	81,991

Notes to Financial Statements *(continued)*

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the years

	Minority interests HK\$'000	Finance lease obligations HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Share capital (including premium) HK\$'000
Balance at 1 April 1999	12,752	1,483	3,633	–	80,817
Dividends paid to a minority shareholder	(1,575)	–	–	–	–
Share of profit for the year	2,292	–	–	–	–
Net cash inflows/(outflows) from financing	–	(1,256)	6,091	1,731	8,379
Balance at 31 March 2000 and 1 April 2000	13,469	227	9,724	1,731	89,196
Share of profit for the year	3,473	–	–	–	–
Net cash outflows from financing	–	(227)	(1,138)	(1,731)	–
Balance at 31 March 2001	16,942	–	8,586	–	89,196

27. CONTINGENT LIABILITIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Guarantees given for banking facilities granted to subsidiaries and associates	110,500	110,500

Details of the corporate guarantee given by the Company to banks to secure banking facilities granted to the non-wholly-owned subsidiaries are as follows:

	Corporate guarantee given by the Company	
	2001 HK\$'000	2000 HK\$'000
Grand Artic Limited	2,000	2,000
Gold Strong Industrial Limited	3,000	3,000

None of these banking facilities were utilised at the balance sheet date (2000: nil).

Notes to Financial Statements *(continued)*

28. COMMITMENTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Commitments for the acquisition of land and buildings, equipment and machinery:		
Contracted for	<u>25,910</u>	<u>2,674</u>
Lease commitments:		
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	52	611
In the second to fifth years, inclusive	<u>604</u>	<u>571</u>
	<u>656</u>	<u>1,182</u>

29. RELATED PARTY TRANSACTIONS

In addition to the transactions set out elsewhere in these financial statements, the Group entered into the following material related party transactions:

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

On 28 February 1997, Safilo S.p.A., a company incorporated in Italy and listed on the Milan Stock Exchange, entered into a number of agreements with the Company. Pursuant to these agreements, Safilo S.p.A. and the Group entered into certain commercial arrangements, further details of which are set out in a circular to the Company's shareholders dated 24 March 1997.

(i) Supply Agreement

Pursuant to the terms of the Supply Agreement dated 18 April 1997, the Group committed to supplying and the Safilo S.p.A. group of companies committed to purchasing, for an initial period of three years, minimum quantities (subject to adjustment) of optical frames, sunglasses and related products. Subsequent to the initial three-year period, the Supply Agreement would continue subject to termination by either party by a six-month notice.

The prices offered to the Safilo S.p.A. group of companies are determined in a similar manner to prices that the Group offers to other major customers. The payments in respect of these sales should be made by the Safilo S.p.A. group of companies within 60 days from the end of the month in which these products are delivered to the Safilo S.p.A. group of companies. The terms of the Supply Agreement are set out in greater detail in a circular to the shareholders of the Company dated 24 March 1997.

Notes to Financial Statements *(continued)*

29. RELATED PARTY TRANSACTIONS *(continued)*

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

(i) Supply Agreement *(continued)*

During the year, the Group sold goods to the Safilo S.p.A. group of companies with sales value amounting to HK\$164,011,000 (2000: HK\$93,010,000). In accordance with the terms of the Supply Agreement, the corresponding sales volume discount amounting to HK\$4,920,000 (2000: Nil) has been accrued in the financial statements in respect of the sales to Safilo S.p.A. group of companies during the year.

The aggregate accounts receivable balance due from the Safilo S.p.A. group of companies as at 31 March 2001 in respect of these sales amounted to HK\$36,526,000 (2000: HK\$20,245,000).

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

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

A Sub-licence Agreement was entered into between Safint, EOIL and the Group's PRC subsidiary on 15 December 1998, whereby Safilo's branded products will be manufactured and distributed by the Group's PRC subsidiary. Pursuant to the terms of the Sub-licence Agreement, the Group was granted a non-exclusive licence by Safint to manufacture and distribute Safilo S.p.A. branded products in the PRC in consideration of HK\$1.00, and the Group is not required to pay any licence fee to the Safilo S.p.A. group of companies in respect of any sales of the Safilo S.p.A. branded products in the PRC. Pursuant to the Sales Management Agreement entered into between Safint, EOIL and the Group's PRC subsidiary on the same date, any profits or losses derived from sales of Safilo S.p.A. branded products in the PRC are then payable to or recoverable from Safint. The losses derived from sales under this arrangement in the prior and current years were insignificant.

Notes to Financial Statements *(continued)*

29. RELATED PARTY TRANSACTIONS *(continued)*

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

(iii) Option Agreement

The Company granted to Safilo two options to subscribe for the Company's shares, as further detailed below:

The first option granted a right to Safilo to subscribe for 10% of the enlarged issued share capital of the Company, commencing on 18 April 1998 for a period of one year.

The second option granted a right to Safilo to subscribe for a further 5% of the enlarged issued share capital of the Company, commencing one year from the date on which the first option was exercised and lasting for a period of a further year.

The subscription prices for the two options were respectively 92% and 95% of the 30-day average closing price of the Company's shares on the Stock Exchange preceding the relevant exercise date.

On 22 May 1998, Safilo exercised the first option at HK\$0.58 per share and 30,746,667 shares representing 10% of the then enlarged issued share capital of the Company were issued to Safilo, resulting in Safilo's interest in the Company increasing from 9.99% to 19.00%.

On 21 May 1999, Safilo exercised the second option at HK\$0.52 per share and 16,182,456 shares representing 5% of the then enlarged issued share capital of the Company were issued to Safilo, resulting in Safilo's interest in the Company further increasing from 19.00% to 23.05%.

(b) Transactions among Group companies

The Company granted corporate guarantees to banks in favour of certain of its subsidiaries, wholly-owned and non-wholly-owned, in securing banking facilities available to these companies for no consideration. Further details are set out in note 27.

Except for the corporate guarantees granted by the Company to its wholly-owned subsidiaries, as set out in (b) above, all of the above transactions also constituted connected transactions, as defined under the Listing Rules.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19 July 2001.