Notes to Financial Statements

31 March 2003

1. CORPORATE INFORMATION

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

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

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 27 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and an associate are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. Further details of these changes are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

Notes to Financial Statements *(continued)*

31 March 2003

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 and in note 28 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits except that additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 26 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now included in the notes to the financial statements as a consequence of the SSAP.

3. 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 periodic remeasurement of investment properties and equity investments as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2003, together with the Group's share of the results for the year of its associates as set out below. The results of subsidiaries acquired or disposed of during the year are consolidated with reference to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Notes to Financial Statements *(continued)*

31 March 2003

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

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Notes to Financial Statements *(continued)*

31 March 2003

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

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life or 20 years, whichever is shorter. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 April 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 April 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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

Related parties

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

Impairment of assets

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

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

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

Fixed assets and depreciation

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

Notes to Financial Statements *(continued)*

31 March 2003

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

Fixed assets and depreciation *(continued)*

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

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

Construction in progress represents the cost of new factory buildings under construction and the cost of plant and machinery acquired pending installation, and is stated at cost less any impairment losses. 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.

Notes to Financial Statements *(continued)*

31 March 2003

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

Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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.

Short term investments

Short term investments are investments in equity securities held for trading purposes and 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.

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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Notes to Financial Statements *(continued)*

31 March 2003

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

Cash and cash equivalents *(continued)*

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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.

Revenue recognition

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

(a) from the sale of goods or 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 or assets sold;

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(c) rental income, on an accrual basis; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on an annual basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

Notes to Financial Statements *(continued)*

31 March 2003

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

Employee benefits *(continued)*

Employment Ordinance long service payments (continued)

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions to the MPF Scheme vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the central pension scheme. The only obligation for the Group with respect to the central pension scheme is the associated required contributions under the central pension scheme, which are charged to the profit and loss account in the year to which they relate.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Notes to Financial Statements *(continued)*

31 March 2003

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

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and an associate are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and an associate are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchanges rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and an associate and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 has had no material effect on the amounts of the previously-reported cash flows of the prior year.

Notes to Financial Statements *(continued)*

31 March 2003

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment. Summary details of the geographical segments are as follows:

(a) the North America segment mainly represents sales of eyewear products to customers located in the United States;

(b) the Europe segment mainly represents sales of eyewear products to customers located in Italy, the United Kingdom and Spain;

(c) the People's Republic of China (including Hong Kong) segment mainly represents sales of eyewear products to agents located in Hong Kong, but also includes sales made to local retailers. The directors believe that the agents in Hong Kong export most of the Group's products to Europe and North America;

(d) the other Asian countries segment mainly represents sales of eyewear products to customers located in Malaysia, Singapore, Taiwan and India; and

(e) the "Others" segment mainly represents sales of eyewear products to customers located in Australia, South America and Africa.

In determining the Group's geographical segments, revenue and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes to Financial Statements *(continued)*

31 March 2003

4. SEGMENT INFORMATION *(continued)*

Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments.

	North America		Europe		People's Republic of China (including Hong Kong)		Other Asian countries		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue:												
External sales	179,939	147,185	135,726	121,388	46,732	79,527	14,709	13,816	6,878	8,473	383,984	370,389
Segment result	29,711	32,994	22,411	27,212	12,750	26,122	2,429	3,097	1,135	1,899	68,436	91,324
Interest and dividend income and gain											4,082	3,655
Unallocated corporate expenses											(1,961)	(2,646)
Profit from operating activities											70,557	92,333
Finance costs											(262)	(489)
Share of profits and losses of associates	–	–	–	–	(6)	1	(50)	23	–	–	(56)	24
Profit before tax											70,239	91,868
Tax											(12,891)	(8,557)
Profit before minority interests											57,348	83,311
Minority interests											(1,627)	(3,976)
Net profit from ordinary activities attributable to shareholders											55,721	79,335
Segment assets	29,242	21,476	28,319	30,477	494,942	456,372	3,024	3,960	1,029	1,762	556,556	514,047
Interests in associates	–	–	–	–	974	1,438	1,141	1,191	–	–	2,115	2,629
Total assets											558,671	516,676
Segment liabilities	60	20	1,529	2,127	62,894	41,944	2,541	2,703	–	–	67,024	46,794
Bank loans											8,000	8,050
Total liabilities											75,024	54,844
Other segment information:												
Capital expenditure	–	–	–	–	44,710	25,611	–	–	–	–	44,710	25,611
Depreciation	–	–	–	–	24,072	22,505	–	–	–	–	24,072	22,505
Provision for/(reversal of) inventory obsolescence, net	–	–	–	–	516	(5,294)	–	–	–	–	516	(5,294)
Provision for/(reversal of) bad and doubtful debts, net	1,058	6	818	(1,500)	(383)	120	578	344	–	–	2,071	(1,030)
Deficit on revaluation of investment properties	–	–	–	–	716	2,100	–	–	–	–	716	2,100
Impairment losses recognised in the profit and loss account	–	–	–	–	3,487	2,900	–	–	–	–	3,487	2,900

Notes to Financial Statements *(continued)*

31 March 2003

4. SEGMENT INFORMATION *(continued)*

Business segment

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

5. TURNOVER, REVENUE AND GAINS

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

An analysis of turnover, other revenue and gains is as follows:

	2003	2002
	HK$'000	*HK$'000*
Turnover	**383,984**	370,389
Other revenue		
Interest income	**4,064**	3,617
Net rental income	**63**	518
Dividend income from listed investments	**18**	18
Others	**568**	945
Other revenue	**4,713**	5,098
Gains		
Gain on disposal of listed investments	**–**	20
	4,713	5,118

Notes to Financial Statements *(continued)*

31 March 2003

6. PROFIT FROM OPERATING ACTIVITIES

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

	Note	**2003** **HK$'000**	2002 HK$'000
Cost of inventories sold		**237,956**	223,371
Depreciation	*13*	**24,072**	22,505
Auditors' remuneration		**915**	940
Loss/(gain) on disposal of fixed assets		**58**	(854)
Minimum lease payments under operating leases in respect of land and buildings		**2,562**	2,698
Staff costs (excluding directors' remuneration, as set out in note 8):			
Wages and salaries		**70,956**	61,733
Pension scheme contributions		**1,067**	1,099
		72,023	62,832
Provision for/(reversal of) inventory obsolescence, net		**516**	(5,294)
Exchange losses, net		**2,012**	833
Gross rental income from investment properties		**(112)**	(571)
Less: Outgoings		**49**	53
Net rental income from investment properties*		**(63)**	(518)
Other operating expenses:			
Provision for/(reversal of) bad and doubtful debts, net		**2,071**	(1,030)
Unrealised losses on short term investments		**235**	330
Deficit on revaluation of investment properties		**716**	2,100
Provision for impairment in value of leasehold land and buildings		**1,800**	2,900
Impairment of goodwill		**1,687**	–

* The rental income was earned from third parties where no tenancy agreement has been entered into between parties. Accordingly, no disclosure of future operating lease receivables has been made in these financial statements.

Notes to Financial Statements *(continued)*

31 March 2003

7. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**262**	489

8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

	2003	2002
	HK$'000	*HK$'000*
Directors' remuneration		
Executive:		
Fees	**–**	–
Other emoluments:		
Basic salaries and bonuses	**2,452**	2,425
Housing benefits	**1,686**	1,686
Pension scheme contributions	**45**	44
	4,183	4,155
Non-executive:		
Fees	**50**	100
Other emoluments	**–**	–
	50	100
Independent non-executive:		
Fees	**200**	200
Other emoluments	**–**	–
	200	200
	4,433	4,455

Three directors (2002: three) occupied certain of the Group's properties rent-free during the year. The estimated value of the accommodation provided for them was HK$1,686,000 (2002: HK$1,686,000) for the year ended 31 March 2003, which has been included in the amounts detailed above.

Notes to Financial Statements *(continued)*

31 March 2003

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

Directors' remuneration *(continued)*

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

Included in other emoluments, as set out above, is a consultancy fee of HK$1,200,000 (2002: 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.

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

	Number of directors	
	2003	2002
Nil – HK$1,000,000	**6**	6
HK$1,000,001 – HK$1,500,000	**1**	1
HK$2,000,001 – HK$2,500,000	**1**	1
	8	8

Highest paid employees' emoluments

The five highest-paid individuals included three (2002: three) directors, details of whose remuneration are disclosed above. Details of the remuneration of the two (2002: two) non-director, highest-paid individuals are set out below:

	2003	2002
	HK$'000	*HK$'000*
Basic salaries and bonuses	**1,603**	1,587
Housing benefits	**420**	420
Pension scheme contributions	**62**	60
	2,085	2,067

Notes to Financial Statements *(continued)*

31 March 2003

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

Highest paid employees' emoluments *(continued)*

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	
	2003	2002
Nil – HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**1**	1
	2	2

One of the non-director, highest-paid individuals occupied one of the Group's properties rent-free during the year. The estimated value of the accommodation provided for him was HK$420,000 (2002: HK$420,000) for the year ended 31 March 2003, which has been included in the amounts detailed above.

9. TAX

Group:	Group	
	2003	2002
	HK$'000	*HK$'000*
Hong Kong:		
Current year provision	**5,681**	4,530
Under/(over)-provision in prior years	**4,810**	(3,475)
Deferred	**2,400**	5,000
Elsewhere	**–**	2,500
	12,891	8,555
Share of tax attributable to an associate	**–**	2
Tax charge for the year	**12,891**	8,557

The provision for Hong Kong profits tax has been calculated at the rate of 16% (2002: 16%) on the estimated assessable profits for the year. 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.

Notes to Financial Statements *(continued)*

31 March 2003

9. TAX *(continued)*

The Inland Revenue Department (the "IRD") had tax disputes with certain subsidiaries of the Group and issued notices of additional assessments for prior years to those subsidiaries. The Group has recently settled the disputes with the IRD and additional tax was demanded by the IRD, resulting in a prior year under-provision of HK$4,810,000 (2002: Nil) being included in the tax charge for the current year.

The movement in deferred tax, which consisted of accelerated depreciation allowances, is analysed below:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Balance at beginning of year	**5,000**	–
Charge for the year including the effect of the change in future rate from 16% to 17.5% of HK$634,000 (2002: Nil)	**2,400**	5,000
At 31 March	**7,400**	5,000

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	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated depreciation allowances	**94**	(11)	**–**	–
Tax losses	**(1,787)**	(1,812)	**(259)**	(1,255)
Others	**(942)**	–	**–**	–
Effect of the change in future rate from 16% to 17.5%	**(247)**	–	**(24)**	–
	(2,882)	(1,823)	**(283)**	(1,255)

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)*

31 March 2003

10. 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$37,161,000 (2002: HK$48,436,000).

11. DIVIDENDS

	2003	2002
	HK$'000	*HK$'000*
Interim – HK4.0 cents (2002: HK4.0 cents) per ordinary share	**12,946**	12,946
Proposed final – HK7.5 cents (2002: HK7.5 cents) per ordinary share	**24,274**	24,274
	37,220	37,220

The 2003 final dividend of HK7.5 cents per ordinary share is proposed to be paid to shareholders whose names appear on the register of members on 22 August 2003 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$55,721,000 (2002: HK$79,335,000) and 323,649,123 (2002: 323,649,123) shares in issue.

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

Notes to Financial Statements *(continued)*

31 March 2003

13. FIXED ASSETS

Group	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost:							
At beginning of year	94,058	27,463	147,874	27,077	9,425	28,401	334,298
Additions	–	1,192	18,232	1,249	1,050	22,987	44,710
Transfer to investment property	(1,775)	–	–	–	–	–	(1,775)
Disposals	–	(230)	(595)	(8)	–	–	(833)
At 31 March 2003	**92,283**	**28,425**	**165,511**	**28,318**	**10,475**	**51,388**	**376,400**
Accumulated depreciation and impairment:							
At beginning of year	11,631	14,423	83,928	15,921	7,985	–	133,888
Provided during the year	1,927	2,714	15,443	2,731	1,257	–	24,072
Impairment during the year	1,800	–	–	–	–	–	1,800
Transfer to investment property	(319)	–	–	–	–	–	(319)
Disposals	–	(179)	(591)	(5)	–	–	(775)
At 31 March 2003	**15,039**	**16,958**	**98,780**	**18,647**	**9,242**	**–**	**158,666**
Net book value:							
At 31 March 2003	**77,244**	**11,467**	**66,731**	**9,671**	**1,233**	**51,388**	**217,734**
At 31 March 2002	82,427	13,040	63,946	11,156	1,440	28,401	200,410

Notes to Financial Statements *(continued)*

31 March 2003

13. FIXED ASSETS *(continued)*

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

	2003	2002
	HK$'000	*HK$'000*
Hong Kong	**56,408**	58,183
Elsewhere	**35,875**	35,875
	92,283	94,058

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 facilities granted to the Group (see note 24).

14. INVESTMENT PROPERTIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
At valuation:		
At beginning of year	**–**	9,057
Transfer from/(to) leasehold land and buildings *(note 13)*	**1,456**	(6,957)
Revaluation deficit charged to the profit and loss account	**(716)**	(2,100)
At 31 March	**740**	–

During the current year, certain of the Group's leasehold land and buildings situated in Hong Kong was leased to a third party and thus reclassified to investment property at its carrying value of HK$1,456,000 at the date of transfer. At 31 March 2003, the investment property was revalued at HK$740,000 on an open market and existing use basis by Vigers Hong Kong Limited, an independent professionally qualified valuer, resulting in a net revaluation deficit of HK$716,000 which was charged to the profit and loss account (see note 6).

The investment property, which is situated in Hong Kong and held under a medium term lease, has been pledged to a bank to secure the bank loans and general banking facilities granted to the Group (see note 24).

Notes to Financial Statements *(continued)*

31 March 2003

15. GOODWILL

The amounts of the goodwill remaining in consolidated reserves as at 31 March 2003, arising from the acquisition of subsidiaries prior to 1 April 2001, are as follows:

	Goodwill eliminated against reserves *HK$'000*
Cost:	
At beginning of year and at 31 March 2003	1,839
Accumulated impairment:	
At beginning of year	–
Provided during the year	1,687
At 31 March 2003	**1,687**
Net book value:	
At 31 March 2003	**152**
At 31 March 2002	1,839

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003 *HK$'000*	2002 *HK$'000*
Unlisted shares, at cost	**147,173**	147,173
Due from subsidiaries	**99,790**	99,804
	246,963	246,977

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Notes to Financial Statements *(continued)*

31 March 2003

16. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries at 31 March 2003 were 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 Direct %	Indirect %	Principal activities
Diamond Bright Industries Limited	Hong Kong	Hong Kong	Ordinary HK$400	–	100	Investment holding
Dongguan Yick Yue Optical Limited **	PRC	Mainland China	Registered capital HK$15,005,000	–	55	Manufacture of optical frames
Elegance Group Limited	British Virgin Islands	Hong Kong	Ordinary US$80	100	–	Investment holding
Elegance Optical Investments Limited	Hong Kong	Hong Kong	Ordinary HK$200 non-voting deferred HK$20,000,000 *	–	100	Investment and property holding
Elegance Optical Manufactory Limited	Hong Kong	Hong Kong	Ordinary HK$2	–	100	Trading and manufacture of optical frames
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

Notes to Financial Statements *(continued)*

31 March 2003

16. 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 Direct %	Indirect %	Principal activities
Grand Artic Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	76	Manufacture of optical cases
Grand River Investments Limited **	Hong Kong	Hong Kong	Ordinary HK$2	–	100	Property holding
Great Champ Asia Limited **	Hong Kong	Hong Kong	Ordinary HK$2	–	100	Investment holding
Leader Up Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	60	Trading of spectacles
Million Wave Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Property holding
Standard Sun International Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Trading of eyewear products
United Wish Company Limited	Hong Kong	Mainland China	Ordinary HK$100	–	100	Retailing of optical frames
Yieldly (International) Investment Limited	Hong Kong	Hong Kong	Ordinary HK$400	–	100	Investment holding
Elegance Optical Production Limited	British Virgin Islands	Mainland China	Ordinary US$1	–	100	Dormant
Elegance Global Marketing Limited	British Virgin Islands	North America/ Europe	Ordinary US$1	–	100	Dormant

Notes to Financial Statements *(continued)*

31 March 2003

16. INTERESTS IN SUBSIDIARIES *(continued)*

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 or other Ernst & Young International member firms.*

17. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Share of net assets	**980**	1,036
Loan to an associate	**1,135**	1,593
	2,115	2,629

The loan to an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associates at 31 March 2003 were as follows:

Name	**Business Structure**	**Place of incorporation and operations**	**Percentage of equity attributable to the Group**	**Principal activities**
Safint Optical Investments Limited	Corporate	Hong Kong/ Mainland China	24.5	Trading of eyewear products
Optics 2000 & Optics Café Pte., Ltd.	Corporate	Singapore	35	Retailing of eyewear products

These associates are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Notes to Financial Statements *(continued)*

31 March 2003

18. INVESTMENTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Long term investment		
Golf club debenture, at fair value	**650**	650
Short term investments		
Listed equity investments in Hong Kong, at market value	**496**	731

19. INVENTORIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Raw materials	**33,536**	29,970
Work in progress	**9,333**	11,276
Finished goods	**22,469**	17,512
	65,338	58,758

As at the balance sheet date, none of the inventories included in the above balance were carried at net realisable value (2002: Nil).

20. TRADE RECEIVABLES

Credit is offered to customers following a financial assessment by the Group and with regard to their established payment record. The Group usually allows an average credit period of 90 days to its customers and seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management and collections are followed up by accounting personnel. The following is an aged analysis of the trade receivables (net of provision for bad and doubtful debts) as at 31 March 2003 and 2002:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Current to 90 days	**72,894**	64,191
91-180 days	**4,781**	3,630
181-360 days	**355**	5,729
Total	**78,030**	73,550

The trade balances of the Group include trade balances due from the Safilo S.p.A group of companies of HK$45,555,000 (2002: HK$22,599,000) in aggregate, which are unsecured, interest-free and are repayable in accordance with normal trading terms.

Notes to Financial Statements *(continued)*

31 March 2003

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**26,340**	9,728	**8**	8
Time deposits	**161,871**	164,121	**–**	–
	188,211	173,849	**8**	8

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$5,086,000 (2002: HK$4,922,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

22. TRADE PAYABLES

The following is an aged analysis of the trade payables as at 31 March 2003 and 2002:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Current to 90 days	**19,470**	20,085
91 – 180 days	**347**	241
181 – 360 days	**187**	739
Over 360 days	**9**	304
Total	**20,013**	21,369

Notes to Financial Statements *(continued)*

31 March 2003

23. BANK LOANS, SECURED

	Group	
	2003	2002
	HK$'000	*HK$'000*
Repayable:		
Within one year	**2,000**	2,000
After one year but within two years	**2,000**	2,000
After two years but within five years	**4,000**	4,050
	8,000	8,050
Portion classified as current liabilities	**(2,000)**	(2,000)
Long term portion	**6,000**	6,050

24. PLEDGE OF ASSETS

The Group's leasehold land and buildings situated in Hong Kong and elsewhere (see note 13) with an aggregate net book value of HK$16,692,000 (2002: HK$18,972,000) and the investment property situated in Hong Kong with an aggregate valuation of HK$740,000 (2002: Nil) (see note 14) were pledged to secure the bank loans and general banking facilities granted to the Group at the balance sheet date. The banking facilities were also secured by corporate guarantees from the Company.

25. SHARE CAPITAL

	Company	
	2003	2002
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
323,649,123 shares of HK$0.10 each	**32,365**	32,365

Notes to Financial Statements *(continued)*

31 March 2003

26. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

On 21 March 1996, the Company conditionally approved a share option scheme (the "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 10 years from its date of approval. The existing Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 April 1996 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Under the existing Scheme, the maximum number of shares over which options may be granted must not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose, shares issued pursuant to the Scheme. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person. The subscription price of the options is subject to a minimum which is the higher of the nominal value of a share and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No options have been granted under the Scheme.

Notes to Financial Statements *(continued)*

31 March 2003

26. SHARE OPTION SCHEME *(continued)*

Subsequent to the adoption of the Scheme on 21 March 1996, the Stock Exchange introduced a number of changes to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. However, any option to be granted in the future under the Scheme shall be subject to the new changes which include, inter alia, the following:

(a) the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting;

(b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive directors; and

(c) the exercise price of the share options is determined by the directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

Subsequent to the balance sheet date, on 16 May 2003, a special general meeting of the Company was held, and resolutions were passed relating to the adoption of a new share option scheme and the termination of the existing Scheme in order to comply with the requirements of the amended Listing Rules. No options have been granted since the approval of this new option scheme on 16 May 2003. Further details of this new share option scheme are set out in the circular to the Company's shareholders dated 22 April 2003.

Notes to Financial Statements *(continued)*

31 March 2003

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

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.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against reserves as explained in note 15 to the financial statements.

(b) Company

	Note	**Share premium account** *HK$'000*	**Contributed surplus** *HK$'000*	**Retained profits/ (accumulated losses)** *HK$'000*	**Total** *HK$'000*
At 1 April 2001		56,831	146,973	(24,597)	179,207
Net profit for the year		–	–	48,436	48,436
2002 interim dividend paid	*11*	–	–	(12,946)	(12,946)
2002 final dividend proposed	*11*	–	–	(24,274)	(24,274)
At 31 March and 1 April 2002		56,831	146,973	(13,381)	190,423
Net profit for the year		–	–	37,161	37,161
2003 interim dividend paid	*11*	–	–	(12,946)	(12,946)
2003 final dividend proposed	*11*	–	–	(24,274)	(24,274)
At 31 March 2003		56,831	146,973	(13,440)	190,364

The contributed surplus of the Company represents the difference between the consolidated net asset value of Elegance Group Limited on 8 February 1996, when its entire issued share capital was acquired by the Company pursuant to the Group reorganisation referred to in note 27(a), and the nominal amount of the Company's shares issued in consideration for such acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders under certain circumstances.

Notes to Financial Statements *(continued)*

31 March 2003

28. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Changes to the layout of the consolidated cash flow statement

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities, and dividends paid are now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year. Previously, the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. This has had no material effect on amounts previously reported in the prior year's financial statements.

29. CONTINGENT LIABILITIES

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

	Company	
	2003	2002
	HK$'000	*HK$'000*
Guarantees given for banking facilities granted to subsidiaries	**65,500**	79,000

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	
	2003	2002
	HK$'000	*HK$'000*
Grand Artic Limited	**2,000**	2,000
Gold Strong Industrial Limited	**3,000**	3,000

These banking facilities were utilised to the extent of approximately HK$2 million as at the balance sheet date (2002: Nil).

Notes to Financial Statements *(continued)*

31 March 2003

29. CONTINGENT LIABILITIES *(continued)*

(b) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$3,240,000 as at 31 March 2003, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

30. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 March 2003 and 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**599**	618
In the second to fifth years, inclusive	**1,395**	1,428
After five years	**25,760**	26,275
	27,754	28,321

Notes to Financial Statements *(continued)*

31 March 2003

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
	2003	2002
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Land and buildings	**14,937**	18,348
Equipment and machinery	**3,862**	2,611
Capital contributions payable to subsidiaries	**30,235**	65
	49,034	21,024

32. RELATED PARTY TRANSACTIONS

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

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

On 28 February 1997, Safilo S.p.A., a company incorporated in Italy, entered into a number of agreements with the Company. Pursuant to these agreements, Safilo S.p.A. and the Group entered into certain commercial arrangements, further details of which are set out in a circular to the Company's shareholders dated 24 March 1997. Safilo Far East Limited, one of Safilo's wholly-owned subsidiaries, owns a 23.05% equity interest in the Company.

(i) Supply Agreement

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

The prices offered to the Safilo S.p.A. group of companies are determined in a similar manner to prices that the Group offers to other major customers. The payments in respect of these sales should be made by the Safilo S.p.A. group of companies within 90 days (2002: 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 the circulars to the shareholders of the Company dated 24 March 1997 and 18 July 2001.

Notes to Financial Statements *(continued)*

31 March 2003

32. 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 a sales value amounting to HK$199,587,000 (2002: HK$135,070,000). In accordance with the terms of the Supply Agreement, the corresponding sales volume discount amounted to HK$5,809,000 (2002: HK$3,905,000), out of which HK$4,674,000 (2002: Nil) was paid during the year and HK$1,135,000 (2002: HK$3,905,000) has been accrued in the financial statements at the balance sheet date.

The aggregate accounts receivable balance due from the Safilo S.p.A. group of companies as at 31 March 2003 in respect of these sales amounted to HK$45,555,000 (2002: HK$22,599,000).

(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 Investment Limited ("Safint"), was established during the year ended 31 March 1999 to manage and operate the manufacture and distribution of optical frames and sunglasses in the PRC. The shareholding interests of EOIL, Safilo and the independent third party in Safint are 24.5%, 51% and 24.5%, respectively. As the Group is able to exercise significant influence over Safint, Safint is accounted for as an associate of the Group.

A Sub-licence Agreement was entered into between Safint, EOIL and the Group's PRC subsidiary on 15 December 1998, whereby Safilo's branded products are manufactured and distributed by the Group's PRC subsidiary. Pursuant to the terms of the Sub-licence Agreement, the Group was granted a non-exclusive licence by Safint to manufacture and distribute Safilo S.p.A. group's branded products in the PRC in consideration of HK$1.00, and the Group is not required to pay any licence fee to the Safilo S.p.A. group of companies in respect of any sale of the Safilo S.p.A. group's branded products in the PRC. Sales of the Safilo S.p.A. group's branded products in the PRC amounted to HK$10,435,000 for the year (2002: HK$7,920,000).

Pursuant to the Sales Management Agreement entered into between Safint, EOIL and the Group's PRC subsidiary on the same day, any profits or losses derived from sales of the Safilo S.p.A. group's branded products in the PRC are then payable to or recoverable from Safint. The results derived from sales under this arrangement in the prior and current years were insignificant.

Notes to Financial Statements *(continued)*

31 March 2003

32. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions among Group companies

The Company granted corporate guarantees to banks in favour of certain of its subsidiaries, wholly-owned and non wholly-owned, for no consideration to secure banking facilities available to these companies. Further details are set out in note 29 to the financial statements.

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.

33. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 June 2003.