

1. CORPORATE INFORMATION

The registered office of Elegance International Holdings Limited is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda.

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 A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. This SSAP prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 25 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes are included in the accounting policy for deferred tax in note 3 to the financial statements.

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 an investment property 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 2004, 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.

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.

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

Joint venture companies *(continued)*

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.

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.

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

Goodwill *(continued)*

Prior to the adoption of SSAP 30 "Business combinations" in 2002, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Impairment of assets** *(continued)*

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.

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.

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

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.

Operating leases

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 and debt 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.

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

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.

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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.

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

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 MPF 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.

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

Employee benefits *(continued)*

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.

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 bye-laws 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 exchange 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.

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 sale of eyewear products to customers located in the United States;
- (b) the Europe segment mainly represents sale 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 sale 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 sale of eyewear products to customers located in Malaysia, Singapore, Philippines and India; and
- (e) the "Others" segment mainly represents sale 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.

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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	121,769	179,939	150,744	135,726	35,399	46,732	8,843	14,709	10,978	6,878	327,733	383,984
Segment result	8,051	29,711	9,967	22,411	2,341	12,750	585	2,429	726	1,135	21,670	68,436
Interest and dividend income											3,997	4,082
Unallocated corporate expenses											(2,132)	(1,961)
Profit from operating activities											23,535	70,557
Finance costs											(174)	(262)
Share of profits and losses of associates	-	-	-	-	(296)	(6)	(109)	(50)	-	-	(405)	(56)
Profit before tax											22,956	70,239
Tax											(2,691)	(12,891)
Profit before minority interests											20,265	57,348
Minority interests											(1,314)	(1,627)
Net profit from ordinary activities attributable to shareholders											18,951	55,721

4. SEGMENT INFORMATION (continued)

Geographical segments (continued)

	North America		Europe		People's Republic of China (including Hong Kong)		Other Asian countries		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	30,845	29,242	40,049	28,319	343,518	306,731	1,921	3,024	3,522	1,029	419,855	368,345
Interests in associates	-	-	-	-	2,560	974	1,032	1,141	-	-	3,592	2,115
Cash and cash equivalents											124,055	188,211
Total assets											547,502	558,671
Segment liabilities	119	60	2,145	1,529	59,512	62,894	5,034	2,541	-	-	66,810	67,024
Bank loans											14,000	8,000
Total liabilities											80,810	75,024
Other segment information:												
Capital expenditure	-	-	-	-	58,927	44,710	-	-	-	-	58,927	44,710
Depreciation	-	-	-	-	27,359	24,072	-	-	-	-	27,359	24,072
Provision for/ (reversal of) inventory obsolescence, net	-	-	-	-	(1,951)	516	-	-	-	-	(1,951)	516
Provision for/ (reversal of) bad and doubtful debts, net	1,600	1,058	-	818	475	(383)	(500)	578	-	-	1,575	2,071
Deficit/(surplus) on revaluation of an investment property	-	-	-	-	(70)	716	-	-	-	-	(70)	716
Impairment losses recognised in the profit and loss account	-	-	-	-	-	3,487	-	-	-	-	-	3,487

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 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:

	2004	2003
	HK\$'000	HK\$'000
Turnover	<u>327,733</u>	<u>383,984</u>
Other revenue		
Interest income	3,980	4,064
Net rental income	112	63
Dividend income from listed investments	17	18
Others	<u>613</u>	<u>568</u>
	<u>4,722</u>	<u>4,713</u>

6. PROFIT FROM OPERATING ACTIVITIES

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

		Group	
		2004	2003
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Cost of inventories sold		240,842	237,956
Depreciation	13	27,359	24,072
Auditors' remuneration		1,035	915
Loss on disposal of fixed assets		34	58
Minimum lease payments under operating leases in respect of land and buildings		2,961	2,562
Staff costs (excluding directors' remuneration, as set out in note 8):			
Wages and salaries		75,300	70,956
Pension scheme contributions		1,251	1,067
		76,551	72,023
Provision for/(reversal of) inventory obsolescence, net		(1,951)	516
Exchange losses, net		3,393	2,012
Gross rental income from an investment property		(112)	(112)
Less: Outgoings		-	49
Net rental income from an investment property*		(112)	(63)
Other operating income/(expenses):			
Provision for bad and doubtful debts, net		1,575	2,071
Unrealised loss/(gain) on short term investments		(148)	235
Deficit/(surplus) on revaluation of an investment property	14	(70)	716
Provision for impairment in value of leasehold land and buildings		-	1,800
Impairment of goodwill		-	1,687

* The rental income was earned from a third party 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.

7. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	<u>174</u>	<u>262</u>

8. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION**Directors' remuneration**

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Executive:		
Fees	–	–
Other emoluments:		
Basic salaries and bonuses	2,454	2,452
Housing and other benefits	1,908	1,686
Pension scheme contributions	54	45
	<u>4,416</u>	<u>4,183</u>
Non-executive:		
Fees	–	50
Other emoluments	–	–
	<u>–</u>	<u>50</u>
Independent non-executive:		
Fees	200	200
Other emoluments	–	–
	<u>200</u>	<u>200</u>
	<u>4,616</u>	<u>4,433</u>

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

Three directors (2003: three) occupied certain of the Group's properties rent-free during the year. The estimated value of the accommodation provided for them was HK\$1,522,000 (2003: HK\$1,686,000) for the year ended 31 March 2004, 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, is a consultancy fee of HK\$1,200,000 (2003: 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	
	2004	2003
Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
	<hr/> 7 <hr/>	<hr/> 8 <hr/>

Highest paid employees' emoluments

The five highest-paid individuals included three (2003: three) directors, details of whose remuneration are disclosed above. Details of the remuneration of the two (2003: two) non-director, highest-paid individuals for the year are set out below:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries and bonuses	1,626	1,603
Housing and other benefits	471	420
Pension scheme contributions	68	62
	<hr/> 2,165 <hr/>	<hr/> 2,085 <hr/>

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	
	2004	2003
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>2</u>	<u>2</u>

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\$252,000 (2003: HK\$420,000) for the year ended 31 March 2004, which has been included in the amounts detailed above.

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16.0%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004	2003
	HK\$'000	HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	3,434	5,681
Underprovision in prior years	127	4,810
Deferred (note 25)	(870)	2,400
	<u>2,691</u>	<u>12,891</u>
Total tax charge for the year		

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

9. TAX (continued)

Group – 2004

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Profit before tax	<u>22,951</u>	<u>5</u>	<u>22,956</u>
Tax at the statutory tax rates	4,017	2	4,019
Lower tax rate for specific provinces	–	(47)	(47)
Adjustments in respect of current tax of previous periods	127	–	127
Income not subject to tax	(1,993)	(444)	(2,437)
Expenses not deductible for tax	205	173	378
Estimated tax losses not recognised	166	316	482
Tax losses utilised from previous periods	(103)	–	(103)
Others	<u>272</u>	<u>–</u>	<u>272</u>
Tax charge at the Group's effective rates	<u>2,691</u>	<u>–</u>	<u>2,691</u>

Group – 2003

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Profit/(loss) before tax	<u>72,923</u>	<u>(2,684)</u>	<u>70,239</u>
Tax at the statutory tax rates	11,668	(886)	10,782
Lower tax rate for specific provinces	–	135	135
Effect on opening deferred tax of increase in rates	469	–	469
Adjustments in respect of current tax of previous periods	4,810	–	4,810
Income not subject to tax	(5,123)	–	(5,123)
Expenses not deductible for tax	973	277	1,250
Estimated tax losses not recognised	100	474	574
Tax losses utilised from previous periods	(21)	–	(21)
Others	<u>15</u>	<u>–</u>	<u>15</u>
Tax charge at the Group's effective rates	<u>12,891</u>	<u>–</u>	<u>12,891</u>

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$60,218,000 (2003: HK\$37,161,000) (note 28(b)).

11. DIVIDENDS

	2004	2003
	HK\$'000	HK\$'000
Interim – HK4.0 cents (2003: HK4.0 cents) per ordinary share	12,946	12,946
Proposed final – HK7.0 cents (2003: HK7.5 cents) per ordinary share	22,655	24,274
	<u>35,601</u>	<u>37,220</u>

The 2004 final dividend of HK7.0 cents per ordinary share is proposed to be paid to shareholders whose names appear on the register of members on 19 August 2004 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\$18,951,000 (2003: HK\$55,721,000) and 323,649,123 (2003: 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.

13. FIXED ASSETS

Group	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construc- tion in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:							
At beginning of year	92,283	28,425	165,511	28,318	10,475	51,388	376,400
Additions	–	5,395	18,595	1,515	2,338	31,084	58,927
Disposals	–	–	(108)	(144)	(130)	–	(382)
At 31 March 2004	92,283	33,820	183,998	29,689	12,683	82,472	434,945
Accumulated depreciation and impairment:							
At beginning of year	15,039	16,958	98,780	18,647	9,242	–	158,666
Provided during the year	1,981	2,858	17,866	2,853	1,801	–	27,359
Disposals	–	–	(32)	(99)	(130)	–	(261)
At 31 March 2004	17,020	19,816	116,614	21,401	10,913	–	185,764
Net book value:							
At 31 March 2004	75,263	14,004	67,384	8,288	1,770	82,472	249,181
At 31 March 2003	77,244	11,467	66,731	9,671	1,233	51,388	217,734

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hong Kong	56,408	56,408
Elsewhere	35,875	35,875
	92,283	92,283

Certain of the Group's leasehold land and buildings situated in Hong Kong have been pledged to banks to secure the bank loans and general banking facilities granted to the Group (see note 24).

14. INVESTMENT PROPERTY

	Group	
	2004 HK\$'000	2003 <i>HK\$'000</i>
At valuation:		
At beginning of year	740	–
Transfer from leasehold land and buildings	–	1,456
Revaluation surplus/(deficit) credited/(charged) to the profit and loss account	70	(716)
	<hr/>	<hr/>
At 31 March	810	740
	<hr/>	<hr/>

At 31 March 2004, the investment property was revalued at HK\$810,000 (2003: 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 surplus of HK\$70,000 (2003: deficit of HK\$716,000) which was credited/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).

15. GOODWILL

The amounts of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2002, was HK\$152,000 as at 1 April 2003 and 31 March 2004. The amount of goodwill is stated at its cost, less impairment of HK\$1,687,000 which arose in prior years.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 <i>HK\$'000</i>
Unlisted shares, at cost	147,173	147,173
Due from subsidiaries	122,782	99,790
	<hr/>	<hr/>
	269,955	246,963
	<hr/>	<hr/>

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

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at 31 March 2004 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		Principal activities
				Direct	Indirect	
Diamond Bright Industries Limited	Hong Kong	Hong Kong	Ordinary HK\$400	–	100	Investment holding
Dongguan Yick Yue Optical Limited**	People's Republic of China (the "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
Fortune Optical Limited**	PRC***	Mainland China	Registered capital HK\$37,700,000 (2003: HK\$26,880,000)	–	55	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
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

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		Principal activities
				Direct	Indirect	
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

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.

*** Dongguan Yick Yue Optical Limited and Fortune Optical Limited are registered as wholly-foreign owned enterprises under the PRC law.

17. INTERESTS IN ASSOCIATES

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share of net assets	575	980
Loan to an associate	<u>3,017</u>	<u>1,135</u>
	<u>3,592</u>	<u>2,115</u>

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

Particulars of the associates at 31 March 2004 were as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group	Principal activities
Safint Optical Investments Limited ("Safint")	Corporate	Hong Kong/ Mainland China	24.5	Trading of eyewear products
Safilo Trading (Shenzhen) Co., Ltd.	Corporate	Mainland China	24.5	Distribution and sale 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.

18. INVESTMENTS

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Long term investment		
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>644</u>	<u>496</u>

19. INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	28,070	33,536
Work in progress	12,411	9,333
Finished goods	27,197	22,469
	67,678	65,338

As at the balance sheet date, none of the inventories included in the above balance were carried at net realisable value (2003: 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 2004 and 2003:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current to 90 days	92,111	72,894
91-180 days	1,267	4,781
181-360 days	1,491	355
Total	94,869	78,030

The trade balances of the Group include trade balances due from the Safilo S.p.A group of companies of HK\$58,258,000 (2003: HK\$45,555,000) in aggregate, which are unsecured, interest-free and are repayable in accordance with normal trading terms.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	28,357	26,340	36	8
Time deposits	95,698	161,871	–	–
Cash and cash equivalents	124,055	188,211	36	8

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$10,153,000 (2003: HK\$5,086,000). 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 2004 and 2003:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	33,706	19,470
91 – 180 days	1,524	347
181 – 360 days	1,653	187
Over 360 days	3	9
Total	36,886	20,013

23. BANK LOANS, SECURED

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Repayable:		
Within one year	10,000	2,000
After one year but within two years	2,000	2,000
After two years but within five years	2,000	4,000
	<hr/> 14,000	<hr/> 8,000
Portion classified as current liabilities	(10,000)	(2,000)
	<hr/> 4,000	<hr/> 6,000
Long term portion	4,000	6,000

24. PLEDGE OF ASSETS

The Group's leasehold land and buildings situated in Hong Kong (see note 13) with an aggregate net book value of HK\$15,474,000 (2003: HK\$16,692,000) and the investment property situated in Hong Kong with an aggregate valuation of HK\$810,000 (2003: HK\$740,000) (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. DEFERRED TAX LIABILITIES

The movement in deferred tax liabilities during the year is as follows:

Group

	Accelerated tax depreciation	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2002	6,085	(1,085)	5,000
Deferred tax charged/(credited) to the profit and loss account during the year, including a charge of HK\$469,000 due to the effect of a change in tax rates (note 9)	2,563	(163)	2,400
At 31 March and 1 April 2003	8,648	(1,248)	7,400
Deferred tax credited to the profit and loss account during the year (note 9)	(509)	(361)	(870)
Gross deferred tax liabilities at 31 March 2004	8,139	(1,609)	6,530

The Group has tax losses arising in Hong Kong of HK\$11,832,000 (2003: HK\$11,473,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 March 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

26. SHARE CAPITAL

	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
1,000,000,000 shares of HK\$0.10 each	100,000	100,000
<i>Issued and fully paid:</i>		
323,649,123 shares of HK\$0.10 each	32,365	32,365

27. SHARE OPTION SCHEMES

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder in the Company's subsidiaries.

During the year, the share option scheme of the Company adopted on 21 March 1996 (the "Old Share Option Scheme") was terminated and a new share option scheme was approved by the shareholders at a special general meeting of the Company held on 16 May 2003 to comply with Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the SEHK. The Scheme became effective on 16 May 2003 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company 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.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer 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 offer.

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

As at 31 March 2004, no options granted under the Old Share Option Scheme remained outstanding and no options have been granted since the approval of the Scheme on 16 May 2003. Further details of the Scheme are set out in the circular to the Company's shareholders dated 22 April 2003.

28. 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 22 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

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 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 and 1 April 2003		56,831	146,973	(13,440)	190,364
Net profit for the year		–	–	60,218	60,218
2004 interim dividend paid	11	–	–	(12,946)	(12,946)
2004 final dividend proposed	11	–	–	(22,655)	(22,655)
At 31 March 2004		56,831	146,973	11,177	214,981

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 28(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.

29. CONTINGENT LIABILITIES

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

	Company	
	2004	2003
	HK\$'000	HK\$'000
Guarantees given for banking facilities granted to subsidiaries	50,500	65,500

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	
	2004	2003
	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\$521,000 as at the balance sheet date (2003: approximately HK\$2,000,000).

- (b) The Group had 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\$1,904,000 (2003: HK\$3,240,000) as at 31 March 2004, 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 2004 and 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	1,020	599
In the second to fifth years, inclusive	1,978	1,395
After five years	25,423	25,760
	28,421	27,754

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	
	2004	2003
	HK\$'000	HK\$'000
Contracted, but not provided for:		
Land and buildings	1,631	14,937
Leasehold improvements	2,838	–
Equipment and machinery	800	3,862
Capital contributions payable to subsidiaries	41,055	30,235
	46,324	49,034

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 120 days (2003: 90 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.

During the year, the Group sold goods to the Safilo S.p.A. group of companies with a sales value amounting to HK\$158,275,000 (2003: HK\$199,587,000). In accordance with the terms of the Supply Agreement, the corresponding sales volume discount amounted to HK\$1,583,000 (2003: HK\$5,809,000), out of which HK\$1,099,000 (2003: HK\$4,674,000) was paid during the year and HK\$484,000 (2003: HK\$1,135,000) was 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 2004 in respect of these sales amounted to HK\$58,258,000 (2003: HK\$45,555,000).

32. RELATED PARTY TRANSACTIONS *(continued)***(a) Transactions with the Safilo S.p.A. group of companies** *(continued)**(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 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\$12,617,000 for the year (2003: HK\$10,435,000).

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.

(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. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 June 2004.