



Elegance International Holdings Limited

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

Interim Report **2008/2009**



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

HUI Leung Wah (*Chairman*)
POON Sui Hong
LEUNG Shu Sum

Non-Executive Directors

LISSI Barbara
MARCHISIO Paola

Independent Non-Executive Directors

POON Kwok Fai, Ronald
TAM Hok Lam, Tommy, JP
WONG Chung Mat, Ben

AUDIT COMMITTEE

POON Kwok Fai, Ronald
TAM Hok Lam, Tommy, JP
WONG Chung Mat, Ben

REMUNERATION COMMITTEE

POON Kwok Fai, Ronald
TAM Hok Lam, Tommy, JP
WONG Chung Mat, Ben

NOMINATION COMMITTEE

POON Kwok Fai, Ronald
TAM Hok Lam, Tommy, JP
WONG Chung Mat, Ben

QUALIFIED ACCOUNTANT & COMPANY SECRETARY

TSUI Choi Yee, Connie

PRINCIPAL BANKERS

Hang Seng Bank Limited
Standard Chartered Bank
(Hong Kong) Limited
Dah Sing Bank Limited
The Hongkong and Shanghai
Banking Corporation Limited
Chong Hing Bank Limited

AUDITORS

Ernst & Young

HONG KONG LEGAL ADVISERS

Richards Butler

BERMUDA LEGAL ADVISERS

Conyers, Dill & Pearman

HONG KONG SHARE REGISTRARS

Tricor Tengis Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai Hong Kong

PRINCIPAL SHARE REGISTRARS

The Bank of Bermuda
6 Front Street
Hamilton HM 11
Bermuda

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

B2 & B4 8th Floor Block B
Mai Hing Industrial Building
16-18 Hing Yip Street
Kwun Tong
Kowloon
Hong Kong

WEBSITE

www.elegance-group.com

STOCK CODE

907

FINANCIAL RESULTS

The Board of Directors of Elegance International Holdings Limited (the “Company” or “Elegance”) is pleased to present the Interim Report of the Company and its subsidiaries (the “Group”) to the shareholders of the Company for the six months ended 30 September 2008, together with the comparative figures. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 September	
		2008	2007
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
REVENUE	3	282,369	301,547
Cost of sales		(241,953)	(236,041)
		<hr/>	<hr/>
Gross profit		40,416	65,506
Other income and gain	3	2,244	3,084
Selling and distribution costs		(4,902)	(5,050)
General and administrative expenses		(27,715)	(25,079)
Other operating expenses, net		(293)	–
Finance costs	5	(50)	(1,376)
Share of profits and losses of:			
Jointly-controlled entities		323	–
Associates		4,662	3,237
		<hr/>	<hr/>
PROFIT BEFORE TAX	4	14,685	40,322
Tax	6	(349)	(4,166)
		<hr/>	<hr/>
PROFIT FOR THE PERIOD		14,336	36,156
		<hr/>	<hr/>
Attributable to:			
Equity holders of the parent		14,717	34,911
Minority interests		(381)	1,245
		<hr/>	<hr/>
		14,336	36,156
		<hr/>	<hr/>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic		HK4.5 cents	HK10.8 cents
		<hr/>	<hr/>
Diluted		N/A	N/A
		<hr/>	<hr/>
INTERIM DIVIDEND PER SHARE	8	Nil	HK3.0 cents
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		227,109	229,560
Investment properties		4,416	4,416
Prepaid land lease payments		46,544	46,553
Interests in jointly-controlled entities		5,493	3,827
Interests in associates		23,817	19,155
Available-for-sale financial assets		650	650
Deposits paid for items of property, plant and equipment		6,905	3,048
		<hr/>	<hr/>
Total non-current assets		314,934	307,209
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		93,924	90,286
Trade and bills receivables	9	151,508	137,468
Prepayments, deposits and other receivables		5,377	7,029
Equity investments at fair value through profit or loss	10	908	78
Tax recoverable		1,564	–
Available-for-sale financial assets		–	23,673
Due from an associate		9,465	10,120
Cash and cash equivalents		72,744	76,082
		<hr/>	<hr/>
Total current assets		335,490	344,736
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and bills payables	11	57,032	61,309
Other payables and accruals		41,574	31,852
Tax payable		4,305	3,150
Interest-bearing bank and other borrowings		2,500	5,000
Due to an associate		4,600	4,600
		<hr/>	<hr/>
Total current liabilities		110,011	105,911
		<hr/>	<hr/>
NET CURRENT ASSETS		225,479	238,825
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		540,413	546,034
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		5,957	7,115
		<hr/>	<hr/>
Net assets		534,456	538,919
		<hr/>	<hr/>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		32,365	32,365
Reserves		481,464	466,333
Proposed dividend		–	19,419
		<hr/>	<hr/>
		513,829	518,117
		<hr/>	<hr/>
Minority interests		20,627	20,802
		<hr/>	<hr/>
Total equity		534,456	538,919
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2008

	Attributable to equity holders of the parent											
	Note	Issued share capital HK\$'000	Share premium account HK\$'000	Capital revaluation reserve HK\$'000	Available- for-sale financial asset revaluation reserve HK\$'000	Goodwill eliminated against reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 April 2008 (audited)		32,365	56,831	41,800	273	(152)	4,293	363,288	19,419	518,117	20,802	538,919
Change in fair value of available-for-sale financial assets		-	-	-	(273)	-	-	-	-	(273)	-	(273)
Exchange realignment		-	-	-	-	-	687	-	-	687	206	893
Total income and expense for the period recognised directly in equity		-	-	-	(273)	-	687	-	-	414	206	620
Profit for the period		-	-	-	-	-	-	14,717	-	14,717	(381)	14,336
Total income and expenses for the period (unaudited)		-	-	-	(273)	-	687	14,717	-	15,131	(175)	14,956
2008 final dividend declared		-	-	-	-	-	-	-	(19,419)	(19,419)	-	(19,419)
At 30 September 2008 (unaudited)		32,365	56,831*	41,800*	-*	(152)*	4,980*	378,005*	-	513,829	20,627	534,456
At 1 April 2007 (audited)		32,365	56,831	41,800	(4,757)	(152)	1,893	344,415	19,419	491,814	17,722	509,536
Repayment of a loan to a minority shareholder		-	-	-	-	-	-	-	-	-	(836)	(836)
Change in fair value of available-for-sale financial assets		-	-	-	2,185	-	-	-	-	2,185	-	2,185
Exchange realignment		-	-	-	-	-	1,022	-	-	1,022	796	1,818
Total income for the period recognised directly in equity		-	-	-	2,185	-	1,022	-	-	3,207	796	4,003
Profit for the period		-	-	-	-	-	-	34,911	-	34,911	1,245	36,156
Total income for the period (unaudited)		-	-	-	2,185	-	1,022	34,911	-	38,118	2,041	40,159
2007 final dividend declared		-	-	-	-	-	-	-	(19,419)	(19,419)	-	(19,419)
2008 proposed interim dividend	8	-	-	-	-	-	-	(9,709)	9,709	-	-	-
At 30 September 2007 (unaudited)		32,365	56,831	41,800	(2,572)	(152)	2,915	369,617	9,709	510,513	18,927	529,440

* Comprise the consolidated reserves of HK\$481,464,000 (31 March 2008: HK\$466,333,000) in the condensed consolidated balance sheet.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow from operating activities	13,493	60,403
Net cash inflow/(outflow) from investing activities	4,973	(3,729)
Net cash outflow from financing activities	(21,919)	(38,698)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(3,453)	17,976
Cash and cash equivalents at beginning of period	76,082	39,087
Effects of foreign exchange rate changes, net	115	28
CASH AND CASH EQUIVALENTS AT END OF PERIOD	72,744	57,091
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	28,451	29,089
Non-pledged time deposits with original maturity of less than three months when acquired	44,293	28,002
	72,744	57,091

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 September 2008 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and the basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the preparation of the Group’s annual financial statements for the year ended 31 March 2008.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial period beginning 1 April 2008 but are not expected to have any impact on the Group’s financial statements:

HKAS 39 and HKFRS 7 Amendments	Reclassification of Financial Assets
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group has not applied the following new standards, amendments to standards and interpretations, that have been issued but are not yet effective, in the condensed consolidated interim financial statements:

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKAS 39 Amendments	Eligible Hedged Items ²
HKFRS 2 Amendments	Share-based Payment – Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 October 2008

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2. SEGMENT INFORMATION

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

An analysis of the Group's revenue and profit by geographical segments for the six months ended 30 September 2008 and 2007 is as follows:

	For the six months ended 30 September 2008		2007	
	Revenue (Unaudited) HK\$'000	Profit for the period (Unaudited) HK\$'000	Revenue (Unaudited) HK\$'000	Profit for the period (Unaudited) HK\$'000
By geographical area:				
Europe	170,951	5,564	195,537	25,270
North America	94,737	3,083	85,589	11,061
People's Republic of China (including Hong Kong)*	10,133	330	11,854	1,532
Other Asian countries	2,788	91	4,840	625
Others	3,760	122	3,727	482
	282,369	9,190	301,547	38,970
Interest and dividend income		1,070		490
Unallocated corporate expenses		(510)		(999)
Finance costs		(50)		(1,376)
Share of profits and losses of:				
Jointly-controlled entities		323		–
Associates		4,662		3,237
Tax		(349)		(4,166)
Profit for the period		14,336		36,156

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

3. REVENUE, OTHER INCOME AND GAIN

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

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

	For the six months ended 30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Revenue – net sales of goods	282,369	301,547
Sale of scrap materials	680	2,395
Bank interest income	1,054	482
Gross rental income	100	102
Dividend income from equity investments at fair value through profit or loss	16	8
Others	394	97
Other income and gain	2,244	3,084

4. PROFIT BEFORE TAX

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

	For the six months ended 30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Cost of inventories sold	241,953	236,041
Depreciation	15,969	17,743
Amortisation of prepaid land lease payments	597	582
Minimum lease payments under operating leases in respect of buildings	1,254	1,265
Employee benefits expenses (including directors' remunerations):		
Wages and salaries	84,597	67,415
Pension scheme contributions	489	533
	85,086	67,948
Gain on disposal of items of property, plant and equipment	(420)	(129)
Write-back of impairment of trade receivables	-	(127)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

5. FINANCE COSTS

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	50	1,372
Interest on finance leases	–	4
	<u>50</u>	<u>1,376</u>

6. TAX

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the year	1,603	3,273
Overprovision in prior years	(154)	–
Current – Elsewhere	58	893
Deferred	(1,158)	–
	<u>349</u>	<u>4,166</u>
Total tax charge for the period	349	4,166

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No recognition of the potential deferred tax assets relating to tax losses of certain subsidiaries has been made as the recoverability of the potential deferred tax assets is uncertain.

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

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$14,717,000 (2007: HK\$34,911,000) and 323,649,123 (2007: 323,649,123) shares in issue during the period.

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

8. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2008 (2007: HK3.0 cents per share, totalling HK\$9,709,000).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

9. TRADE AND BILLS RECEIVABLES

Credit is offered to customers following a financial assessment by the Group and with regard to their established payment records. The Group usually allows average credit periods ranging from 45 to 120 days (2007: 45 to 120 days) to its customers and seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management and collections are followed up by accounting personnel. Trade and bills receivables are non-interest bearing.

The following is an aged analysis of trade and bills receivables (net of impairment of trade receivables) as at 30 September 2008 and 31 March 2008:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Current to 90 days	145,161	128,652
91 – 180 days	513	4,353
181 – 360 days	390	816
	<hr/>	<hr/>
Bills receivables	146,064 5,444	133,821 3,647
	<hr/>	<hr/>
Total	151,508	137,468
	<hr/>	<hr/>

10. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Listed equity investments in Hong Kong, at market value	908	78
	<hr/>	<hr/>

The above equity investments at 30 September 2008 and 31 March 2008 were classified as held for trading.

11. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables as at 30 September 2008 and 31 March 2008:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Current to 90 days	53,225	56,920
91 – 180 days	2,532	3,066
181 – 360 days	863	566
Over 360 days	412	757
	<hr/>	<hr/>
Total	57,032	61,309
	<hr/>	<hr/>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

12. OPERATING LEASE ARRANGEMENTS

(a) *As lessor*

The Group leases one of its investment properties under an operating lease arrangement, with the lease negotiated for a term of three months. The terms of the lease also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 30 September 2008, the Group had no future minimum lease receivables under non-cancellable operating leases with its tenants falling due within one year (31 March 2008: HK\$27,000).

(b) *As lessee*

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

At 30 September 2008, the Group had total future minimum leases payments under non-cancellable operating leases falling due as follows:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Within one year	2,641	2,628
In the second to fifth years, inclusive	4,141	4,475
After five years	50,455	48,315
	<u>57,237</u>	<u>55,418</u>

13. COMMITMENTS

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Capital expenditure contracted, but not provided for:		
Land and buildings	1,305	1,246
Equipment and machinery	3,285	935
	<u>4,590</u>	<u>2,181</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

14. RELATED PARTY TRANSACTIONS

(a) *Transactions with related parties*

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Transactions with a substantial shareholder:		
Sale of goods to Safilo S.p.A group of companies	108,040	124,325
Sale of goods to an associate	253	1,025
Sale of goods to a jointly-controlled entity	32	–
Rental expenses paid to a director	222	222
	<u> </u>	<u> </u>

(b) *Outstanding balances with related parties*

	30 September	31 March
	2008	2008
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Amount due from a substantial shareholder:		
Trade receivable from Safilo S.p.A group of companies	69,234	65,202
Amount due from an associate	9,465	10,120
Amount due to an associate	4,600	4,600
	<u> </u>	<u> </u>

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

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	2,910	2,902
	<u> </u>	<u> </u>

15. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 15 December 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2008, the Group's performance in terms of net profit and turnover was significantly affected by the worsening operating environment for manufacturing in the People's Republic of China (the "PRC") and the slow global economy, resulting in a drop of 58% and 6% of the Group's profit attributable to equity holders of the parent and turnover respectively compared to those of the corresponding period in 2007.

The operating environment in the PRC became increasingly challenging because of the rapid and successive increase of minimum wages in the last few years. Since the implementation of the new labour law at the beginning of 2008, the environment deteriorated. The PRC labour cost of the Group increased by 31% for the six months ended 30 September 2008 compared to that of the corresponding period in last year. This labour cost increase together with the high inflation rate in the PRC and the appreciation of Renminbi in the period under review ate up the Group's gross profit. As a result, together with reduced sales, the Group's gross profit margin decreased from 22% to 14%. Profit for the six months ended 30 September 2008 attributable to equity holders of the parent amounted to HK\$14,717,000 (2007: HK\$34,911,000), representing a decrease of 58% over that of last period.

The drop in consumer confidence together with the credit crunch triggered by the sub prime mortgage crisis led to lower market demand which in turn adversely affected the Group's turnover. The sales to the Group's largest market, the European market, decreased by 13% to HK\$170,951,000 compared to HK\$195,537,000 for the corresponding period in 2007. Although the sales to the Group's second largest market, North America, increased by 11% from HK\$85,589,000 to HK\$94,737,000 which was the result of greater sales efforts being placed in this market during the period under review, the total sales of the Group decreased by 6% from HK\$301,547,000 for the six months ended 30 September 2007 to HK\$282,369,000 for the six months ended 30 September 2008.

PROSPECT

The negative impact of the financial tsunami on global economy has emerged. The market sentiment is bearish. It is widely expected economic recession will come or has already come, especially to the Group's major markets, Europe and the U.S. The Group's sales in the second half of the financial year 2008/2009 will almost certain be affected negatively.

In order to sustain steady growth in its economy and to help small to medium sized enterprises in the PRC, the Chinese Government announced in mid November 2008 to freeze the minimum wages at their current levels. This will ease the cost pressure now the Group is facing in its manufacturing operation in the PRC. On the other hand, the exchange rate of Renminbi against the U.S. dollar and Hong Kong dollar and the cost of materials have recently stabilised. The inflation rate has also been contained. The continuance of such trend is helpful to the outlook of the Group's results.

Management is well aware of the challenges ahead caused by the deteriorating global economy and will take a positive and prudent approach to strengthen the Group's core business and to control its costs.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2008, the Group had cash and bank balances of HK\$72,744,000 (31 March 2008: HK\$76,082,000), which were mainly denominated in Hong Kong dollars, the U.S. dollars and Renminbi. On the other hand, the Group's outstanding borrowing in respect of bank loans amounted to HK\$2,500,000 (31 March 2008: HK\$5,000,000) which was repayable within one year. The Group's equity attributable to equity holders of the parent as at 30 September 2008 amounted to HK\$513,829,000 (31 March 2008: HK\$518,117,000). Accordingly, the Group's gearing ratio, calculated on the basis of total interest-bearing bank borrowings as a percentage of equity attributable to equity holders of the parent, improved to 0.49% (31 March 2008: 0.97%).

FOREIGN CURRENCY RISK

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2008, the Group employed approximately 6,041 (31 March 2008: 6,402) full time employees in China and in Hong Kong. Salaries, bonuses and benefits are determined with reference to market terms and the performance, qualifications and experience of the individual employee, and are subject to review from time to time.

OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2008, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long position in ordinary shares of the Company:

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

Note: The 141,316,000 shares held as Other Interests of Mr. Hui comprised 141,116,000 shares held by Best Quality Limited and 200,000 shares held by Deluxe Concept Limited. The entire issued share capital of both Best Quality Limited and Deluxe Concept Limited is held by Wahyee Limited as trustee for a unit trust, which, in turn, is beneficially owned by Docater Trust, a discretionary trust with LGT Trustees Limited as trustee, the beneficiaries of which include the spouse and children of Mr. Hui Leung Wah (Mr. Hui himself is not a beneficiary of the discretionary trust).

Long position in ordinary shares in the subsidiaries

Mr. Hui Leung Wah is beneficially interested in 200,000 non-voting deferred shares in the capital of Elegance Optical Investments Limited. The rights and restrictions of such non-voting deferred shares are disclosed in the audited financial statements for the year ended 31 March 2008.

In addition to the above, certain directors of the Company have non-beneficial personal equity interests in certain subsidiaries of the Group held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Saved as disclosed above, as at 30 September 2008, none of the directors or chief executive of the Company had any interest in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the SEHK.

OTHER INFORMATION (Continued)

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosures set out below, at no time during the period was the Company, or any of its subsidiaries a party to any arrangement to enable the directors of the Company, their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the period.

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

Other than disclosed above under the section headed "Director's Interests and Short Positions in Shares and Underlying Shares", so far as is known to the directors or chief executive of the Company, as at 30 September 2008, the following persons (i) had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or (ii) is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions:

Name	Number of Issued Ordinary Shares Held	Percentage of Issued Share Capital of the Company
Poon Yuk Yee (<i>Note 1</i>)	149,624,000	46.23
LGT Trustees Limited (<i>Note 2</i>)	141,316,000	43.66
Wahyee Limited (<i>Note 2</i>)	141,316,000	43.66
Safilo Far East Limited ("SFEL") (<i>Note 3</i>)	74,599,123	23.05
Safilo S.p.A. (<i>Note 3</i>)	74,599,123	23.05

Note:

1. Ms. Poon Yuk Yee is the spouse of Mr. Hui Leung Wah and is deemed to be interested in shares held by and shares taken to be interested by Mr. Hui Leung Wah.
2. Details are stated in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares".
3. SFEL is a wholly-owned subsidiary of Safilo S.p.A.

OTHER INFORMATION (Continued)

SHARE OPTION SCHEME

The share option scheme of the Company adopted on 21 March 1996 (the “Old Share Option Scheme”) was terminated and a new share option scheme (the “New Share Option Scheme”) was approved by the shareholders at a special general meeting of the Company held on 16 May 2003 to comply with Chapter 17 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the SEHK.

As at 30 September 2008, no options granted under the Old Share Option Scheme remained outstanding and no options was granted under the New Share Option Scheme during the period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company’s listed securities by the Company or by any of its subsidiaries during the period.

CORPORATE GOVERNANCE

During the six months ended 30 September 2008, the Group has adopted and met the Code Provisions as set out in the Code on Corporate Governance Practices (the “Code”) in Appendix 14 of the Listing Rules on the SEHK, except for the following deviation:

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company had adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding Director’s securities transactions. Upon specific enquiry of the Company, all of the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 September 2008.

OTHER INFORMATION (Continued)

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2008 have been reviewed by the Company's audit committee. The audit committee comprises Poon Kwok Fai, Ronald, Tam Hok Lam, Tommy and Wong Chung Mat, Ben, the Independent Non-executive Directors of the Company.

APPRECIATION

I would like to take this opportunity to express my deepest gratitude to all of our staff and fellow directors for their contributions, support and dedication. I would also like to thank our customers, shareholders, bankers, suppliers and other business partners for their continuous support.

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

Hong Kong, 15 December 2008