



Elegance International Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock code : 907



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

LISSI Barbara
MARCHISIO Paola

Independent Non-Executive Directors

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

AUDIT COMMITTEE

POON Kwok Fai, Ronald (*Chairman*)
TAM Hok Lam, Tommy, PhD, JP
WONG Chung Mat, Ben, JP

REMUNERATION COMMITTEE

WONG Chung Mat, Ben, JP (*Chairman*)
POON Kwok Fai, Ronald
TAM Hok Lam, Tommy, PhD, JP

NOMINATION COMMITTEE

TAM Hok Lam, Tommy, PhD, JP
(*Chairman*)
POON Kwok Fai, Ronald
WONG Chung Mat, Ben, JP

COMPANY SECRETARY

TSUI Choi Yee, Connie

PRINCIPAL BANKERS

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

AUDITORS

Ernst & Young

HONG KONG SHARE REGISTRAR

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

PRINCIPAL SHARE REGISTRAR

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As a result of the global economic recovery, the Group's turnover increased by 28.44% from HK\$208,775,000 in the same period last year to HK\$268,147,000 for the six months ended 30 September 2010. Sales to the Group's two largest markets, Europe and North America, increased by 22.95% and 46.62% respectively, whereas the sales to the People's Republic of China (the "PRC") including Hong Kong also increased by 27.87% as compared to that of the corresponding period in 2009.

The operating environment in the PRC remains challenging. In July this year, the minimum wages in the Group's main PRC production area, Shenzhen, increased by 22%. Although most of the Group's PRC workers are being paid more than minimum wages, wages to existing workers have to be increased in order to retain skilled labour, and therefore, the PRC labour costs as well as related worker welfare expenses further increased during the period under review. Equally disturbing were the inflation in the PRC as well as the appreciation of Renminbi. Both of them went up handsomely and worked together to adversely affect the Group's production cost. As a result, the Group's gross profit margin for the period under review decreased from 17.69% to 15.77%.

With the increase in turnover, the effect of economy of scales mitigated part of the cost pressure resulted from the challenges faced by the Group as mentioned above. Profit for the six months ended 30 September 2010 attributable to equity holders of the parent amounted to HK\$13,555,000 (2009:HK\$9,784,000), representing an increase of 38.54% over that of the corresponding period in last year.

PROSPECTS

The board of directors (the "Board") of the Company believed that the operating environment in the PRC will remain challenging in the remaining period of the year ending 31 March 2011. On the one hand, inflation in the PRC is expected to rise, which will push up the raw material prices as well as the Group's production cost. Added to this, the Renminbi is also expected to appreciate gradually in response to the market need. Hence, the Group's profitability will be affected negatively by these two factors.

Globally, there is still an uncertainty on the effect of the second round of quantitative easing recently announced by the US Federal Reserve which in turn may not be able to bring in enough new impetus to keep the market momentum for a healthy economic growth. Given that is the case, the market prospect is still clouded.

MANAGEMENT DISCUSSION AND ANALYSIS

To tackle these anticipated challenges and uncertainty, the Group will actively seek more orders from its existing customers and explore new market segments to widen its customer base. Besides, the Group will continue to control its operating as well as administrative cost to ensure its profitability. Furthermore, the Group will continue to streamline its production process to strengthen its efficiency and competitiveness.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a strong financial position with cash and bank balances of HK\$107,372,000 (31 March 2010: HK\$118,186,000) and had a zero gearing ratio as at 30 September 2010. The Group's equity attributable to equity holders of the parent as at 30 September 2010 amounted to HK\$522,373,000 (31 March 2010: HK\$517,866,000).

FOREIGN CURRENCY RISK

The Group conducts its business transactions mainly in Hong Kong dollars, Renminbi and the United States dollars. As Hong Kong dollars is pegged to the United States 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. 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 2010, the Group employed 5,459 (30 September 2009: 4,774) full time employees in the PRC and in Hong Kong. Salaries, bonuses and benefits are determined with reference to market terms and the performance, qualifications and experience of the individual employee, and are subject to review from time to time.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

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

Introduction

We have reviewed the interim financial information set out on pages 6 to 21 which comprises the condensed consolidated statement of financial position of Elegance International Holdings Limited as at 30 September 2010 and the related condensed consolidated income statement, condensed consolidated statements of comprehensive income, statement of changes in equity and statement of cash flow for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

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

Scope of review

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

Conclusion

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

Ernst & Young

Certified Public Accountants

Hong Kong
29 November 2010

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTFor the six months
ended 30 September

	Notes	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
REVENUE	3	268,147	208,775
Cost of sales		(225,859)	(171,852)
Gross profit		42,288	36,923
Other income	3	1,214	1,305
Selling and distribution costs		(3,715)	(2,751)
Administrative expenses		(24,182)	(26,063)
Other operating expenses, net		(99)	(15)
Share of profits and losses of:			
Jointly-controlled entities		(2)	226
An associate		56	134
PROFIT BEFORE TAX	4	15,560	9,759
Income tax expense	5	(1,302)	(605)
PROFIT FOR THE PERIOD		14,258	9,154
Attributable to:			
Equity holders of the parent		13,555	9,784
Non-controlling interests		703	(630)
		14,258	9,154
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	6		
Basic and diluted		HK4.19 cents	HK3.02 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months
ended 30 September

	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	14,258	9,154
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	886	(88)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>15,144</u>	<u>9,066</u>
Attributable to:		
Equity holders of the parent	14,216	9,597
Non-controlling interests	928	(531)
	<u>15,144</u>	<u>9,066</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		242,600	247,529
Investment property		3,760	3,760
Prepaid land lease payments		15,130	15,129
Interests in jointly-controlled entities		4,466	4,858
Interests in an associate		2,292	2,236
Available-for-sale financial assets		32,149	32,149
Deferred tax assets		497	497
Deposits paid for items of property, plant and equipment		329	652
		<hr/>	<hr/>
Total non-current assets		301,223	306,810
CURRENT ASSETS			
Inventories		88,250	75,117
Trade and bills receivables	8	149,570	115,431
Prepayments, deposits and other receivables		3,252	9,772
Equity investments at fair value through profit or loss	9	45	37
Tax recoverable		57	57
Cash and cash equivalents		107,372	118,186
		<hr/>	<hr/>
Total current assets		348,546	318,600

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000 (Restated)
CURRENT LIABILITIES			
Trade and bills payables	10	59,755	41,218
Other payables and accruals		39,808	40,458
Tax payable		6,499	4,647
Total current liabilities		<u>106,062</u>	<u>86,323</u>
NET CURRENT ASSETS		<u>242,484</u>	<u>232,277</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		543,707	539,087
NON-CURRENT LIABILITIES			
Deferred tax liabilities		3,598	4,413
Net assets		<u>540,109</u>	<u>534,674</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		32,365	32,365
Reserves		490,008	475,792
Proposed dividend		–	9,709
		<u>522,373</u>	<u>517,866</u>
Non-controlling interests		<u>17,736</u>	<u>16,808</u>
Total equity		<u>540,109</u>	<u>534,674</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

Attributable to equity holders of the parent

	Share		Available- for-sale financial asset		Goodwill	Exchange		Retained		Non-		Total equity
	Issued capital	premium account	Capital reserve	revaluation reserve	eliminated against reserves	fluctuation reserve	profits	Proposed dividend	Total	controlling interests		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2010	32,365	56,831	41,800	(130)	(152)	4,204	373,239	9,709	517,866	16,808	534,674	
Total comprehensive income for the period	-	-	-	-	-	661	13,555	-	14,216	928	15,144	
2010 dividend paid	-	-	-	-	-	-	-	(9,709)	(9,709)	-	(9,709)	
At 30 September 2010 (unaudited)	<u>32,365</u>	<u>56,831[*]</u>	<u>41,800[*]</u>	<u>(130)[*]</u>	<u>(152)[*]</u>	<u>4,865[*]</u>	<u>386,794[*]</u>	<u>-</u>	<u>522,373</u>	<u>17,736</u>	<u>540,109</u>	
At 1 April 2009	32,365	56,831	41,800	-	(152)	4,343	371,190	9,709	516,086	19,191	535,277	
Total comprehensive income for the period	-	-	-	-	-	(187)	9,784	-	9,597	(531)	9,066	
2009 dividend paid	-	-	-	-	-	-	-	(9,709)	(9,709)	-	(9,709)	
At 30 September 2009 (unaudited)	<u>32,365</u>	<u>56,831</u>	<u>41,800</u>	<u>-</u>	<u>(152)</u>	<u>4,156</u>	<u>380,974</u>	<u>-</u>	<u>515,974</u>	<u>18,660</u>	<u>534,634</u>	

* These reserve accounts comprise the consolidated reserves of HK\$490,008,000 (31 March 2010: HK\$475,792,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months
ended 30 September

	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net cash flows from operating activities	7,392	52,144
Net cash flows used in investing activities	(8,902)	(9,386)
Net cash flows used in financing activities	(9,709)	(9,709)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(11,219)	33,049
Cash and cash equivalents at beginning of period	118,186	78,119
Effects of foreign exchange rate changes, net	405	151
CASH AND CASH EQUIVALENTS AT END OF PERIOD	107,372	111,319
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	52,676	87,891
Non-pledged time deposits with original maturity of less than three months when acquired	54,696	23,428
	107,372	111,319

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

I. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the six months ended 30 September 2010 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “SEHK”). The accounting policies and the basis of preparation adopted in the preparation of the interim financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 March 2010, except as described below. In the current period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which included all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA which are first effective for the current accounting period of the Group.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
Improvements to HKFRSs (May 2009)	<i>Amendments to a number of HKFRSs*</i>

* Improvements to HKFRSs (May 2009) contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

I. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

The adoption of the new and revised standards, amendments and interpretations, except for amendment to HKAS 17 as described below, has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods.

The Improvements to HKFRSs 2009 consist of amendments to existing standards, including an amendment to HKAS 17. The amendment to HKAS 17 requires the land element of a property lease to be classified as a finance lease rather than an operating lease if it transfers substantially all the risks and rewards of ownership. Before the amendment, HKAS 17 stated that the land element of a property lease would normally be classified as an operating lease unless the title to the land was expected to pass to the lessee at the end of the lease term. On adoption of the amendment, the Group has assessed its leases in Hong Kong and Mainland China and has reclassified the land element of its leases in Hong Kong from operating leases to finance leases. In addition, the amortisation of the prepaid land lease payments has been reclassified to depreciation.

The effect of the adoption of the amendment on the interim condensed consolidated statement of financial position at 1 April 2010 is to increase property, plant and equipment by HK\$30,065,000 with a corresponding reduction in prepaid land lease payments. The depreciation charge for the six months ended 30 September 2010 has increased by HK\$414,000 with a corresponding reduction in the amortisation charge. As the adoption of the amendment applies retrospectively, it has also resulted in an increase in the depreciation charge for the six months ended 30 September 2009 of HK\$414,000 and a corresponding reduction in the amortisation charge for that period. The interim condensed consolidated statement of financial position at 31 March 2010 has been restated to reflect the reclassification.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

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

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

Geographical information

(a) Revenue from external customers

	For the six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Europe	149,556	121,636
North America	93,381	63,687
The PRC (including Hong Kong)	18,317	14,325
Other Asian countries	5,741	4,041
Others	1,152	5,086
	<u>268,147</u>	<u>208,775</u>

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

(b) Non-current assets

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

Information about a major customer

Revenue of approximately HK\$92,187,000 (2009: HK\$73,410,000) was derived from a single customer, including sales to a group of entities which are known to be under common control with that customer.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

	For the six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue – sales of goods	268,147	208,775
Sale of scrap materials	361	502
Bank interest income	125	238
Gross rental income	412	56
Dividend income from equity investments at fair value through profit or loss	2	28
Others	314	481
Other income	1,214	1,305

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. PROFIT BEFORE TAX

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

	For the six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000 (Restated)
Cost of inventories sold	224,506	174,087
Depreciation	16,043	16,880
Amortisation of prepaid land lease payments	184	183
Minimum lease payments under operating leases in respect of buildings	1,159	1,061
Employee benefits expenses (including directors' remunerations):		
Wages and salaries	98,600	70,134
Pension scheme contributions	448	455
	<u>99,048</u>	<u>70,589</u>
Gain on disposal of items of property, plant and equipment	(289)	(67)
Provision for impairment of trade receivables	396	192
Provision/(write-back of provision) for inventory obsolescence	1,353	(2,235)
Foreign exchange differences, net	<u>(385)</u>	<u>2,182</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. INCOME TAX EXPENSE

	For the six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Current – Hong Kong		
Charge for the period	2,107	1,326
Overprovision in prior periods	–	(370)
Current – Elsewhere	10	–
Deferred	(815)	(351)
	<u>1,302</u>	<u>605</u>
Total tax charge for the period	<u>1,302</u>	<u>605</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) 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 jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

6. 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\$13,555,000 (2009: HK\$9,784,000) and 323,649,123 (2009: 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.

7. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2010 (2009: Nil).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. TRADE AND BILLS RECEIVABLES

Credit is offered to customers following a financial assessment by the Group with regard to their established payment records. The Group usually allows average credit periods ranging from 45 to 120 days (2009: 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 2010 and 31 March 2010:

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Current to 90 days	135,360	105,063
91 – 180 days	1,561	1,416
181 – 360 days	826	459
Over 360 days	–	13
	137,747	106,951
Bills receivables	11,823	8,480
Total	149,570	115,431

9. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Listed equity investments in Hong Kong, at market value	45	37

The above equity investments at 30 September 2010 and 31 March 2010 were classified as held for trading.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. TRADE AND BILLS PAYABLES

The following is an aged analysis of the trade and bills payables as at 30 September 2010 and 31 March 2010:

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Current to 90 days	57,599	39,274
91 – 180 days	1,191	982
181 – 360 days	223	170
Over 360 days	742	792
Total	<u>59,755</u>	<u>41,218</u>

11. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 30 September 2010, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Within one year	609	655
In the second to fifth years, inclusive	254	547
	<u>863</u>	<u>1,202</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

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

At 30 September 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Within one year	2,534	2,564
In the second to fifth years, inclusive	4,357	5,061
After five years	49,852	49,313
	56,743	56,938

12. COMMITMENTS

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Capital expenditure contracted, but not provided for:		
Land and buildings	52	382
Equipment and machinery	390	1,318
	442	1,700



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	For the six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Transactions with a substantial shareholder:		
Sale of goods to Safilo S.p.A group of companies	92,187	73,410
Sale of goods to a jointly-controlled entity	228	172
Purchase of goods from a jointly-controlled entity	63	62
Rental expenses paid to a director	222	222
	<u>222</u>	<u>222</u>

(b) Outstanding balances with related parties

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Amount due from a substantial shareholder:		
Trade receivables from Safilo S.p.A group of companies	61,311	55,855
Loan to a jointly-controlled entity	3,497	3,684
	<u>61,311</u>	<u>55,855</u>
	<u>3,497</u>	<u>3,684</u>

(c) Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Short term employee benefits	2,925	2,921
	<u>2,925</u>	<u>2,921</u>

SUPPLEMENTARY INFORMATION

DIRECTORS' INTERESTS

As at 30 September 2010, the interests of the directors of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long position in ordinary shares of the Company:

Name of director	Number of shares held and capacity in which the shares were held		Total	Percentage of the issued share capital of the Company
	Beneficial owner	Other interests		
Hui Leung Wah (Note)	8,308,000	141,316,000	149,624,000	46.23
Poon Sui Hong	7,000,000	–	7,000,000	2.16
Leung Shu Sum	6,000,000	–	6,000,000	1.85
Paola Marchisio	198,000	–	198,000	0.06
	<u>21,506,000</u>	<u>141,316,000</u>	<u>162,822,000</u>	<u>50.30</u>

Note:

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

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

Mr. Hui Leung Wah is beneficially interested in 200,000 non-voting deferred shares in the capital of Elegance Optical Investments Limited. The rights and restrictions of such non-voting deferred shares are disclosed in the audited financial statements of the Company for the year ended 31 March 2010.

SUPPLEMENTARY INFORMATION

DIRECTORS' INTERESTS *(Continued)*

Long position in ordinary shares in the subsidiaries of the Company: *(Continued)*

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 2010, none of the directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) (a) as recorded in the register required to be kept under section 352 of the SFO; or (b) as otherwise notified to the Company and the SEHK pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to grant to or enable the directors and the chief executive of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of (or rights to acquire) the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUPPLEMENTARY INFORMATION

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

At 30 September 2010, the following interest of 5% or more of the issued shares and share options of the Company were recorded in the register of interest required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Number of issued ordinary shares held	Capacity in which the shares were held	Percentage of issued share capital of the Company
Poon Yuk Yee (Note 1)	149,624,000	Beneficiary of a trust	46.23
LGT Trustees Limited (Note 2)	141,316,000	Trustee	43.66
Wahyee Limited (Note 2)	141,316,000	Trustee	43.66
Safilo Far East Limited ("SFEL") (Note 3)	74,599,123	Beneficial owner	23.05
Safilo S.p.A. (Note 3)	74,599,123	Controlled corporation	23.05

Notes:

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".
3. SFEL is a wholly-owned subsidiary of Safilo S.p.A.

Save as disclosed above, as at 30 September 2010, no person, other than the directors of the Company, whose interest are set out in the section "DIRECTORS' INTERESTS" above, had registered an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

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

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

SUPPLEMENTARY INFORMATION

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 six months ended 30 September 2010.

CORPORATE GOVERNANCE

During the six months ended 30 September 2010, the Group has adopted and met the Code Provisions as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules, except for the following deviation:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title "chief executive officer". Mr. Hui Leung Wah assumes the role of both Chairman and Managing Director of the Company and he is in charge of the overall management of the Company. The Company does not have a separate Chairman and Managing Director as Mr. Hui currently holds both positions. The Board believes that the combination of the roles of Chairman and Managing Director 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 believes 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 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.

SUPPLEMENTARY INFORMATION

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the code of conducts regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the required standard set out in the Model Code throughout the period.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing oversight of the Group's financial reporting process and internal controls. The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 September 2010 have been reviewed by the Company's audit committee. The audit committee comprises Mr. Poon Kwok Fai, Ronald, Dr. Tam Hok Lam, Tommy, PhD, JP and Mr. Wong Chung Mat, Ben, JP, the Independent Non-Executive Directors of the Company.

REVIEW OF INTERIM RESULTS

The interim unaudited consolidated financial information for the six months ended 30 September 2010 have been reviewed by the audit committee, and the Company's external auditors in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

APPRECIATION

The Board would like to take this opportunity to express its deepest gratitude to all of the staff for their contributions, support and dedication. The Board would also like to thank our customers, shareholders, bankers, suppliers and other business partners for their continuing support.

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

Hong Kong, 29 November 2010