# 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
Bank of China (Hong Kong) Limited
Dah Sing Bank 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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

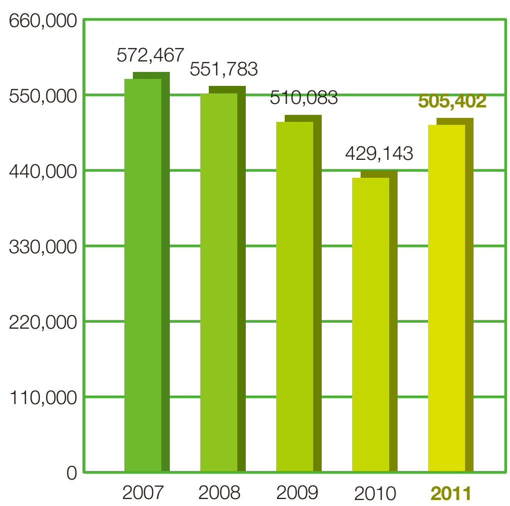
## STOCK CODE

907

# Financial Highlights

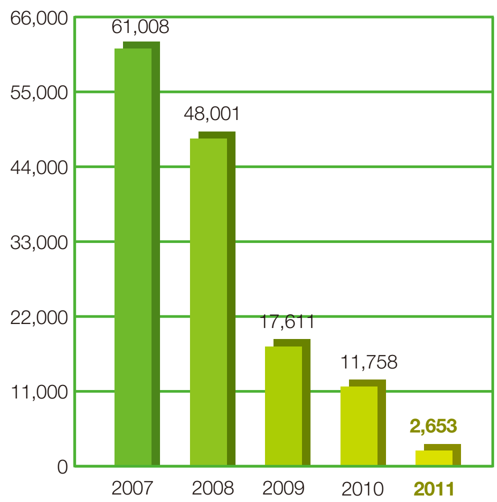
## REVENUE

(HK$'000)

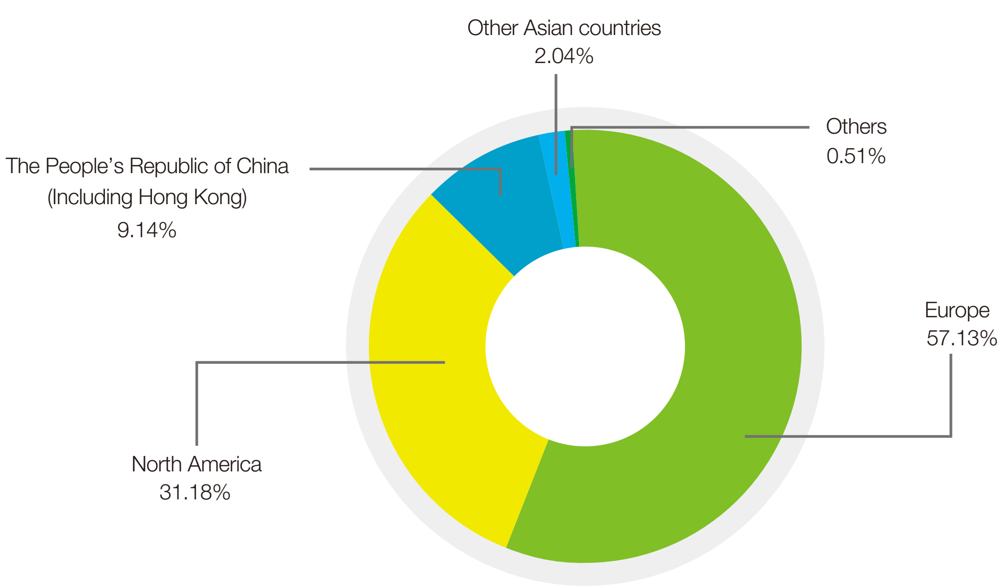



## PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

(HK$'000)




## BREAKDOWN OF REVENUE BY GEOGRAPHICAL AREA FOR THE YEAR ENDED 31 MARCH 2011



# Chairman's Statement

## DIVIDENDS

The board of directors (the "Board") of Elegance International Holdings Limited (the "Company") has resolved to recommend the payment of a final dividend of HK3 cents per ordinary share (2010: HK3 cents) for the year ended 31 March 2011 at the forthcoming annual general meeting of the Company to be held on 26 August 2011. If the declaration of the final dividend is approved by shareholders, it is expected to be payable on 23 September 2011 to those shareholders whose names appear on the register of members of the Company on 1 September 2011.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Friday, 26 August 2011 (being the date of the annual general meeting of the Company) and on Thursday, 1 September 2011 (being the record date set for the proposed final dividend if declaration of which is approved at the annual general meeting) for facilitating the processing of proxy voting on the annual general meeting and determination of entitlements of the shareholders of the Company to the proposed final dividend, respectively. During such time periods, the registration of transfers of shares will be suspended.

All transfers of shares, accompanied by the relevant share certificates, must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (a) not later than 4:30 p.m. on Thursday, 25 August 2011 in order to be eligible to attend and vote at the forthcoming annual general meeting of the Company; and (b) not later than 4:30 p.m. on Wednesday, 31 August 2011 in order to qualify for the proposed final dividend. The record date set for entitlement of final dividend is 1 September 2011. Payment of the final dividend is scheduled for 23 September 2011 subject to its declaration being approved at the annual general meeting.

# Chairman's Statement

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the year ended 31 March 2011, sales of the Company and its subsidiaries (the "Group") increased by 17.77% to HK$505,402,000 as compared with HK$429,143,000 in the last financial year. Sales to the Group's two largest geographical markets, Europe and North America, increased by 14.07% and 24.22% respectively as compared with those of last year, whereas sales to People's Republic of China (the "PRC") increased by 34.29%.

Despite the increase in sales, the financial year under review was a very difficult year for the Group. The Group's production costs soared as a result of the significant increase in labour costs due to the further increase of minimum wage in the PRC, the high inflation rate and the continued appreciation of Renminbi. In order to sustain its competitive advantage in the market, the Group chose not to pass all of the increased costs to its customers through price increase.

Hence, the gross profit margin of the Group decreased by 3.11% to 11.39% as compared to 14.50% last year. Profit attributable to owners of the Company for the year ended 31 March 2011 dropped by 77.44% from HK$11,758,000 last year to HK$2,653,000 this year.

## PROSPECT

With the high inflation rate in the PRC, a further 20% rise of minimum wages and the new requirement of housing fund for PRC workers to be effective in the coming financial year, it is expected that the production costs of the Group in the PRC will be pushed up further, and the operating environment will become severe. The gradual appreciation of Renminbi will also put more pressure on the Group's operating costs. Globally, there is still uncertainty as to the European sovereign debt crisis and the pace of U.S. economic recovery, both of which work together to cloud the worldwide economic prospects and hence the market demand of the Group's products.

To tackle these anticipated challenges and uncertainty, the Group will continue to implement stringent control on its costs across all levels, as well as efficiency improvement measures to ensure its competitiveness. Furthermore, the Group will review its existing marketing strategies to focus more on the high margin products and customers.

# Chairman's Statement

## LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a strong financial position with cash and bank balances of HK$112,076,000 and a zero gearing ratio as at 31 March 2011. The Group's equity attributable to owners of the Company as at 31 March 2011 amounted to HK$512,331,000 (31 March 2010: HK$517,866,000).

## FOREIGN CURRENCY RISK

The Group conducts its business transactions mainly in Hong Kong Dollar, Renminbi and U.S. Dollar. As the Hong Kong Dollar is pegged to the U.S. Dollar, 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.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 March 2011, the Group had capital commitments, which were contracted but not provided for, in respect of equipment and machinery of HK$132,000 (31 March 2010: HK$1,700,000). As at 31 March 2011, the Company had a contingent liability of HK$151,400,000 (31 March 2010: HK$142,900,000) in respect of guarantees given to banks in connection with facilities granted to certain of its subsidiaries.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2011, the Group employed 5,159 (31 March 2010: 5,909) full time employees in Mainland China and in Hong Kong. Salaries, bonuses and benefits are determined with reference to market terms and performance, qualifications and experience of the individual employee, and are subject to review from time to time.

## 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.

**Hui Leung Wah**
*Chairman*

Hong Kong
28 June 2011

# Profiles of Directors and Senior Management

## EXECUTIVE DIRECTORS

**HUI Leung Wah**, aged 58, is the Chairman and Managing Director of the Group. He is the founder of the Group and has 45 years of experience in the optical frames manufacturing industry. He is responsible for the overall supervision and policy making of the Group's activities. Mr. Hui is a director of certain subsidiaries of the Group. He was awarded the Young Industrialist Awards of Hong Kong in September 1995, given by the Federation of Hong Kong Industries. Mr. Hui has served as a Committee Member of The Hong Kong Optical Manufacturers Association (the "Association") since 1990, and he has served as the President and Vice President of the Association for various terms from 1998 to 2010. Mr. Hui is the father of Ms. Hui Sze Man, Doris, a member of the senior management of the Group. He is also the brother-in-law of Mr. Poon Sui Hong, an executive director of the Group and Mr. Cheng Wai Keung, Edmond and Ms. Poon Kam Yee, members of the senior management of the Group.

**POON Sui Hong**, aged 52, is an executive director and a general manager of the Group. He joined the Group in 1984 and has over 25 years of experience in the marketing and production of optical frames. He is presently responsible for the strategic planning and supervision of the Group's marketing activities. He is a director of certain subsidiaries of the Group. Mr. Poon is the brother-in-law of Mr. Hui Leung Wah and Mr. Cheng Wai Keung, Edmond, and the brother of Ms. Poon Kam Yee.

**LEUNG Shu Sum**, aged 56, is an executive director and one of the founding members of the Group and has over 35 years of experience in optical frames production. He is currently responsible for supervising the production activities at the PRC production facilities.

## NON-EXECUTIVE DIRECTORS

**Barbara Lissi**, aged 41, joined the Company as a non-executive director on 18 July 2008. Ms. Lissi graduated in Chinese Language and Literature at the prestigious Venice University (Italy). She has over 17 years of extensive experience in the marketing, purchasing, and management function in Italian companies based in Mainland China and Hong Kong. She is currently the Sàfilo's Sourcing Director of the Sàfilo S.p.A. based in Hong Kong. She speaks Italian, English and Chinese fluently.

**Paola Marchisio**, aged 49, joined the Company as a non-executive director on 18 July 2008. Ms. Marchisio graduated in Business Administration at the University of Turin (Italy) and has over 23 years of experience in the marketing and accounting fields in Italy and Hong Kong. Ms Marchisio is the Chief Financial Officer of Safilo Far East Limited, she is also a director of Safint Optical Investments Limited, an equity investments of the Group.

# Profiles of Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**POON Kwok Fai, Ronald**, aged 62, joined the Company as an independent non-executive director in 1996. Mr. Poon is a solicitor and notary public practising in Hong Kong and has over 31 years of experience in the legal profession.

**TAM Hok Lam, Tommy**, PhD, JP, aged 62, joined the Company as an independent non-executive director in 2005. Dr. Tam is a fellow member of the Association of International Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is also an honorary director of Hong Kong Watch Manufacturer's Association Limited and a council member of the Hong Kong Institute of Directors. Dr. Tam currently is an independent non-executive director of Hao Tian Resources Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Main Board"), which is principally engaged in exploitation of coal, coal mining, coal sales and development of coking coal mine in the PRC. On 11 June 2010, Dr. Tam has been appointed as an independent non-executive director of Madex International (Holdings) Limited, a company listed on the Main Board, its principal activity is investment holding, whilst its subsidiaries are mainly engaged in property investment and development in the PRC. Dr. Tam currently is the managing director of Tomson Holdings Limited which is an investment holdings company, and is also the chairman of Artistic Precision Holdings Ltd which is involved in watch design, production and trading. Dr. Tam is a Standing Committee member of Chinese People Political Consultative Conference in Shandong Province, the PRC.

**WONG Chung Mat, Ben**, JP, aged 59, joined the Company as an independent non-executive director in 2004. Mr. Wong is the chairman and chief executive officer of Wong's International (Holdings) Limited, a company listed on the Main Board. He obtained a Master of Science Degree in Operations Research from Ohio State University and has over 36 years of experience in the electronics industry.

## SENIOR MANAGEMENT

**TSANG Tak Hung, Donald**, aged 52, is one of the general managers of the Group and is responsible for the management, strategic planning and corporate development of the Group. Prior to joining the Group in 1994, he has over 12 years of management experience by serving in various financial institutions in Hong Kong and Canada including The Stock Exchange of Hong Kong Limited.

**CHENG Wai Keung, Edmond**, aged 51, is an assistant general manager supervising the Group's production department. He joined the Group in 1988 and has worked in various departments within the Group including the marketing, production and purchasing departments. Mr. Cheng now oversees the production in the PRC production facilities. Mr. Cheng is the brother-in-law of Mr. Hui Leung Wah and Mr. Poon Sui Hong, and the spouse of Ms. Poon Kam Yee, a member of the senior management of the Group. He holds directorships in certain subsidiaries of the Group.

**POON Kam Yee**, aged 50, is an assistant to the Chairman and Managing Director and is also a supervisor of the Group's marketing department – the PRC division. She joined the Group in 1988 and has over 30 years of experience in administration. She is responsible for the Group's sales in the PRC market. Ms. Poon is the sister-in-law of Mr. Hui Leung Wah, and the sister of Mr. Poon Sui Hong, she is the spouse of Mr. Cheng Wai Keung, Edmond. Ms. Poon holds directorships in certain subsidiaries of the Group.

**HUI Sze Man, Doris**, aged 30, joined the Group in 2005 as an Assistant to Chairman. Ms. Hui is in charge of the Research and Development Department and Design Departments. She is also responsible for overseeing the manufacturing operations of the Group. She holds a Bachelor degree in Arts from York University in Canada. Ms. Hui has served as director of Yan Chai Hospital from 2007 to 2009. She has also been a member of Young Industrialists Council Youth Chapter since 2003. She is the daughter of Mr. Hui Leung Wah.

**TSUI Choi Yee, Connie**, aged 45, joined the Group in July 2007 as financial controller and company secretary. She holds a master degree in Business Administration jointly awarded by the University of Sydney and the University of New South Wales. Ms. Tsui is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of CPA Australia. She has over 17 years of experience in the field of accounting and auditing.

# Corporate Governance Report

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to applying high standard of corporate governance practices and procedures in fulfilling its responsibilities. It is the belief of the Board that shareholders can maximise their benefits from good corporate governance. The Company has always recognised the importance of transparency and accountability. The Group has adopted the code provisions as set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "SEHK") as its own code of corporate governance practices. The directors of the Company (the "Directors") consider that the Company has complied with the Code throughout the year ended 31 March 2011, 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 assumption of the roles of Chairman and Managing Director can, as far as the Group is concerned, 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 (the "INEDs"), a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

## BOARD OF DIRECTORS

### Board Composition

The Board comprises a total of eight Directors. Three Executive Directors are Mr. Hui Leung Wah, who is also the chairman of the Board, Mr. Poon Sui Hong and Mr. Leung Shu Sum, two Non-Executive Directors are Ms. Barbara Lissi and Ms. Paola Marchisio, and three INEDs are Mr. Poon Kwok Fai, Ronald, Dr. Tam Hok Lam, Tommy and Mr. Wong Chung Mat, Ben. One of the INEDs has appropriate professional qualifications, or accounting or related financial management expertise, which is in accordance with rules 3.10(1) and (2) of the Listing Rules.

Each of the INEDs has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The composition of the Board will be reviewed regularly to ensure that it has a balance of skills and experience appropriate for the requirements of the business of the Group. The Directors' biographical details and the relationship among members of the Board are set out on pages 7 to 8 of the annual report.

### Appointment and re-election

According to the bye-laws of the Company, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation. In addition, every Director shall retire from office no later than the third annual general meeting after he was last elected or re-elected or ceased to be a Director and been re-elected by a general meeting at or since either such annual general meeting.

All the non-executive directors were re-elected for a specific term of not more than three years in previous annual general meetings.

In accordance with the bye-laws of the Company, Mr. Leung Shu Sum, Ms. Barbara Lissi and Ms. Paola Marchisio will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election by shareholders.

# Corporate Governance Report

## BOARD OF DIRECTORS (continued)

### Duties of the Board

The Board formulates the overall policies and strategies, monitors the financial performance, oversees the management, and implements good corporate governance practices of the Group. The Board is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs.

The Directors meet regularly to review the financial and operational performance of the Group and to discuss and formulate the development plans of the Group. Daily operations and administration are delegated to the Executive Directors and the management of the Group. The members of the Board are mostly professionally qualified and widely experienced personnel who bring in valuable contribution, provide different professional advices and consultancy for the development of the Group. They provide strong support towards the effective discharge of the duties and responsibilities of the Board.

The Chairman of the Board is primarily responsible for leading the Board and ensuring that the Board works effectively to discharge its responsibilities and that all key and appropriate issues are discussed and approved by the Board before execution.

### Functions of the Board

During the financial year ended 31 March 2011, four regular Board meetings were held and the attendance of each Director is set out as follows:

| Name of director | Meetings attended/Total |
|---|---|
| *Executive Directors* | |
| Mr. Hui Leung Wah | 4/4 |
| Mr. Poon Sui Hong | 4/4 |
| Mr. Leung Shu Sum | 4/4 |
| *Non-Executive Directors* | |
| Ms. Barbara Lissi | 4/4 |
| Ms. Paola Marchisio | 4/4 |
| *Independent Non-Executive Directors* | |
| Mr. Poon Kwok Fai, Ronald | 3/4 |
| Dr. Tam Hok Lam, Tommy | 4/4 |
| Mr. Wong Chung Mat, Ben | 4/4 |

All the Board meetings were scheduled in advance, and notice of at least 14 days was given to all Directors to give them an opportunity to attend. Agendas and accompanying Board papers were sent to all Directors at least three days in advance of every Board meeting to enable the Directors to make informed decisions on matters placed at the Board meetings. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. All Directors have been consulted about any matters proposed for inclusion in the agenda. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings, so that Directors receive adequate, complete and reliable information in a timely manner.

# Corporate Governance Report

## BOARD OF DIRECTORS (continued)

### Functions of the Board (continued)

All Directors are entitled to have access to the advice and services of the Company Secretary, who is responsible for providing Board papers and related materials to Directors and ensuring that Board procedures and all applicable rules and regulations are followed. Detailed minutes of Board meetings are kept by the Company Secretary which are open for inspection by any Director. All Directors have access to independent professional advice whenever deemed necessary by the Directors.

## RESPONSIBILITY OF DIRECTORS AND AUDITORS FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcement and other disclosures required under the Listing Rules and other regulatory requirements. With the assistance of the Finance Department, the Directors prepare the financial statements in accordance with statutory requirements and prevailing accounting standards. The Directors are responsible for timely publication of the financial statements of the Group. The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in Independent Auditors' Report on pages 22 to 23 of the annual report.

## DIRECTORS' SECURITIES TRANSACTIONS

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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company has received confirmations from all of them that they have complied with the required standard set out in the Model Code throughout the year.

## REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION

The members of the Remuneration Committee comprise Mr. Poon Kwok Fai, Ronald, Dr. Tam Hok Lam, Tommy, and Mr. Wong Chung Mat, Ben. All members are the INED of the Company and Mr. Wong Chung Mat, Ben is the chairman. The Remuneration Committee held one meeting to review and determine the remuneration packages of the Executive Directors and senior management during the year.

The attendance of each member is set out as follows:

| Members | Meeting attended/Total |
|---|---|
| Mr. Poon Kwok Fai, Ronald | 0/1 |
| Dr. Tam Hok Lam, Tommy | 1/1 |
| Mr. Wong Chung Mat, Ben | 1/1 |

# Corporate Governance Report

## REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION (continued)

The major roles and functions of the Remuneration Committee are summarized as follows:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management;

2. to determine the specific remuneration packages of all Executive Directors and senior management, and make recommendations to the Board of the remuneration of Non-Executive Directors;

3. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

4. to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment;

5. to review and approve compensation arrangement relating to dismissal or removal of directors for misconduct; and

6. to ensure that no director or any of his associates is involved in deciding his own remuneration.

During the year, the Remuneration Committee has, among others things, reviewed and determined the remuneration packages of all Executive Directors and senior management with reference to market terms, their duties and responsibilities and performance, and has made recommendation to the Board accordingly. The Board reviewed and approved the Directors and senior management's remuneration at the Board Meeting held on 28 June 2011.

Details of the emoluments of Directors are set out in Note 8 to the financial statements.

The terms of reference of the Remuneration Committee have been posted on the website of the Company.

## NOMINATION COMMITTEE

The Nomination Committee currently comprises three INEDs. Dr. Tam Hok Lam, Tommy is the chairman of the Nomination Committee. Other members of the Committee are Mr. Poon Kwok Fai, Ronald and Mr. Wong Chung Mat, Ben. The Nomination Committee assists the Board in discharging the following duties:

1. review the structure, size and composition (including the skills, knowledge and experience) of the board on a regular basis and make recommendations to the board regarding any proposed changes;

2. identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of, individuals nominated for directorships;

3. assess the independence of independent non-executive directors; and

4. make recommendations to the board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive officer.

The terms of reference of the Nomination Committee have been posted on the website of the Company. The Nomination Committee did not hold any meeting during the financial year ended 31 March 2011.

# Corporate Governance Report

## AUDIT COMMITTEE

The Audit Committee was established in 1999 to, among other things, consider the appointment of the external auditors and audit fee, to discuss with the external auditors the nature and scope of audit, to review the Group's financial reporting, internal controls and issues, if any, arising from audit. Its current members comprise Mr. Poon Kwok Fai, Ronald, Dr. Tam Hok Lam, Tommy and Mr. Wong Chung Mat, Ben. Mr. Poon Kwok Fai, Ronald is the chairman of the Audit Committee. All members of the Audit Committee are the INEDs. One of the members has appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules. None of them is employed by or otherwise affiliated with former or existing auditors of the Company. The main duties of the Audit Committee include the review and monitor of the relationship with external auditors of the Company, review of financial information of the Group and oversight of the Group's financial reporting system and internal control procedure.

The Audit Committee held two meetings during the year under review. Minutes of the Audit Committee are kept by the duly-appointed secretary of the Audit Committee and the copies of the minutes are sent to all members of the committee. The outcome of the Audit Committee meetings were submitted to the Board for consideration and action where appropriate. The attendance of each member is set out as follows:

| Name of director | Meetings attended/Total |
|---|---|
| Mr. Poon Kwok Fai, Ronald | 2/2 |
| Dr. Tam Hok Lam, Tommy | 2/2 |
| Mr. Wong Chung Mat, Ben | 2/2 |

During the meetings held in the year, the Audit Committee had performed the following work:

1. reviewed with external auditors and management the accounting policies and the financial statements for the year ended 31 March 2010 and for the six months ended 30 September 2010 respectively;

2. reviewed the external auditors' independence and objectivity and the effectiveness of the audit process;

3. reviewed the effectiveness of internal control system including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget;

4. reviewed and made recommendation to the Board for approval of the remuneration and terms of engagement of the external auditors; and

5. reviewed and considered the connected transactions entered into by the Group during the year.

The terms of reference of the Audit Committee have been posted on the website of the Company.

# Corporate Governance Report

## AUDITORS' REMUNERATION

For the year ended 31 March 2011, the remuneration paid or payable to the Company's auditors, Messrs Ernst & Young, is set out as follows:

| Services rendered | Fees paid/payable<br>HK$'000 |
|---|---|
| Audit services | 760 |
| Non-audit services – interim review | 80 |
| Non-audit services – taxation | 99 |
| Total | 939 |

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with all shareholders. The Company establishes different communication channels with shareholders and investors: (i) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (ii) updated key information of the Group are available on the websites of the SEHK and the Company, and (iii) the Company's website offers communication channel between the Company and its shareholders and investors.

The annual general meeting is a channel for the Chairman of the Board and the sub-committees of the Board to address concern of shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 20 clear business days before the meeting and the said notice is also published on the websites of the SEHK and the Company.

The Company has established dedicated personnel for liaison with investors and shareholders and answering their enquiries.

## INTERNAL CONTROL

The Board acknowledges its responsibility to maintain effective and sound internal control system for the Group to safeguard investments of the shareholders and assets of the Company at all times.

The system of internal control aims to enable the Group to achieve its business objectives, safeguard its assets and maintain proper accounting records for the provision of reliable financial information. The design of system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

The internal audit section is responsible for internal audit function of the Group. It monitors the internal control system and the internal control procedures, its findings and recommendations are reported to the Board regularly. During the year ended 31 March 2011, the Audit Committee and the Board, with the assistance of the internal audit section, evaluated the effectiveness of the existing internal control system, which covered all material control, including financial, operational and compliance control and risk management functions. The adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget have also been reviewed in the Board meetings.

The Board has also kept the system of internal control under review to ensure its effectiveness and management meetings were convened regularly to discuss financial, operational and risk management control.

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2011.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and trading of optical frames, sunglasses and optical cases. There was no significant change in the nature of the principal activities of the Group during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 88.

The directors recommend the payment of a final dividend of HK3 cents per share in respect of the year to shareholders on the register of members on 1 September 2011. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

### Results

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| REVENUE | **505,402** | 429,143 | 510,083 | 551,783 | 572,467 |
| PROFIT FOR THE YEAR | **2,818** | 9,268 | 16,156 | 51,369 | 61,323 |
| Attributable to: | | | | | |
| Owners of the Company | **2,653** | 11,758 | 17,611 | 48,001 | 61,008 |
| Non-controlling interests | **165** | (2,490) | (1,455) | 3,368 | 315 |
| | **2,818** | 9,268 | 16,156 | 51,369 | 61,323 |

# Report of the Directors

## SUMMARY FINANCIAL INFORMATION (continued)

### Assets, liabilities and non-controlling interests

| | 31 March | | | | |
|---|---|---|---|---|---|
| | **2011**<br>**HK$'000** | 2010<br>HK$'000 | 2009<br>HK$'000 | 2008<br>HK$'000 | 2007<br>HK$'000 |
| TOTAL ASSETS | **619,171** | 625,410 | 618,764 | 651,945 | 679,777 |
| TOTAL LIABILITIES | **(89,396)** | (90,736) | (83,487) | (113,026) | (170,241) |
| NON-CONTROLLING INTERESTS | **(17,444)** | (16,808) | (19,191) | (20,802) | (17,722) |
| | **512,331** | 517,866 | 516,086 | 518,117 | 491,814 |

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorised or issued share capital during the year. Details of the Company's share capital and share option scheme are set out in notes 28 and 29 to the financial statements, respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 30(b) to the financial statements and in the consolidated statement of changes in equity set out on page 28 of this annual report, respectively.

## DISTRIBUTABLE RESERVES

As at 31 March 2011, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$170,989,000 of which HK$9,709,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$56,831,000, may be distributed in the form of fully paid bonus shares.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$16,000.

# Report of the Directors

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors

Mr. Hui Leung Wah *(Chairman and Managing Director)*
Mr. Poon Sui Hong
Mr. Leung Shu Sum

### Non-executive directors

Ms. Barbara Lissi
Ms. Paola Marchisio

### Independent non-executive directors

Mr. Poon Kwok Fai, Ronald
Dr. Tam Hok Lam, Tommy, PhD, JP
Mr. Wong Chung Mat, Ben, JP

In accordance with bye-law 110(A) of the Company's bye-laws, Mr. Leung Shu Sum, Ms. Barbara Lissi and Ms. Paola Marchisio will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Poon Kwok Fai, Ronald, Dr. Tam Hok Lam, Tommy and Mr. Wong Chung Mat, Ben, and as at the date of this report still considers them to be independent.

Detailed terms of the appointment of the non-executive directors are disclosed in the corporate governance report.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 7 to 8 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Remuneration Committee with reference to directors' duties, responsibilities and performance and the results of the Group.

# Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2011, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 contained in the Listing Rules, were as follows:

### Long positions in ordinary shares of the Company:

| Name of director | Number of shares held and capacity in which the shares are held: Beneficial owner | Other interests | Total | Percentage of the issued share capital of the Company |
|---|---|---|---|---|
| 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 |
| | 21,506,000 | 141,316,000 | 162,822,000 | 50.30 |

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 of 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 these non-voting deferred shares are set out in note 16 to the financial statements.

In addition to the above, certain directors 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.

Save as disclosed herein, as at 31 March 2011, none of the directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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.

# Report of the Directors

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosures set out in note 29 to the financial statements, at no time during the year was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company, their respective spouses 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 directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

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

At 31 March 2011, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests 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 are 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 |
| Sàfilo 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 and short positions in shares and underlying shares".

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

Save as disclosed above, as at 31 March 2011, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

# Report of the Directors

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's largest customer and the Group's five largest customers accounted for 31.15% and 55.21% of the Group's total sales, respectively. The Group's largest customer, the Sàfilo S.p.A. group of companies, owned 23.05% of the Company's issued share capital at the end of the reporting period. Details of the sales to the Sàfilo S.p.A. group of companies are included in note 34 to the financial statements.

During the year under review, the Group's largest supplier and the Group's five largest suppliers accounted for 9.81% and 31.16% of the Group's total purchases, respectively.

Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders, which to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

At the special general meeting held on 26 March 2010, an ordinary resolution (the "Resolution") was passed by the independent shareholders which approved the sales of optical frames, sunglasses and related products (the "Sales") by the Company and its subsidiaries to the Sàfilo S.p.A. group of companies for the three years ending 31 March 2013 subject to certain conditions. According to the Resolution, the aggregate values of the Sales shall not exceed HK$225 million, HK$244 million and HK$279 million for each of the three years ended 31 March 2011, 2012 and 2013, respectively.

A supplemental agreement to renew the supply agreement which expired on 31 March 2010 for such transactions for the three financial years ended 31 March 2011, 2012 and 2013 was entered into by the Company and Sàfilo S.p.A. Further details were set out in the circular to the Company's shareholders dated 9 March 2010.

The directors, including the independent non-executive directors, confirm that the Sales to the Sàfilo S.p.A. group of companies were approved by the board of directors and:

(a) were entered into in the ordinary and usual course of business of the Group;

(b) were conducted on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than the terms available to or from independent third parties as appropriate;

(c) were entered into in accordance with the relevant terms and conditions governing such transactions, which are fair and reasonable so far as the shareholders of the Company were concerned and in the interests of the Group as a whole; and

(d) did not exceed HK$225 million for the year.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 34 to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

# Report of the Directors

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (continued)

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the SEHK.

Further details of the sales to the Sàfilo S.p.A. group of companies are set out in note 34 to the financial statements.

In addition to the transactions with the Sàfilo S.p.A. group of companies set out above, a non-wholly-owned subsidiary of the Group also owed certain of the Group's wholly-owned subsidiaries amounts arising from their ordinary and usual course of business. The amounts due are unsecured, bearing interest at the same rate charged to the Group by its banks and are repayable in accordance with normal trading terms. The balance of the non-wholly-owned subsidiary is eliminated in the Group's consolidated financial statements. Details of the amounts outstanding at the end of the reporting period are set out below:

| | **31 March 2011 HK$'000** | 31 March 2010 HK$'000 |
|---|---|---|
| Gold Strong Industrial Limited | **33,293** | 34,185 |

During the year, a director's quarter was rented by the Group from Mr. Hui Leung Wah, the chairman and managing director of the Company, for the use by Mr. Poon Siu Hong as a directors' quarter. The annual rental amounting to HK$444,000 for the year (2010: HK$444,000) was mutually agreed by both parties based on market value and has been included in directors' remuneration in note 8 to the financial statements.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Hui Leung Wah**
*Chairman*

Hong Kong
28 June 2011

# Independent Auditors' Report

ERNST & YOUNG
安永

**To the shareholders of Elegance International Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Elegance International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 24 to 88, which comprise the consolidated and company statements of financial position as at 31 March 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditors' Report

**To the shareholders of Elegance International Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*

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

28 June 2011

# Consolidated Income Statement

Year ended 31 March 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| REVENUE | 5 | 505,402 | 429,143 |
| Cost of sales | | (447,843) | (366,904) |
| Gross profit | | 57,559 | 62,239 |
| Other income | 5 | 2,826 | 2,502 |
| Selling and distribution costs | | (8,554) | (6,692) |
| Administrative expenses | | (49,672) | (49,703) |
| Other operating income/(expenses), net | | (463) | 1,496 |
| Finance costs | 7 | (3) | (7) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | 588 | 492 |
| An associate | | (394) | 34 |
| PROFIT BEFORE TAX | 6 | 1,887 | 10,361 |
| Income tax expense | 9 | 931 | (1,093) |
| PROFIT FOR THE YEAR | | 2,818 | 9,268 |
| Attributable to: | | | |
| Owners of the Company | 10 | 2,653 | 11,758 |
| Non-controlling interests | | 165 | (2,490) |
| | | 2,818 | 9,268 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 12 | | |
| Basic and diluted | | 0.82 cent | 3.63 cents |

Details of the dividend proposed for the year are disclosed in note 11 to the financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 March 2011

| | Note | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| PROFIT FOR THE YEAR | | 2,818 | 9,268 |
| OTHER COMPREHENSIVE INCOME | | | |
| Change in fair value of available-for-sale financial assets | | – | (130) |
| Exchange differences on translation of foreign operations | | 1,992 | (32) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | 1,992 | (162) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 4,810 | 9,106 |
| Attributable to: | | | |
| Owners of the Company | 10 | 4,174 | 11,489 |
| Non-controlling interests | | 636 | (2,383) |
| | | 4,810 | 9,106 |

# Consolidated Statement of Financial Position

31 March 2011

| | Notes | 31 March 2011 HK$'000 | 31 March 2010 HK$'000 (Restated) | 1 April 2009 HK$'000 (Restated) |
|---|---|---|---|---|
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 13 | 238,990 | 247,529 | 260,531 |
| Investment property | 14 | 5,300 | 3,760 | 2,800 |
| Prepaid land lease payments | 15 | 15,168 | 15,129 | 15,385 |
| Investments in jointly-controlled entities | 17 | 5,023 | 4,858 | 4,775 |
| Investment in an associate | 18 | 1,842 | 2,236 | 3,179 |
| Available-for-sale financial assets | 19 | 32,149 | 32,149 | 32,279 |
| Deferred tax assets | 27 | 179 | 497 | 807 |
| Deposits paid for items of property, plant and equipment | | 64 | 652 | 2,227 |
| Total non-current assets | | 298,715 | 306,810 | 321,983 |
| CURRENT ASSETS | | | | |
| Inventories | 20 | 78,056 | 75,117 | 78,393 |
| Trade and bills receivables | 21 | 125,181 | 115,431 | 125,894 |
| Prepayments, deposits and other receivables | 22 | 3,354 | 9,772 | 12,472 |
| Equity investments at fair value through profit or loss | 23 | 52 | 37 | 835 |
| Tax recoverable | | 1,737 | 57 | 1,068 |
| Cash and cash equivalents | 24 | 112,076 | 118,186 | 78,119 |
| Total current assets | | 320,456 | 318,600 | 296,781 |
| CURRENT LIABILITIES | | | | |
| Trade and bills payables | 25 | 44,601 | 41,218 | 34,764 |
| Other payables and accruals | 26 | 38,538 | 40,458 | 39,335 |
| Tax payable | | 3,132 | 4,647 | 3,838 |
| Total current liabilities | | 86,271 | 86,323 | 77,937 |
| NET CURRENT ASSETS | | 234,185 | 232,277 | 218,844 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 532,900 | 539,087 | 540,827 |
| NON-CURRENT LIABILITIES | | | | |
| Deferred tax liabilities | 27 | 3,125 | 4,413 | 5,550 |
| Net assets | | 529,775 | 534,674 | 535,277 |

# Consolidated Statement of Financial Position

31 March 2011

| | Notes | 31 March 2011 HK$'000 | 31 March 2010 HK$'000 | 1 April 2009 HK$'000 |
|---|---|---|---|---|
| EQUITY | | | | |
| **Equity attributable to owners of the Company** | | | | |
| Issued capital | 28 | 32,365 | 32,365 | 32,365 |
| Reserves | 30(a) | 470,257 | 475,792 | 474,012 |
| Proposed final dividends | 11 | 9,709 | 9,709 | 9,709 |
| | | 512,331 | 517,866 | 516,086 |
| **Non-controlling interests** | | 17,444 | 16,808 | 19,191 |
| Total equity | | 529,775 | 534,674 | 535,277 |

**Hui Leung Wah**
*Director*

**Poon Sui Hong**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 March 2011

| | | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital HK$'000 | Share premium account HK$'000 | Capital reserve HK$'000 | Available-for-sale financial asset revaluation reserve HK$'000 | Goodwill eliminated against reserves HK$'000 | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Proposed final dividend HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 April 2009 | | 32,365 | 56,831 | 41,800 | – | (152) | 4,343 | 371,190 | 9,709 | 516,086 | 19,191 | 535,277 |
| Profit for the year | | – | – | – | – | – | – | 11,758 | – | 11,758 | (2,490) | 9,268 |
| Other comprehensive income for the year: | | | | | | | | | | | | |
| Change in fair value of available-for-sale financial assets | | – | – | – | (130) | – | – | – | – | (130) | – | (130) |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | (139) | – | – | (139) | 107 | (32) |
| Total comprehensive income for the year | | – | – | – | (130) | – | (139) | 11,758 | – | 11,489 | (2,383) | 9,106 |
| Final 2009 dividend declared | | – | – | – | – | – | – | – | (9,709) | (9,709) | – | (9,709) |
| Proposed final 2010 dividend | 11 | – | – | – | – | – | – | (9,709) | 9,709 | – | – | – |
| At 31 March 2010 and 1 April 2010 | | 32,365 | 56,831 | 41,800 | (130) | (152) | 4,204 | 373,239 | 9,709 | 517,866 | 16,808 | 534,674 |
| Profit for the year | | – | – | – | – | – | – | 2,653 | – | 2,653 | 165 | 2,818 |
| Other comprehensive income for the year: | | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | 1,521 | – | – | 1,521 | 471 | 1,992 |
| Total comprehensive income for the year | | – | – | – | – | – | 1,521 | 2,653 | – | 4,174 | 636 | 4,810 |
| Final 2010 dividend declared | | – | – | – | – | – | – | – | (9,709) | (9,709) | – | (9,709) |
| Proposed final 2011 dividend | 11 | – | – | – | – | – | – | (9,709) | 9,709 | – | – | – |
| **At 31 March 2011** | | **32,365** | **56,831*** | **41,800*** | **(130)*** | **(152)*** | **5,725*** | **366,183*** | **9,709** | **512,331** | **17,444** | **529,775** |

* These reserve accounts comprise the consolidated reserves of HK$470,257,000 (2010: HK$475,792,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 March 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 (Restated) |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 1,887 | 10,361 |
| Adjustments for: | | | |
| Finance costs | 7 | 3 | 7 |
| Share of profits and losses of jointly-controlled entities and an associate | | (194) | (526) |
| Bank interest income | 5 | (531) | (409) |
| Dividend income from listed investments | 5 | (3) | (28) |
| Loss/(gain) on disposal of items of property, plant and equipment | 6 | 2,102 | (47) |
| Changes in fair value of an investment property | 6 | (1,540) | (960) |
| Fair value gains, net: | | | |
| Equity investments at fair value through profit or loss | 6 | (15) | (228) |
| Depreciation | 6 | 30,093 | 33,745 |
| Amortisation of prepaid land lease payments | 6 | 370 | 366 |
| Write-back of impairment of trade receivables | 6 | (84) | (261) |
| Provision/(write-back of provision) for inventory obsolescence | 6 | 2,896 | (1,876) |
| | | 34,984 | 40,144 |
| Decrease/(increase) in inventories | | (5,835) | 5,152 |
| Decrease/(increase) in trade and bills receivables | | (9,666) | 10,724 |
| Decrease in prepayments, deposits and other receivables | | 6,418 | 2,701 |
| Increase in trade and bills payables | | 3,383 | 6,454 |
| Increase/(decrease) in other payables and accruals | | (1,920) | 1,123 |
| Decrease in equity investments at fair value through profit or loss | | – | 1,026 |
| Exchange adjustments | | (2,170) | (1,035) |
| Cash generated from operations | | 25,194 | 66,289 |
| Interest paid | 7 | (3) | (7) |
| Hong Kong profits tax paid | | (3,292) | (93) |
| Overseas taxes paid | | (6) | (7) |
| Net cash flows from operating activities | | 21,893 | 66,182 |

# Consolidated Statement of Cash Flows

Year ended 31 March 2011

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | 531 | 409 |
| Dividend received from listed investments | | 3 | 28 |
| Dividends received from a jointly-controlled entity and an associate | | – | 1,350 |
| Purchases of items of property, plant and equipment | | (20,811) | (18,159) |
| Deposits paid for items of property, plant and equipment | | (64) | (652) |
| Proceeds from disposal of items of property, plant and equipment | | 542 | 421 |
| Proceeds from disposal of a jointly-controlled entity | | 237 | – |
| Repayment of a loan to a jointly-controlled entity | | 186 | 36 |
| Net cash flows used in investing activities | | (19,376) | (16,567) |
| CASH FLOWS FROM A FINANCING ACTIVITY | | | |
| Dividends paid and net cash flows used in a financing activity | | (9,709) | (9,709) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | (7,192) | 39,906 |
| Cash and cash equivalents at beginning of year | | 118,186 | 78,119 |
| Effect of foreign exchange rate changes, net | | 1,082 | 161 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 112,076 | 118,186 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 24 | 88,632 | 71,386 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 24 | 23,444 | 46,800 |
| Cash and cash equivalents as stated in the statement of financial position | | 112,076 | 118,186 |

# Statement of Financial Position

31 March 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investments in subsidiaries | 16 | 506,424 | 506,496 |
| Deferred tax assets | 27 | 179 | 497 |
| Total non-current assets | | 506,603 | 506,993 |
| CURRENT ASSETS | | | |
| Prepayments | 22 | 170 | 170 |
| Cash and bank balances | 24 | 23 | 32 |
| Total current assets | | 193 | 202 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 26 | 168 | 325 |
| NET CURRENT ASSETS/(LIABILITIES) | | 25 | (123) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 506,628 | 506,870 |
| NON-CURRENT LIABILITY | | | |
| Loan from a subsidiary | 16 | 246,443 | 238,586 |
| Net assets | | 260,185 | 268,284 |
| EQUITY | | | |
| Issued capital | 28 | 32,365 | 32,365 |
| Reserves | 30(b) | 218,111 | 226,210 |
| Proposed final dividends | 11 | 9,709 | 9,709 |
| Total equity | | 260,185 | 268,284 |

**Hui Leung Wah**
*Director*

**Poon Sui Hong**
*Director*

# Notes to Financial Statements

31 March 2011

## 1. CORPORATE INFORMATION

Elegance International Holdings Limited is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the year, the Company was engaged in investment holding and the Group was engaged in the manufacture and trading of optical frames, sunglasses and optical cases.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), 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 an investment property and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2011. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 April 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

# Notes to Financial Statements

31 March 2011

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| HKFRS 1 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards* |
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* |
| HKFRS 3 (Revised) | *Business Combinations* |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Right Issues* |
| HKAS 39 Amendment | Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners* |
| HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008 | Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* |
| *Improvements to HKFRSs 2009* | Amendments to a number of HKFRSs issued in May 2009 |
| HK Interpretation 4 Amendment | Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* |
| HK Interpretation 5 | *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* |

Other than as further explained below regarding the impact of amendments to HKAS 17 included in *Improvements to HKFRSs 2009*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

HKAS 17 *Leases:* Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

The Group has reassessed its leases in Hong Kong and Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases. As substantially all the risks and rewards associated with the leases in Hong Kong have been transferred to the Group, the leases in Hong Kong have been reclassified from operating leases under "prepaid land lease payments" to finance leases under "property, plant and equipment". The corresponding amortisation has also been reclassified to depreciation. The effects of the above changes are summarised below:

# Notes to Financial Statements

31 March 2011

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| *Consolidated income statement for the year ended 31 March* | | |
| Increase in depreciation of property, plant and equipment | 829 | 829 |
| Decrease in amortisation of prepaid land lease payments | (829) | (829) |
| | – | – |
| *Consolidated statement of financial position at 31 March* | | |
| Increase in property, plant and equipment | 29,237 | 30,065 |
| Decrease in prepaid land lease payments | (28,408) | (29,236) |
| Decrease in prepayments, deposits and other receivables | (829) | (829) |
| | – | – |
| *Consolidated statement of financial position at 1 April 2009* | | |
| Increase in property, plant and equipment | | 30,895 |
| Decrease in prepaid land lease payments | | (30,066) |
| Decrease in prepayments, deposits and other receivables | | (829) |
| | | – |

Due to the retrospective application of the amendments which has resulted in the restatement of items in the statement of financial position, a statement of financial position as at 1 April 2009, and the related notes affected by the amendments have been presented in these financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKFRS 1 Amendment | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [1] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [3] |
| HKFRS 9 | *Financial Instruments* [4] |
| HKAS 24 (Revised) | *Related Party Disclosures* [2] |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [2] |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* [1] |

# Notes to Financial Statements

31 March 2011

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 July 2010
[2] Effective for annual periods beginning on or after 1 January 2011
[3] Effective for annual periods beginning on or after 1 July 2011
[4] Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 April 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 April 2011 and the comparative related party disclosures will be amended accordingly.

# Notes to Financial Statements

31 March 2011

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

*Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 April 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity 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 income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

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

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

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

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Jointly-controlled entities (continued)

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

### Associates

An associate is an entity, 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 investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

### Business combinations and goodwill

***Business combinations from 1 April 2010***

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations and goodwill (continued)

***Business combinations from 1 April 2010*** **(continued)**

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

***Business combinations prior to 1 April 2010 but after 1 April 2005***

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 April 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations and goodwill (continued)

***Business combinations prior to 1 April 2010 but after 1 April 2005*** **(continued)**

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment property and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Land and buildings | 2% |
| Leasehold improvements | Shorter of the lease terms and the rates of 5% to 10% |
| Plant and machinery | 10% to 20% |
| Furniture, fixtures and office equipment | 10% to 20% |
| Motor vehicles | 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a factory building under construction, which is stated at cost less any impairment losses. No depreciation is provided on the construction until the related construction is completed and the assets are put into use. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

### Leases

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. 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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

### Investments and other financial assets

***Initial recognition and measurement***

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, deposits and quoted and unquoted financial instruments.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

***Financial assets at fair value through profit or loss*** **(continued)**

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

***Available-for-sale financial investments***

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

***Available-for-sale financial investments*** **(continued)**

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in the income statement.

***Assets carried at cost***

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

***Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

### Financial liabilities

***Initial recognition and measurement***

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

***Subsequent measurement***

The measurement of financial liabilities depends on their classification as follows:

***Loans and borrowings***

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

***Financial guarantee contracts***

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the 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.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, 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 statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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 goodwill or an asset or liability in a transaction that is not a business combination 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, associates and joint ventures, 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.

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 credits 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 in a transaction that is not a business combination 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, associates and joint ventures, 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 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, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

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

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payment transactions

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. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

No share options have been granted under the share option scheme since its adoption.

### Other 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 end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

***Pension schemes***

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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 income statement 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 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 payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

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

# Notes to Financial Statements

31 March 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, 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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

***Operating lease commitments – Group as lessor***

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of the ownership of these properties which are leased out on operating leases.

# Notes to Financial Statements

31 March 2011

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Judgements (continued)

***Classification between investment properties and owned-occupied properties***

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portion could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

***Impairment of assets***

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***Impairment of property, plant and equipment***

The Group determines whether property, plant and equipment are impaired where an indication of impairment exists. This requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

# Notes to Financial Statements

31 March 2011

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

***Provision for obsolete inventories***

Management of the Group reviews the usage of the inventories at the end of each reporting period, and makes provision for obsolete items where events or changes in circumstances show that the balances of inventories may not be realised or are no longer suitable for production use. In addition, physical count on all inventories is carried out on a periodical basis in order to determine whether provision is needed to be made in respect of any obsolete inventories identified. The directors of the Company are satisfied that sufficient provision for obsolete inventories has been made in the consolidated financial statements.

***Impairment of trade receivables***

The policy for impairment of trade receivables of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's judgement at the end of each reporting period whether there is any objective evidence that the trade receivables are impaired. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

***Deferred tax assets***

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 March 2011 was HK$179,000 (2010: HK$497,000). The amount of unrecognised tax losses at 31 March 2011 was HK$20,717,000 (2010: HK$19,641,000). Further details are contained in note 27 to the financial statements.

***Impairment of available-for-sale financial assets***

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. The Group also recognised an unlisted equity investment as available-for-sale and is stated at cost less any accumulated impairment losses. Losses arising from the impairment of such investment should be recognised in the income statement as "Impairment losses on available-for-sale financial assets". During the year, no impairment had been recognised for available-for-sale financial assets (2010: Nil). The carrying amounts of available-for-sale financial assets and a loan to an available-for-sale financial asset were HK$15,693,000 (2010: HK$15,693,000) and HK$16,456,000 (2010: HK$16,456,000), respectively. Further details are contained in note 19 to the financial statements.

# Notes to Financial Statements

31 March 2011

## 4. 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***

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Europe | 288,717 | 253,104 |
| North America | 157,591 | 126,869 |
| The PRC (including Hong Kong) | 46,172 | 34,382 |
| Other Asian countries | 10,313 | 9,893 |
| Others | 2,609 | 4,895 |
| | 505,402 | 429,143 |

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$157,448,000 (2010: HK$158,361,000) was derived from a single customer, including sales to a group of entities which are known to be under common control with that customer.

## 5. REVENUE AND OTHER INCOME

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

An analysis of revenue and other income is as follows:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| **Revenue** | | |
| Sale of goods | 505,402 | 429,143 |
| **Other income** | | |
| Sale of scrap materials | 572 | 581 |
| Bank interest income | 531 | 409 |
| Gross rental income | 787 | 248 |
| Dividend income from equity investments at fair value through profit or loss | 3 | 28 |
| Others | 933 | 1,236 |
| | 2,826 | 2,502 |

# Notes to Financial Statements

31 March 2011

## 6. PROFIT BEFORE TAX

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

| | Notes | 2011 HK$'000 | 2010 HK$'000 (Restated) |
|---|---|---|---|
| Cost of inventories sold | | 444,947 | 368,780 |
| Depreciation | 13 | 30,093 | 33,745 |
| Amortisation of prepaid land lease payments | 15 | 370 | 366 |
| Auditors' remuneration | | 840 | 900 |
| Minimum lease payments under operating leases in respect of land and buildings | | 3,250 | 2,611 |
| Employee benefit expense (excluding directors' remuneration, as set out in note 8): | | | |
| Wages and salaries | | 191,732 | 148,571 |
| Pension scheme contributions* | | 877 | 866 |
| | | 192,609 | 149,437 |
| Gross rental income | | (787) | (248) |
| Provision/(write-back of provision) for inventory obsolescence | | 2,896 | (1,876) |
| Foreign exchange differences, net | | 214 | 2,108 |
| Other operating expenses/(income): | | | |
| Write-back of impairment of trade receivables | 21 | (84) | (261) |
| Loss/(gain) on disposal of items of property, plant and equipment | | 2,102 | (47) |
| Fair value gains, net: | | | |
| Equity investments at fair value through profit or loss – held for trading | | (15) | (228) |
| Changes in fair value of an investment property | 14 | (1,540) | (960) |
| | | 463 | (1,496) |

* At the end of the reporting period, the Group had no forfeited pension scheme contributions available to reduce its contributions to the pension schemes in future years (2010: Nil).

# Notes to Financial Statements

31 March 2011

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Interest on bank loans wholly repayable within five years | 3 | 7 |

## 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 Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Fees | 300 | 300 |
| Other emoluments: | | |
| Basic salaries and bonuses | 2,507 | 2,511 |
| Housing benefit | 1,506 | 1,506 |
| Pension scheme contributions | 54 | 54 |
| | 4,067 | 4,071 |
| | 4,367 | 4,371 |

Three (2010: three) directors occupied certain of the Group's properties rent free during the year. The estimated value of the accommodation provided for them was HK$1,506,000 (2010: HK$1,506,000) for the year ended 31 March 2011, which has been included in the amounts detailed above.

# Notes to Financial Statements

31 March 2011

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

### Directors' remuneration (continued)

*(a)* ***Independent non-executive directors***

The fees paid to independent non-executive directors during the year were as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Poon Kwok Fai, Ronald | 100 | 100 |
| Tam Hok Lam, Tommy | 100 | 100 |
| Wong Chung Mat, Ben | 100 | 100 |
| | 300 | 300 |

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

*(b)* ***Executive directors and non-executive directors***

| | Basic salaries and bonuses<br>HK$'000 | Housing benefit<br>HK$'000 | Pension scheme contributions<br>HK$'000 | Total remuneration<br>HK$'000 |
|---|---|---|---|---|
| **2011** | | | | |
| Executive directors: | | | | |
| Hui Leung Wah | 1,200 | 900 | – | 2,100 |
| Poon Sui Hong | 773 | 444 | 31 | 1,248 |
| Leung Shu Sum | 534 | 162 | 23 | 719 |
| | 2,507 | 1,506 | 54 | 4,067 |
| 2010 | | | | |
| Executive directors: | | | | |
| Hui Leung Wah | 1,200 | 900 | – | 2,100 |
| Poon Sui Hong | 777 | 444 | 31 | 1,252 |
| Leung Shu Sum | 534 | 162 | 23 | 719 |
| | 2,511 | 1,506 | 54 | 4,071 |

There were no fees and other emoluments payable to the non-executive directors during the year (2010: Nil).

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

# Notes to Financial Statements

31 March 2011

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

### Highest paid employees' emoluments

The five highest paid individuals during the year included two (2010: two) directors, details of whose remuneration are disclosed above. Details of the remuneration of the three (2010: three) non-director, highest paid individuals for the year are set out below:

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Basic salaries and bonuses | 2,429 | 2,414 |
| Housing benefit | 252 | 252 |
| Pension scheme contributions | 80 | 79 |
| | 2,761 | 2,745 |

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

| | Number of non-director, highest paid individuals | |
|---|---|---|
| | 2011 | 2010 |
| Nil to HK$1,000,000 | 2 | 2 |
| HK$1,000,001 to HK$1,500,000 | 1 | 1 |
| | 3 | 3 |

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 to him was HK$252,000 (2010: HK$252,000) for the year ended 31 March 2011, which has been included in the amounts detailed above.

## 9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | 563 | 2,264 |
| Overprovision in prior years | (530) | (370) |
| Current – Elsewhere | 6 | 26 |
| Deferred (note 27) | (970) | (827) |
| Total tax charge/(credit) for the year | (931) | 1,093 |

# Notes to Financial Statements

31 March 2011

## 9. INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rates is as follows:

**Group – 2011**

| | Hong Kong HK$'000 | Mainland China HK$'000 | Total HK$'000 |
|---|---|---|---|
| Profit before tax | 1,448 | 439 | 1,887 |
| Tax at the statutory tax rate | 239 | 110 | 349 |
| Adjustments in respect of current tax of previous periods | (530) | – | (530) |
| Profits and losses attributable to jointly-controlled entities and an associate | 60 | (139) | (79) |
| Results from offshore manufacturing operations not subject to tax | (399) | – | (399) |
| Income not subject to tax | (787) | (1,113) | (1,900) |
| Expenses not deductible for tax | 455 | 1,225 | 1,680 |
| Tax losses utilised from previous periods | (16) | – | (16) |
| Estimated tax losses not recognised | 208 | 182 | 390 |
| Others | (167) | (259) | (426) |
| Tax charge/(credit) at the Group's effective rate | (937) | 6 | (931) |

Group – 2010

| | Hong Kong HK$'000 | Mainland China HK$'000 | Total HK$'000 |
|---|---|---|---|
| Profit/(loss) before tax | 14,823 | (4,462) | 10,361 |
| Tax at the statutory tax rate | 2,445 | (1,115) | 1,330 |
| Adjustments in respect of current tax of previous periods | (370) | – | (370) |
| Profits and losses attributable to jointly-controlled entities and an associate | (87) | – | (87) |
| Results from offshore manufacturing operations not subject to tax | (1,809) | – | (1,809) |
| Income not subject to tax | (181) | (1,279) | (1,460) |
| Expenses not deductible for tax | 188 | 494 | 682 |
| Estimated tax losses not recognised | 688 | 1,900 | 2,588 |
| Others | 193 | 26 | 219 |
| Tax charge at the Group's effective rate | 1,067 | 26 | 1,093 |

# Notes to Financial Statements

31 March 2011

## 10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 March 2011 includes a profit of HK$1,610,000 (2010: HK$30,584,000) which has been dealt with in the financial statements of the Company (note 30(b)).

## 11. DIVIDENDS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Proposed final – HK3 cents (2010: HK3 cents) per ordinary share | 9,709 | 9,709 |

The 2011 final dividend of HK3 cents per ordinary share has been proposed to be paid to shareholders whose names appear on the register of members on 1 September 2011 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company for the year of HK$2,653,000 (2010: HK$11,758,000) and 323,649,123 (2010: 323,649,123) shares in issue.

The Group had no potentially dilutive ordinary shares in issue during those years.

# Notes to Financial Statements

31 March 2011

## 13. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **31 March 2011** | | | | | | | |
| At 31 March 2010 and at 1 April 2010: | | | | | | | |
| Cost (restated) | 182,795 | 71,341 | 304,061 | 39,409 | 13,268 | – | 610,874 |
| Accumulated depreciation and impairment (restated) | (27,315) | (41,672) | (254,229) | (30,619) | (9,510) | – | (363,345) |
| Net carrying amount (restated) | 155,480 | 29,669 | 49,832 | 8,790 | 3,758 | – | 247,529 |
| At 1 April 2010, net of accumulated depreciation and impairment (restated) | 155,480 | 29,669 | 49,832 | 8,790 | 3,758 | – | 247,529 |
| Additions | – | 1,506 | 17,824 | 549 | 1,584 | – | 21,463 |
| Disposals | – | – | (2,542) | – | (102) | – | (2,644) |
| Depreciation provided during the year | (3,830) | (4,360) | (18,543) | (1,784) | (1,576) | – | (30,093) |
| Exchange realignment | 1,944 | 300 | 410 | 61 | 20 | – | 2,735 |
| At 31 March 2011, net of accumulated depreciation and impairment | 153,594 | 27,115 | 46,981 | 7,616 | 3,684 | – | 238,990 |
| At 31 March 2011: | | | | | | | |
| Cost | 184,937 | 73,171 | 260,837 | 40,135 | 13,260 | – | 572,340 |
| Accumulated depreciation and impairment | (31,343) | (46,056) | (213,856) | (32,519) | (9,576) | – | (333,350) |
| Net carrying amount | 153,594 | 27,115 | 46,981 | 7,616 | 3,684 | – | 238,990 |

# Notes to Financial Statements

31 March 2011

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

**Group (continued)**

| | Land and buildings HK$'000 (Restated) | Leasehold improve-ments HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 (Restated) |
|---|---|---|---|---|---|---|---|
| 31 March 2010 | | | | | | | |
| At 1 April 2009: | | | | | | | |
| Cost | 174,064 | 69,711 | 285,551 | 39,071 | 12,925 | 8,390 | 589,712 |
| Accumulated depreciation and impairment | (23,556) | (37,623) | (230,022) | (29,426) | (8,554) | – | (329,181) |
| Net carrying amount | 150,508 | 32,088 | 55,529 | 9,645 | 4,371 | 8,390 | 260,531 |
| At 1 April 2009, net of accumulated depreciation and impairment | 150,508 | 32,088 | 55,529 | 9,645 | 4,371 | 8,390 | 260,531 |
| Additions | – | 1,973 | 16,776 | 1,202 | 435 | – | 20,386 |
| Disposals | (220) | – | (132) | (22) | – | – | (374) |
| Depreciation provided during the year | (3,720) | (4,471) | (22,447) | (2,054) | (1,053) | – | (33,745) |
| Transfers | 8,390 | – | – | – | – | (8,390) | – |
| Exchange realignment | 522 | 79 | 106 | 19 | 5 | – | 731 |
| At 31 March 2010, net of accumulated depreciation and impairment | 155,480 | 29,669 | 49,832 | 8,790 | 3,758 | – | 247,529 |
| At 31 March 2010: | | | | | | | |
| Cost | 182,795 | 71,341 | 304,061 | 39,409 | 13,268 | – | 610,874 |
| Accumulated depreciation and impairment | (27,315) | (41,672) | (254,229) | (30,619) | (9,510) | – | (363,345) |
| Net carrying amount | 155,480 | 29,669 | 49,832 | 8,790 | 3,758 | – | 247,529 |

The Group's land included in property, plant and equipment with a net carrying amount of HK$29,237,000 (2010 (restated): HK$30,065,000) is held under medium term leases and is situated in Hong Kong.

# Notes to Financial Statements

31 March 2011

## 14. INVESTMENT PROPERTY

| | | Group | |
|---|---|---|---|
| | Note | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Carrying amount at beginning of the year | | 3,760 | 2,800 |
| Net profit from a fair value adjustment | 6 | 1,540 | 960 |
| Carrying amount at 31 March | | 5,300 | 3,760 |

The Group's investment property is held under a medium term lease and is situated in Hong Kong.

The Group's investment property was revalued on 31 March 2011 by Vigers Appraisal & Consulting Limited, an independent professionally qualified valuer, at HK$5,300,000 (2010: HK$3,760,000) on an open market and existing use basis. The investment property is leased to a third party under operating leases, further summary details of which are included in note 32(a) to the financial statements.

## 15. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000<br>(Restated) |
| Carrying amount at beginning of the year (restated) | 15,495 | 15,750 |
| Recognised during the year | (370) | (366) |
| Exchange realignment | 413 | 111 |
| Carrying amount at 31 March | 15,538 | 15,495 |
| Current portion included in prepayments, deposits and other receivables | (370) | (366) |
| Non-current portion | 15,168 | 15,129 |

The leasehold land is held under medium term leases and is situated in Mainland China.

# Notes to Financial Statements

31 March 2011

## 16. INVESTMENTS IN SUBSIDIARIES

| | Company 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **147,173** | 147,173 |
| Loans to subsidiaries | **359,251** | 359,323 |
| | **506,424** | 506,496 |

The loans to subsidiaries above are unsecured, interest-free and not repayable within one year. In the opinion of the directors, these loans are considered as quasi-equity loans to the subsidiaries.

The loan from a subsidiary included in the Company's non-current liabilities totalling HK$246,443,000 (2010: HK$238,586,000) is unsecured, interest-free and not repayable within one year.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration | Place of operations | Nominal value of issued share capital/ paid-in capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Diamond Bright Industries Limited | Hong Kong | Hong Kong | Ordinary HK$400 | – | 100 | Investment holding and subletting of property |
| Dongguan Yick Yue Optical Limited** | PRC*** | Mainland China | HK$16,715,000 | – | 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 |
| Elegance Optical Production Limited | British Virgin Islands | Hong Kong | Ordinary US$1 | – | 100 | Investment holding |

# Notes to Financial Statements

31 March 2011

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration | Place of operations | Nominal value of issued share capital/ paid-in capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|---|
| Fortune Optical Limited** | PRC*** | Mainland China | HK$42,400,000 (2010: HK$35,387,100) | – | 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 Southeast 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 Investment Limited | Hong Kong | Hong Kong | Ordinary HK$2 | – | 100 | Property holding |
| Great Champ Asia Limited | Hong Kong | Hong Kong | Ordinary HK$2 | – | 100 | Investment holding |
| Leader Up Limited | Hong Kong | Hong Kong | Ordinary HK$10,000 | – | 100 | Dormant |
| Million Wave Limited | Hong Kong | Hong Kong | Ordinary HK$10,000 | – | 100 | Property holding |
| Promisewell Company Limited | British Virgin Islands | Hong Kong | Ordinary US$1 | – | 100 | Dormant |
| Sandwalk (Far East) Limited | Hong Kong | Hong Kong | Ordinary HK$1 | – | 100 | Trading of optical frames and leather products |
| Standard Sun International Limited | Hong Kong | Hong Kong | Ordinary HK$10,000 | – | 100 | Dormant |

# Notes to Financial Statements

31 March 2011

## 16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration | Place of operations | Nominal value of issued share capital/ paid-in capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Direct | Indirect | |
| United Wish Company Limited | Hong Kong | Hong Kong | Ordinary HK$100 | – | 100 | Dormant |
| Winston Technology Limited | Hong Kong | Hong Kong | Ordinary HK$1 | – | 100 | Investment holding |
| Yieldly (International) Investment Limited | Hong Kong | Hong Kong | Ordinary HK$400 | – | 100 | Investment holding |
| 東莞精奇機械科技有限公司** | PRC*** | Mainland China | HK$17,538,000 | – | 100 | Trading and manufacture of machinery |
| 東莞豐誠貿易有限公司** | PRC*** | Mainland China | HK$3,000,000 | – | 100 | Investment holding |
| 廣州雅進貿易有限公司** | PRC*** | Mainland China | RMB500,000 | – | 100 | Retailing and trading of optical frames and leather products |

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 where one half of the balance of the said profits is distributed among the holders of the non-voting deferred shares and the other half of such balance among the holders of ordinary shares. Moreover, 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 another member firm of the Ernst & Young global network.

*** Dongguan Yick Yue Optical Limited, Fortune Optical Limited, 東莞精奇機械科技有限公司, 東莞豐誠貿易有限公司 and 廣州雅進貿易有限公司 are registered as wholly-foreign-owned enterprises under PRC law.

# Notes to Financial Statements

31 March 2011

## 17. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

| | Group | |
|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 |
| Share of net assets | 1,525 | 1,174 |
| Loan to a jointly-controlled entity | 3,498 | 3,684 |
| | 5,023 | 4,858 |

The loan to a jointly-controlled entity is unsecured, interest-free and not repayable within one year from the end of the reporting period. In the opinion of the directors, the loan is considered as a quasi-equity investment in the jointly-controlled entity.

Particulars of the jointly-controlled entities at the end of the reporting period are as follows:

| | | | Percentage of | | | |
|---|---|---|---|---|---|---|
| Name | Particulars of issued shares held | Place of incorporation/ registration | Ownership interest | Voting power | Profit sharing | Principal activities |
| Elegance Japan Co., Ltd.* | – (2010: JPY20,000,000) | Japan | – (2010: 50) | – (2010: 50) | – (2010: 50) | Trading of eyewear products |
| 廣州市佳視光學眼鏡有限公司* | Registered capital of RMB1,000,000 | PRC | 41 | 41 | 41 | Retailing and trading of optical frames |

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above jointly-controlled entities have been accounted for using the equity method in these financial statements. On 8 May 2010, the investment in Elegance Japan Co., Ltd. was disposed at its carrying value of HK$237,000.

The above investments in jointly-controlled entities are indirectly held by the Company.

During the year, the Group sold goods to and purchased goods from a jointly-controlled entity amounted to HK$276,000 (2010: HK$291,000) and HK$5,000 (2010: HK$85,000), respectively. These sales were carried out at prices mutually agreed between the parties.

# Notes to Financial Statements

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## 17. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Share of the jointly-controlled entities' assets and liabilities: | | |
| Current assets | 6,232 | 6,260 |
| Non-current assets | 29 | 82 |
| Current liabilities | (1,228) | (1,727) |
| Non-current liabilities | (3,508) | (3,441) |
| Net assets | 1,525 | 1,174 |
| Share of the jointly-controlled entities' results: | | |
| Revenue | 4,105 | 5,320 |
| Expenses | (3,517) | (4,819) |
| Profit before tax | 588 | 501 |
| Tax | – | (9) |
| Profit after tax | 588 | 492 |

## 18. INVESTMENT IN AN ASSOCIATE

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Share of net assets | 1,842 | 2,236 |

Particulars of the associate are as follows:

| Name | Particulars of issued shares held | Place of incorporation/ registration | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Optics 2000 & Optics Café Pte., Ltd.* | Ordinary shares of SG$1 each | Singapore | 43.8 | Retailing of eyewear products |

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

# Notes to Financial Statements

31 March 2011

## 18. INVESTMENT IN AN ASSOCIATE (continued)

The above associate has been accounted for using the equity method in these financial statements.

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

The following table illustrates the summarised financial information of the Group's associate as at the end of the reporting period and for the year extracted from its management accounts:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Assets | 6,815 | 6,265 |
| Liabilities | (1,180) | (714) |
| Revenues | 13,046 | 12,546 |
| Profit/(loss) | (900) | 78 |

## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| **Non-current** | | |
| Club debenture, at fair value | 520 | 520 |
| Unlisted equity investment, at cost | 15,173 | 15,173 |
| Loan to an unlisted equity investment | 16,456 | 16,456 |
| | 31,629 | 31,629 |
| | 32,149 | 32,149 |

In the prior year, the gross loss in respect of the Group's available-for-sale financial assets recognised in other comprehensive income amounted to HK$130,000.

As at 31 March 2011, the unlisted equity investment with a carrying amount of HK$15,173,000 was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that the fair value cannot be measured reliably. The Group does not intend to dispose this investment in the near future.

The loan to an unlisted equity investment is unsecured, interest-free and not repayable within one year from the end of the reporting period. In the opinion of the directors, the loan is considered as a quasi-equity investment in the unlisted equity investment.

# Notes to Financial Statements

31 March 2011

## 20. INVENTORIES

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Raw materials | 28,795 | 23,893 |
| Work in progress | 34,247 | 36,734 |
| Finished goods | 15,014 | 14,490 |
| | 78,056 | 75,117 |

## 21. TRADE AND BILLS RECEIVABLES

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Trade and bills receivables | 128,637 | 118,992 |
| Impairment | (3,456) | (3,561) |
| | 125,181 | 115,431 |

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 (2010: 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 the trade and bills receivables (net of impairment of trade receivables) as at 31 March 2011 and 2010:

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Current to 90 days | 112,624 | 105,063 |
| 91 to 180 days | 145 | 1,416 |
| 181 to 360 days | – | 459 |
| Over 360 days | 32 | 13 |
| | 112,801 | 106,951 |
| Bills receivable | 12,380 | 8,480 |
| Total | 125,181 | 115,431 |

# Notes to Financial Statements

31 March 2011

## 21. TRADE AND BILLS RECEIVABLES (continued)

The movements in the provision for impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| At beginning of the year | 3,561 | 5,139 |
| Amount written off as uncollectible | (21) | (1,317) |
| Impairment losses reversed (note 6) | (84) | (261) |
| At 31 March | 3,456 | 3,561 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$3,456,000 (2010: HK$3,561,000) with a carrying amount before provision of HK$3,641,000 (2010: HK$3,954,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Neither past due nor impaired | 101,494 | 103,118 |
| Less than one month past due | 21,047 | 7,184 |
| One to three months past due | 2,278 | 3,271 |
| Over three months past due | 177 | 1,465 |
| | 124,996 | 115,038 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

# Notes to Financial Statements

31 March 2011

## 22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000<br>(Restated) | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Prepayments | 2,296 | 2,274 | 170 | 170 |
| Deposits and other receivables | 1,058 | 7,498 | – | – |
| | 3,354 | 9,772 | 170 | 170 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Listed equity investments in Hong Kong, at market value | 52 | 37 |

The above equity investments at 31 March 2010 and 2011 were classified as held for trading.

## 24. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Cash and bank balances | 88,632 | 71,386 | 23 | 32 |
| Time deposits | 23,444 | 46,800 | – | – |
| Cash and cash equivalents | 112,076 | 118,186 | 23 | 32 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$28,866,000 (2010: HK$12,165,000). 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.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

# Notes to Financial Statements

31 March 2011

## 25. TRADE AND BILLS PAYABLES

The following is an aged analysis of the trade and bills payables as at 31 March 2011 and 2010:

| | Group | |
|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 |
| Current to 90 days | 41,143 | 39,274 |
| 91 to 180 days | 1,792 | 982 |
| 181 to 360 days | 771 | 170 |
| Over 360 days | 895 | 792 |
| Total | 44,601 | 41,218 |

Trade and bills payables are non-interest-bearing and are normally settled on 90-day (2010: 90-day) terms.

## 26. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 | 2011 HK$'000 | 2010 HK$'000 |
| Other payables | 12,795 | 18,919 | 35 | 35 |
| Accruals | 25,743 | 21,539 | 133 | 290 |
| | 38,538 | 40,458 | 168 | 325 |

Other payables are non-interest-bearing and repayable on demand.

# Notes to Financial Statements

31 March 2011

## 27. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities

**Group**

| | Depreciation allowance in excess of related depreciation HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 April 2009 | 5,867 | (317) | 5,550 |
| Deferred tax charged/(credited) to the income statement during the year (note 9) | (1,585) | 448 | (1,137) |
| Gross deferred tax liabilities at 31 March 2010 and 1 April 2010 | 4,282 | 131 | 4,413 |
| Deferred tax credited to the income statement during the year (note 9) | (1,288) | – | (1,288) |
| **Gross deferred tax liabilities at 31 March 2011** | **2,994** | **131** | **3,125** |

### Deferred tax assets

| | Group Losses available for offsetting against future taxable profits HK$'000 | Company Losses available for offsetting against future taxable profits HK$'000 |
|---|---|---|
| At 1 April 2009 | 807 | 785 |
| Deferred tax charged to the income statement during the year (note 9) | (310) | (288) |
| Gross deferred tax assets at 31 March 2010 and 1 April 2010 | 497 | 497 |
| Deferred tax charged to the income statement during the year (note 9) | (318) | (318) |
| **Gross deferred tax assets at 31 March 2011** | **179** | **179** |

# Notes to Financial Statements

31 March 2011

## 27. DEFERRED TAX (continued)

At the end of the reporting period, the Group had tax losses arising in Hong Kong of HK$20,717,000 (2010: HK$19,641,000) 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 and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries and jointly-controlled entities established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 March 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and a jointly-controlled entity established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and the jointly-controlled entity will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$31,000 at 31 March 2011 (2010: HK$31,000).

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

## 28. SHARE CAPITAL

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| *Authorised:* | | |
| 1,000,000,000 shares of HK$0.10 each | 100,000 | 100,000 |
| *Issued and fully paid:* | | |
| 323,649,123 shares of HK$0.10 each | 32,365 | 32,365 |

# Notes to Financial Statements

31 March 2011

## 29. 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. 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 non-controlling shareholder in the Company's subsidiaries.

The share option scheme of the Company 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 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 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 offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than ten years from the date of 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 SEHK closing price of the Company's shares on the date of offer of the share options; and (ii) the average SEHK closing price of the Company's shares for the five trading days immediately preceding the date of offer.

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

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

# Notes to Financial Statements

31 March 2011

## 30. 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 28 of this annual report.

The capital reserve of the Group represents (i) the excess of 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 ("EGL"), the then holding company of the Group's subsidiaries existing at that time, at an aggregate premium of HK$22,000,000 which was credited to the capital reserve. The Group reorganisation has resulted in EGL becoming a wholly-owned subsidiary of the Company.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated reserves.

### (b) Company

| | Note | Share premium account HK$'000 | Contributed surplus HK$'000 | Retained profits HK$'000 | Proposed final dividend HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 April 2009 | | 56,831 | 146,973 | 1,531 | 9,709 | 215,044 |
| Profit for the year and total comprehensive income for the year | | – | – | 30,584 | – | 30,584 |
| Final 2009 dividend declared | | – | – | – | (9,709) | (9,709) |
| Proposed final 2010 dividend | 11 | – | – | (9,709) | 9,709 | – |
| At 31 March and 1 April 2010 | | 56,831 | 146,973 | 22,406 | 9,709 | 235,919 |
| Profit for the year and total comprehensive income for the year | | – | – | 1,610 | – | 1,610 |
| Final 2010 dividend declared | | – | – | – | (9,709) | (9,709) |
| Proposed final 2011 dividend | 11 | – | – | (9,709) | 9,709 | – |
| **At 31 March 2011** | | **56,831*** | **146,973*** | **14,307*** | **9,709** | **227,820** |

The Company's contributed surplus represents the difference between the consolidated net asset value of EGL on 8 February 1996, the day on which its entire issued share capital was acquired by the Company pursuant to the Group reorganisation referred to in note 30(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.

* These reserve accounts comprise the Company's reserves of HK$218,111,000 (2010: HK$226,210,000) at the end of the reporting period.

# Notes to Financial Statements

31 March 2011

## 31. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

| | Company | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Guarantees given for banking facilities granted to certain subsidiaries of the Company | 151,400 | 142,900 |
| Amount utilised | – | – |

In the opinion of the directors, the fair values of the above financial guarantees for banking facilities granted to certain subsidiaries of the Company approximate to zero as at the end of the reporting period.

The Group had no contingent liabilities at the end of the reporting period.

## 32. 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 provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2011, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Within one year | 617 | 655 |
| In the second to fifth years, inclusive | 30 | 547 |
| | 647 | 1,202 |

# Notes to Financial Statements

31 March 2011

## 32. 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 one to fifty years.

At 31 March 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Within one year | 2,641 | 2,564 |
| In the second to fifth years, inclusive | 3,751 | 5,061 |
| After five years | 50,590 | 49,313 |
| | 56,982 | 56,938 |

## 33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32(b) above, the Group had the following capital commitments at the end of the reporting period:

| | Group | |
|---|---|---|
| | 2011<br>HK$'000 | 2010<br>HK$'000 |
| Contracted, but not provided for: | | |
| Land and buildings | – | 382 |
| Equipment and machinery | 132 | 1,318 |
| | 132 | 1,700 |

The Company had no significant commitments at the end of the reporting period.

# Notes to Financial Statements

31 March 2011

## 34. RELATED PARTY TRANSACTIONS

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

### (a) Transactions with the Sàfilo S.p.A. group of companies ("Sàfilo")

Sàfilo S.p.A., a company incorporated in Italy and beneficially owning a 23.05% equity interest in the Company, entered into the following commercial agreements with the Company since 1997:

#### *(i) Supply Agreement*

The Group committed to supply and Sàfilo 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 would continue subject to termination by either party by a notice period of six months.

The terms of sales offered to Sàfilo are similar to the terms that the Group offers to other major customers.

During the year, the Group sold goods to Sàfilo with an aggregate sales value amounting to HK$157,448,000 (2010: HK$158,361,000).

The aggregate trade receivable balance due from Sàfilo at 31 March 2011 in respect of these sales amounted to HK$48,791,000 (2010: HK$55,855,000).

#### *(ii) Shareholders' Agreement and Sub-licence Agreement*

Pursuant to the terms of the shareholders' agreement entered into between the Group and Safilo Far East Limited ("SFEL") which is a wholly-owned subsidiary of Sàfilo S.p.A and an independent third party, a joint venture company, Safint Optical Investments Limited ("Safint"), was established to manage and operate the manufacture and distribution of optical frames and sunglasses in Mainland China.

A Sub-licence Agreement was entered into between Safint and the Group pursuant to which the Group was granted a non-exclusive licence by Safint to manufacture and distribute Sàfilo's branded products in Mainland China.

During the year, the Group sold goods to Safint's group companies with an aggregate sales value amounting HK$481,000 (2010: HK$59,000). The sales were carried out at prices mutually agreed between the parties.

### (b) Transaction with a director of the Company

During the year, a director's quarter was rented by the Group from Mr. Hui Leung Wah, the chairman and managing director of the Company, for the use by Mr. Poon Sui Hong as a director's quarter. The annual rental amounting to HK$444,000 for the year (2010: HK$444,000) was mutually agreed by both parties based on market value and has been included in directors' remuneration in note 8 to the financial statements.

# Notes to Financial Statements

31 March 2011

## 34. RELATED PARTY TRANSACTIONS (continued)

### (c) Outstanding balance with a jointly-controlled entity

Details of the Group's balance with its jointly-controlled entity as at the end of the reporting period are included in note 17 to the financial statements.

### (d) Compensation of key management personnel of the Group

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Short term employee benefits | 5,998 | 5,987 |
| Post-employment benefits | 111 | 110 |
| Total compensation paid to key management personnel | 6,109 | 6,097 |

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions as set out in (a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

# Notes to Financial Statements

31 March 2011

## 35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2011** **Group**

***Financial assets***

| | Financial assets at fair value through profit or loss – held for trading HK$'000 | Loans and receivables HK$'000 | Available–for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Loan to a jointly–controlled entity (note 17) | – | 3,498 | – | 3,498 |
| Available–for–sale financial assets | – | 16,456 | 15,693 | 32,149 |
| Trade and bills receivables | – | 125,181 | – | 125,181 |
| Financial assets included in prepayments, deposits and other receivables (note 22) | – | 1,058 | – | 1,058 |
| Equity investments at fair value through profit or loss | 52 | – | – | 52 |
| Cash and cash equivalents | – | 112,076 | – | 112,076 |
| | 52 | 258,269 | 15,693 | 274,014 |

***Financial liabilities***

| | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Trade and bills payables | 44,601 |
| Financial liabilities included in other payables and accruals (note 26) | 12,795 |
| | 57,396 |

# Notes to Financial Statements

31 March 2011

## 35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2010 Group

***Financial assets***

| | Financial assets at fair value through profit or loss – held for trading HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Loan to a jointly-controlled entity (note 17) | – | 3,684 | – | 3,684 |
| Available-for-sale financial assets | – | 16,456 | 15,693 | 32,149 |
| Trade and bills receivables | – | 115,431 | – | 115,431 |
| Financial assets included in prepayments, deposits and other receivables (note 22) | – | 7,498 | – | 7,498 |
| Equity investments at fair value through profit or loss | 37 | – | – | 37 |
| Cash and cash equivalents | – | 118,186 | – | 118,186 |
| | 37 | 261,255 | 15,693 | 276,985 |

***Financial liabilities***

| | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Trade and bills payables | 41,218 |
| Financial liabilities included in other payables and accruals (note 26) | 18,919 |
| | 60,137 |

# Notes to Financial Statements

31 March 2011

## 35. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

*Financial assets*

| | Company Loans and receivables | |
|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 |
| Loans to subsidiaries (note 16) | 359,251 | 359,323 |
| Cash and bank balances | 23 | 32 |
| | 359,274 | 359,355 |

*Financial liabilities*

| | Company Financial liabilities at amortised cost | |
|---|---|---|
| | 2011 HK$'000 | 2010 HK$'000 |
| Loan from a subsidiary (note 16) | 246,443 | 238,586 |
| Financial liabilities included in other payables and accruals (note 26) | 35 | 35 |
| | 246,478 | 238,621 |

# Notes to Financial Statements

31 March 2011

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Most of the Group's sales were denominated in United States dollars while expenditure incurred in the operations of manufacturing plants and capital expenditure were denominated in RMB. The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity (due to changes in the fair value of monetary assets and liabilities).

| | Increase/ (decrease) in RMB rate % | Increase/ (decrease) in profit before tax HK$'000 | Increase/ (decrease) in equity* HK$'000 |
|---|---|---|---|
| **2011** | | | |
| If Hong Kong dollar weakens against RMB | 4% | 55 | 47 |
| If Hong Kong dollar strengthens against RMB | (4%) | (55) | (47) |
| 2010 | | | |
| If Hong Kong dollar weakens against RMB | 3% | (315) | (102) |
| If Hong Kong dollar strengthens against RMB | (3%) | 315 | 102 |

* Excluding retained profits

# Notes to Financial Statements

31 March 2011

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, a loan to a jointly-controlled entity and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 31 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 39% (2010: 48%) and 60% (2010: 68%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, within the Europe and North America regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 21 to the financial statements.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group's policy is to minimise borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| Group | 2011 | | | |
|---|---|---|---|---|
| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | Total HK$'000 |
| Trade and bills payables | 20,789 | 23,812 | – | 44,601 |
| Other payables (note 26) | 12,795 | – | – | 12,795 |
| | 33,584 | 23,812 | – | 57,396 |

# Notes to Financial Statements

31 March 2011

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows: (continued)

**Group (continued)**

| | 2010 | | | |
|---|---|---|---|---|
| | On demand HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | Total HK$'000 |
| Trade and bills payables | 20,636 | 20,582 | – | 41,218 |
| Other payables (note 26) | 18,919 | – | – | 18,919 |
| | 39,555 | 20,582 | – | 60,137 |

**Company**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | On demand HK$'000 | Total HK$'000 | On demand HK$'000 | Total HK$'000 |
| Loan from a subsidiary | 246,443 | 246,443 | 238,586 | 238,586 |
| Other payables (note 26) | 35 | 35 | 35 | 35 |
| | 246,478 | 246,478 | 238,621 | 238,621 |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2011 and 2010.

## 37. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment, and a third statement of financial position as at 1 April 2009 has been presented.

## 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 June 2011.