Elegance International Holdings Limited

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

Annual Report **2012**

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

LISSI Barbara
MARCHISIO Paola

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

TSUI Choi Yee, Connie

PRINCIPAL BANKERS

Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Chong Hing Bank Limited
Dah Sing Bank Limited

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

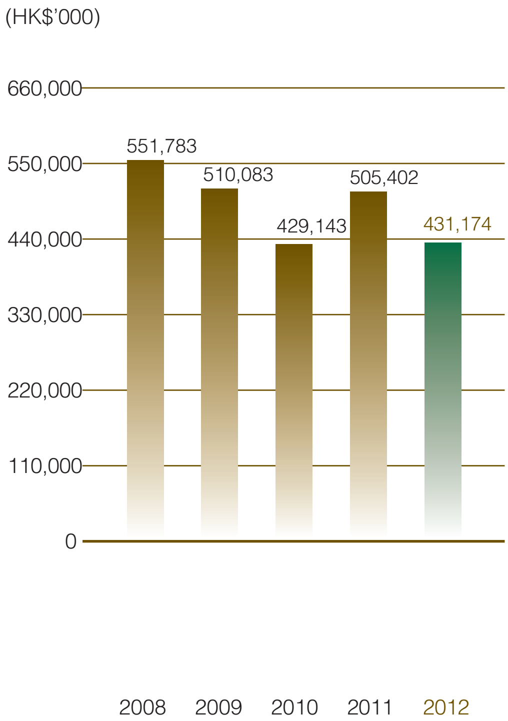
www.elegance-group.com

STOCK CODE

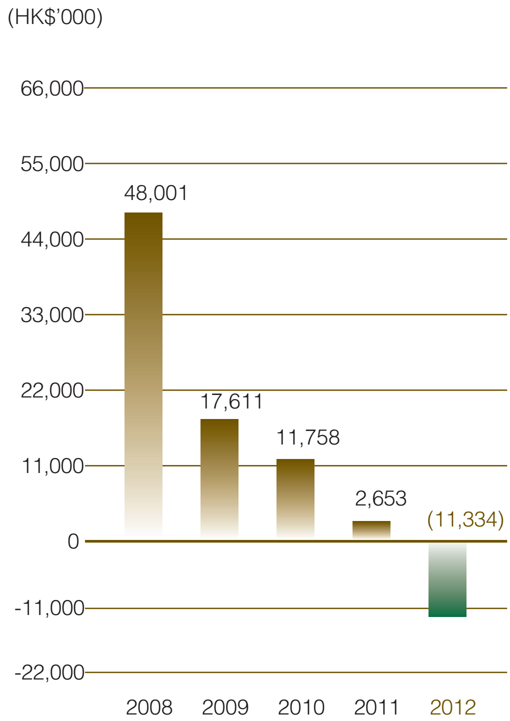
907

FINANCIAL HIGHLIGHTS

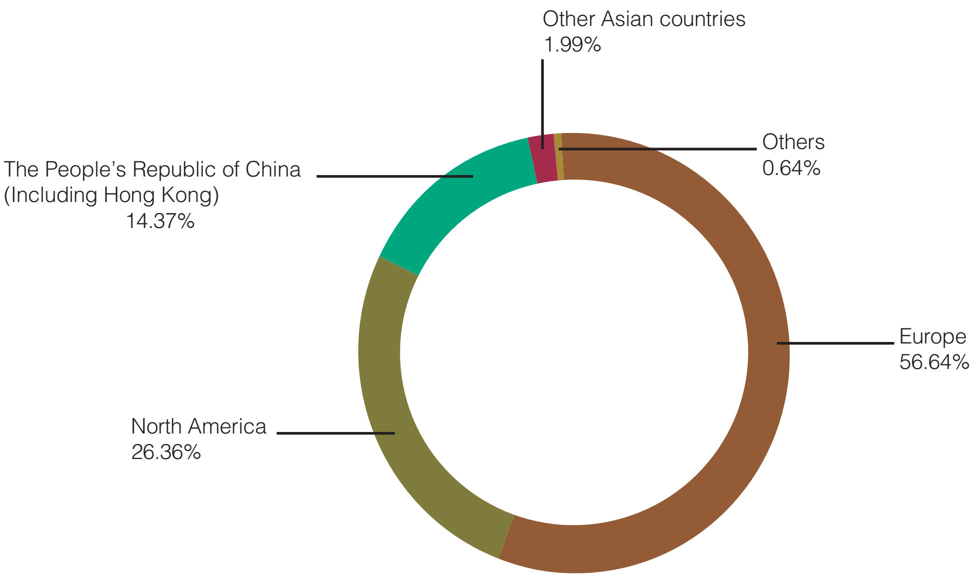
REvENUE



PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY



BREAKDOWN OF REvENUE BY GEOGRAPHICAL AREA FOR THE YEAR ENDED 31 MARCH 2012



CHAIRMAN'S STATEMENT

DIVIDEND AND RECORD DATE

The board of directors (the "Board") of Elegance International Holdings Limited (the "Company") has resolved to recommend the payment of a special dividend of HK4 cents per ordinary share (2011: Nil) for the year ended 31 March 2012 at the forthcoming annual general meeting of the Company to be held on 31 August 2012. The record date set for entitlement of special dividend is 6 September 2012. Payment of the special dividend is scheduled for 26 September 2012 subject to its declaration being approved at the annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will close on the following dates, during which the registration of transfers of shares will be suspended:

(a) Friday, 31 August 2012 (being the date of the annual general meeting of the Company), for facilitating the processing of proxy voting on the annual general meeting; and

(b) Thursday, 6 September 2012 (being the record date set for the proposed special dividend if declaration of which is approved at the annual general meeting), for determination of entitlements of the shareholders of the Company to the proposed special dividend.

CHAIRMAN'S STATEMENT

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, 30 August 2012 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, 5 September 2012 in order to qualify for the proposed special dividend.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The financial year ended 31 March 2012 would be the one to remember in the history of the Company and its subsidiaries (the "Group"). As stated in the announcement of the Company dated 29 November 2011 on its interim results for the six months ended 30 September 2011, the Group suffered a loss for the first time since the Company was listed on The Stock Exchange of Hong Kong Limited (the "SEHK") on 11 April 1996 as a result of, inter alia, decrease in revenue and surging in production costs. The Company has recorded a net loss for the financial year ended 31 March 2012.

For the year ended 31 March 2012, sales of the Group decreased 14.69% to HK$431,174,000 (2011: HK$505,402,000). The gross profit of the Group plummeted 96.92% to HK$1,771,000 (2011: HK$57,559,000). As a result, there was a loss of HK$11,334,000 attributable to owners of the Company (2011: profit of HK$2,653,000).

CHAIRMAN'S STATEMENT

The world works in cycles, though repeating cycles come in varying formats and paces. The global economy during the financial year under review was in the doldrums. Sales of the Group to Europe in the year were down by 15.42% to HK$244,206,000 (2011: HK$288,717,000). The sales to North America also witnessed a 27.87% decline to HK$113,663,000 (2011: HK$157,591,000).

In addition to the worse economic condition which dampened the buying desires of the consumers, the Group was also disadvantaged by the trend of the changing market demand in favor of the frames and sunglasses made of acetate materials. Over the past two years, the Group has managed to increase the production capacity by almost 70% and successfully showed the credentials of being a quality producer of acetate products on top of being long known as a leading metal eyewear products producer. Yet the growth in acetate capacity was not big and quick enough to offset the retreat of the metal frames and sunglasses orders seen in the same period. The rise and fall of the demand in different lines of products have resulted in some of the manufacturing facilities of the Group not being fully and efficiently utilised and hence the overall profit margin of the Group has been lowered.

Added to the trouble were the swift and steep rising wages of the workers in the southern China where the factories of the Group are located. In 2 years' time since June 2010, the minimum wage in our Shenzhen factory increased over 66%. The rise in the minimum wage affected not only the new workers in our factories, together with the high inflation in the region, a rippling effect was set off and the wages of many workers had to be revised upward noticeably. Equally worse is a high turnover of the staff and workers we have seen in the region and that increased the costs and instability of our operations.

We have tried to increase the price of our products but the weak economy worldwide made it challenging for the Group. As Europe suffered from the debt crisis and the economic slowdown and since over 57% of our sales go to the European customers, the task is daunting. While the demand was either flat or declining in some market segments, the customers were extremely price sensitive. For the reason, the Group was unable to pass on all kinds of cost increased to the customers and hence our profitability was greatly restrained.

As part of the cost reduction measures, the Group sold its interests in the loss making optical case manufacturing business to an independent third party during the year. Our team in the optical case manufacturing business was experienced, technically capable and committed. However, because of the lack of economy of scale as a result of having reduced orders, the business was operating at a loss in recent years. We believe the disposal was beneficial to all parties involved. Amongst the benefits, the Group has been able to make a small gain on the disposal compared to the book cost and the management of the Group did not have to set aside further resources on this non-core business.

The Group has also divested in the year under review its interests in Safint Optical Investments Limited ("Safint"), a joint venture held with Safilo Far East Limited ("SFEL") and an independent third party, to SFEL. Approval of the independent shareholders of the Company was obtained in the Special General Meeting held on 29 February 2012 for the divestment of the Group's remaining ten percent equity interests in Safint. Safint's principal business is eyewear distribution business in China. It seems like the whole world is eyeing on China as the prime engine of growth. Such positive long term expectation in the potential of the Chinese market facilitated the divestment. As explained in the circular to the Company's shareholders dated 8 February 2012, being a minority in such an investment with all the products supplied solely by the Sàfilo S.p.A. group of companies, our involvement in the investment was extremely passive. By realising the value in Safint at a price which, in the view of the management was satisfactory and for the real benefit of the Group, the Group would have more cash resources to weather the current difficult period.

PROSPECTS

The global economy is struggling. Factory outputs worldwide slid as echoed by the declining purchasing manager indices seen in different major economies. Eyewear products are increasingly linked to fashion rather than being the basic necessities of vision correction aids. When people are uncertain about the economic future, they will not buy or delay buying new eyewear or sunglasses. As a result, the Group can neither be optimistic nor certain about the business prospects of the immediate period to follow. Given the current global political, financial and economic development seen, it is highly likely that the challenging period for our industry will linger on.

CHAIRMAN'S STATEMENT

To tackle the difficulties, the management has focused on improving the operational efficiency of the Group's manufacturing set up. The targets are to improve production lead time, reduce costs and avoid non-conforming products being produced. Deploying more computer controlled machines to lead in selective automation on the production floor will be one of the directions. The Group will make use of its machine making capability to achieve the objectives. The Group needs to take quick action with strong determination to control the production cost as its already extremely thin gross profit margin is being eroded by the rising expenses coming at all fronts.

The Group will also make use of the slower momentum of business to improve on its organisation. It has to streamline the organisational structure to make the system more responsive.

Although the Group cannot expect much for the market to rebound significantly and quickly in the short period of time, for the fact that its acetate market segment is small as compared to the market practitioners of comparable scale, the Group expects more room to grow. The Group will expand its sales efforts to get a bigger market share in the acetate product segment which is believed to remain strong for a while. Simultaneously, the Group will also strengthen its marketing efforts to convince its customers to accept its price increase request as it is mandated by the circumstances.

There are times in which we need to be patient. This is the period in which the Group needs to tread carefully and optimise management of its resources for the next opportunity to come.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a strong financial position with cash and bank balances of HK$162,271,000 and a zero gearing ratio as at 31 March 2012. The Group's equity attributable to owners of the Company as at 31 March 2012 amounted to HK$493,192,000 (31 March 2011: HK$512,331,000).

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 2012, the Group had capital commitments, which were contracted but not provided for, in respect of leasehold improvements, equipment and machinery of HK$2,368,000 (31 March 2011: HK$132,000). As at 31 March 2012, the Company had a contingent liability of HK$125,400,000 (31 March 2011: HK$151,400,000) in respect of guarantees given to banks in connection with facilities granted to its subsidiary.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2012, the Group employed 4,130 (31 March 2011: 5,159) 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 individual employees, 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 2012

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

HUI Leung Wah, aged 59, is the Chairman and Managing Director of the Group. He is the founder of the Group and has 46 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 and Ms. Hui Wing Ka, Candy, members 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, a member of the senior management of the Group.

POON Sui Hong, aged 53, is an Executive Director and a General Manager of the Group. He joined the Group in 1984 and has over 26 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.

LEUNG Shu Sum, aged 57, is an Executive Director and one of the founding members of the Group and has over 36 years of experience in optical frames production. He is currently responsible for supervising the production activities at The People's Republic of China (the "PRC") production facilities.

NON-EXECUTIVE DIRECTORS

LISSI Barbara, aged 42, 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 18 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 Asia Sourcing Director of the Sàfilo S.p.A. based in Hong Kong. She speaks Italian, English and Chinese fluently.

MARCHISIO Paola, aged 50, 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 24 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

POON Kwok Fai, Ronald, aged 63, 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 32 years of experience in the legal profession.

TAM Hok Lam, Tommy, PhD, JP, aged 63, 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. Prior to 29 March 2012, Dr. Tam was 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"). Dr. Tam is 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 holding 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 60, 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 37 years of experience in the electronics industry.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

TSANG Tak Hung, Donald, aged 53, 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 52, 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. He holds directorships in certain subsidiaries of the Group.

HUI Sze Man, Doris, aged 31, joined the Group in 2005 as an Assistant to Chairman. Ms. Hui is in charge of the Research and Development Department. 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 The Young Industrialists Council Youth Chapter since 2003. She is the daughter of Mr. Hui Leung Wah and the sister of Ms. Hui Wing Ka, Candy.

HUI Wing Ka, Candy, aged 28, is an Assistant General Manager of the Group. Ms. Hui joined the Group in 2008 and is in charge of the Design Departments. She is also responsible for managing the Group's global sales and marketing operations. She holds a Bachelor degree in Arts (Honors) from University of Toronto in Canada. Ms. Hui is currently the Vice-Chairman of The Young Industrialists Council Youth Chapter, she is also a member of The Chinese Manufacturers' Association of Hong Kong – Youth Committee. Ms. Hui is the daughter of Mr. Hui Leung Wah and the sister of Ms. Hui Sze Man, Doris.

TSUI Choi Yee, Connie, aged 46, 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 18 years of experience in the field of accounting and auditing.

CORPORATE GOVERNANCE REPORT

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 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 2012, except for the following deviation:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company does not have any officer with the title "chief executive" under the Board. 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct ("Code of Conduct") 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 and the Company's Code of Conduct throughout the year.

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 8 to 9 of the annual report.

BOARD OF DIRECTORS (continued)

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. Hui Leung Wah, Mr. Poon Sui Hong and Mr. Poon Kwok Fai, Ronald will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election by shareholders.

The Company has published the procedures for shareholders to propose a person for election as a director on its website.

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 advice 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 performance of the following corporate governance functions are delegated by the Board to the Audit Committee:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

All committees established under the Board are required to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

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.

BOARD OF DIRECTORS (continued)

Functions of the Board

During the financial year ended 31 March 2012, six 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	6/6
Mr. Poon Sui Hong	6/6
Mr. Leung Shu Sum	5/6
Non-Executive Directors	
Ms. Barbara Lissi	5/6
Ms. Paola Marchisio	4/6
Independent Non-Executive Directors	
Mr. Poon Kwok Fai, Ronald	6/6
Dr. Tam Hok Lam, Tommy	4/6
Mr. Wong Chung Mat, Ben	6/6

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.

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 to ensure 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 in annual and interim reports, price-sensitive announcement and other financial disclosures required by 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 24 to 25 of the annual report.

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 during the year and the attendance of each member is set out as follows:

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

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

1. to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

3. to make recommendations to the Board on the remuneration packages of individual executive directors and senior management;

4. to make recommendations to the Board on the remuneration of non-executive directors;

5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

7. to review and approve compensation arrangement relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

8. 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 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 2012.

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 and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

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 the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

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 2012.

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, or 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 procedures.

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 outcomes 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

AUDIT COMMITTEE (continued)

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 2011 and for the six months ended 30 September 2011 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, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function;

4. reviewed and recommended for the Board's approval 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.

AUDITORS' REMUNERATION

For the year ended 31 March 2012, the remuneration paid or payable to the Company's auditors, Messrs Ernst & Young, is set out as follows:

Services rendered	**Fees paid/payable** HK$'000
Audit services	790
Non-audit services – interim review	90
Non-audit services – taxation	84
Total	964

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 shareholders' investments 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 2012, 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, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function 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 2012.

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 DIvIDEND

The Group's loss for the year ended 31 March 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 90.

The directors recommend the payment of a special dividend of HK4 cents per share in respect of the year to shareholders on the register of members on 6 September 2012. 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 published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out below. This summary does not form part of the audited financial statements.

Results

	Year ended 31 March				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**431,174**	505,402	429,143	510,083	551,783
PROFIT/(LOSS) FOR THE YEAR	**(13,916)**	2,818	9,268	16,156	51,369
Attributable to:					
Owners of the Company	**(11,334)**	2,653	11,758	17,611	48,001
Non-controlling interests	**(2,582)**	165	(2,490)	(1,455)	3,368
	(13,916)	2,818	9,268	16,156	51,369

SUMMARY FINANCIAL INFORMATION (continued)

Assets, liabilities and non-controlling interests

	As at 31 March				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**587,562**	619,171	625,410	618,764	651,945
TOTAL LIABILITIES	**(79,488)**	(89,396)	(90,736)	(83,487)	(113,026)
NON-CONTROLLING INTERESTS	**(14,882)**	(17,444)	(16,808)	(19,191)	(20,802)
	493,192	512,331	517,866	516,086	518,117

PROPERTY, PLANT AND EQUIPMENT AND INvESTMENT PROPERTY

Details of movements in the property, plant and equipment and an 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 30 of this annual report, respectively.

DISTRIBUTABLE RESERvES

As at 31 March 2012, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$160,716,000 of which HK$12,946,000 has been proposed as a special 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$46,000.

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. Hui Leung Wah, Mr. Poon Sui Hong and Mr. Poon Kwok Fai, Ronald 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 8 to 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors 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 board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' AND CHIEF EXECUTIvE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2012, the interests and short positions of the directors and chief executive of the Company in the shares and underlying shares 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, capacity and nature of interest		Total	Percentage of the issued share capital of the Company
	Beneficial owner	Other interests		
Hui Leung Wah (Note)	8,308,000	141,316,000	149,624,000	46.23
Poon Sui Hong	7,000,000	–	7,000,000	2.16
Leung Shu Sum	6,000,000	–	6,000,000	1.85
Paola Marchisio	198,000	–	198,000	0.06
	21,506,000	141,316,000	162,822,000	50.30

Note: The 141,316,000 shares held as other interests by 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 (PTC) Limited (formerly known as 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 positions 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 above, as at 31 March 2012, none of the directors or chief executive of the Company had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded 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

Save as disclosed in 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 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 was a party during the year.

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

At 31 March 2012, 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 and nature of interest	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 (PTC) Limited (Note 2) (formerly known as Wahyee Limited)	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 the shares held by and shares taken to be interested by Mr. Hui Leung Wah.

2. Details are stated in the above section headed "Directors' and chief executive's 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 2012, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's 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 ended 31 March 2012.

MAj OR CUSTOMERS AND SUPPLIERS

During the year, the Group's largest customer and the Group's five largest customers accounted for 25.61% and 55.12% 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 35 to the financial statements.

During the year, the Group's largest supplier and the Group's five largest suppliers accounted for 11.66% and 37.29% 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 year ending 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 year ending 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$244 million for the year.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 35 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.

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 35 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 amount due is unsecured, bears interest at the same rate charged to the Group by its banks and are repayable in accordance with normal trading terms. The balance with the non-wholly-owned subsidiary is eliminated in the Group's consolidated financial statements. Details of the amount outstanding at the end of the reporting period are set out below:

	31 March 2012 HK$'000	31 March 2011 HK$'000
Gold Strong Industrial Limited	**35,001**	33,293

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 (2011: HK$444,000) was mutually agreed by both parties based on market value and has been included in directors' remuneration set out 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 2012

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 26 to 90, which comprise the consolidated and company statements of financial position as at 31 March 2012, 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 2012, and of the Group's loss 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

22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

28 June 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
REVENUE	5	**431,174**	505,402
Cost of sales		**(429,403)**	(447,843)
Gross profit		**1,771**	57,559
Other income	5	**2,385**	2,826
Selling and distribution costs		**(7,484)**	(8,554)
Administrative expenses		**(48,204)**	(49,672)
Other operating income/(expenses), net		**34,838**	(463)
Finance costs	7	**–**	(3)
Share of profits and losses of:			
Jointly-controlled entities		**919**	588
An associate		**(926)**	(394)
PROFIT/(LOSS) BEFORE TAX	6	**(16,701)**	1,887
Income tax credit	9	**2,785**	931
PROFIT/(LOSS) FOR THE YEAR		**(13,916)**	2,818
Attributable to:			
Owners of the Company	10	**(11,334)**	2,653
Non-controlling interests		**(2,582)**	165
		(13,916)	2,818
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic and diluted		**HK(3.50) cents**	HK0.82 cent

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 2012

	Note	2012 HK$'000	2011 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**(13,916)**	2,818
OTHER COMPREHENSIVE INCOME			
Share of other comprehensive income of a jointly-controlled entity		**140**	–
Share of other comprehensive income of an associate		**610**	–
Exchange differences on translation of foreign operations		**1,510**	1,992
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**2,260**	1,992
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(11,656)**	4,810
Attributable to:			
Owners of the Company	10	**(9,430)**	4,174
Non-controlling interests		**(2,226)**	636
		(11,656)	4,810

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**222,049**	238,990
Investment property	14	**5,460**	5,300
Prepaid land lease payments	15	**15,060**	15,168
Investment in a jointly-controlled entity	17	**5,887**	5,023
Investment in an associate	18	**1,526**	1,842
Available-for-sale financial assets	19	**520**	32,149
Deferred tax assets	27	**1,077**	179
Deposits paid for items of property, plant and equipment		**1,786**	64
Total non-current assets		**253,365**	298,715
CURRENT ASSETS			
Inventories	20	**73,696**	78,056
Trade and bills receivables	21	**91,798**	125,181
Prepayments, deposits and other receivables	22	**5,254**	3,354
Equity investments at fair value through profit or loss	23	**47**	52
Tax recoverable		**1,131**	1,737
Cash and cash equivalents	24	**162,271**	112,076
Total current assets		**334,197**	320,456
CURRENT LIABILITIES			
Trade and bills payables	25	**37,292**	44,601
Other payables and accruals	26	**38,460**	38,538
Tax payable		**2,950**	3,132
Total current liabilities		**78,702**	86,271
NET CURRENT ASSETS		**255,495**	234,185
TOTAL ASSETS LESS CURRENT LIABILITIES		**508,860**	532,900
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**786**	3,125
Net assets		**508,074**	529,775

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**32,365**	32,365
Reserves	30(a)	**447,881**	470,257
Proposed special and final dividends	11	**12,946**	9,709
		493,192	512,331
Non-controlling interests		**14,882**	17,444
Total equity		**508,074**	529,775

Hui Leung Wah
Director

Poon Sui Hong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2012

		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$'000	Proposed special and final dividends HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2010		32,365	56,831	41,800	(130)	(152)	4,204	373,239	9,709	517,866	16,808	534,674
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 and 1 April 2011		32,365	56,831	41,800	(130)	(152)	5,725	366,183	9,709	512,331	17,444	529,775
Loss for the year		–	–	–	–	–	–	(11,334)	–	(11,334)	(2,582)	(13,916)
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	1,904	–	–	1,904	356	2,260
Total comprehensive income/(loss) for the year		–	–	–	–	–	1,904	(11,334)	–	(9,430)	(2,226)	(11,656)
Disposal of a subsidiary		–	–	125	–	–	–	(125)	–	–	(336)	(336)
Final 2011 dividend declared		–	–	–	–	–	–	–	(9,709)	(9,709)	–	(9,709)
Proposed special 2012 dividend	11	–	–	–	–	–	–	(12,946)	12,946	–	–	–
At 31 March 2012		**32,365**	**56,831***	**41,925***	**(130)***	**(152)***	**7,629***	**341,778***	**12,946**	**493,192**	**14,882**	**508,074**

* These reserve accounts comprise the consolidated reserves of HK$447,881,000 (2011: HK$470,257,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2012

	Notes	**2012 HK$'000**	2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(16,701)**	1,887
Adjustments for:			
Finance costs	7	**–**	3
Share of profits and losses of jointly-controlled entities and an associate		**7**	(194)
Bank interest income	5	**(677)**	(531)
Dividend income from listed investments	5	**(4)**	(3)
Loss/(gain) on disposal of items of property, plant and equipment	6	**(150)**	2,102
Gain on disposal of a subsidiary	6	**(453)**	–
Gain on disposal of available-for-sale financial assets	6	**(33,948)**	–
Changes in fair value of an investment property	6	**(160)**	(1,540)
Fair value losses/(gains), net:			
Equity investments at fair value through profit or loss	6	**7**	(15)
Depreciation	6	**29,288**	30,093
Amortisation of prepaid land lease payments	6	**412**	370
Write-back of impairment of trade receivables	6	**(134)**	(84)
Provision/(write-back of provision) for inventory obsolescence	6	**(166)**	2,896
		(22,679)	34,984
Decrease/(increase) in inventories		**3,047**	(5,835)
Decrease/(increase) in trade and bills receivables		**32,554**	(9,666)
Decrease/(increase) in prepayments, deposits and other receivables		**(1,860)**	6,418
Increase/(decrease) in trade and bills payables		**(6,574)**	3,383
Increase/(decrease) in other payables and accruals		**887**	(1,920)
Exchange adjustments		**(2,911)**	(2,170)
Cash generated from operations		**2,464**	25,194
Interest paid	7	**–**	(3)
Hong Kong profits tax paid		**(66)**	(3,292)
Overseas taxes paid		**(26)**	(6)
Net cash flows from operating activities		**2,372**	21,893

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**677**	531
Dividend received from listed investments		**2**	3
Dividend received from a jointly-controlled entity		**195**	–
Purchases of items of property, plant and equipment		**(13,492)**	(20,811)
Deposits paid for items of property, plant and equipment		**(1,786)**	(64)
Proceeds from disposal of items of property, plant and equipment		**3,303**	542
Disposal of a subsidiary	31	**1,313**	–
Proceeds from disposal of a jointly-controlled entity		**–**	237
Proceeds from disposal of available-for-sale financial assets		**65,577**	–
Repayment of a loan to a jointly-controlled entity		**–**	186
Net cash flows from/(used in) investing activities		**55,789**	(19,376)
CASH FLOW FROM A FINANCING ACTIVITY			
Dividend paid and cash flow used in a financing activity		**(9,709)**	(9,709)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**48,452**	(7,192)
Cash and cash equivalents at beginning of year		**112,076**	118,186
Effect of foreign exchange rate changes, net		**1,743**	1,082
CASH AND CASH EQUIVALENTS AT END OF YEAR		**162,271**	112,076
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**76,227**	88,632
Non-pledged time deposits with original maturity of less than three months when acquired	24	**86,044**	23,444
Cash and cash equivalents as stated in the consolidated statement of financial position		**162,271**	112,076

STATEMENT OF FINANCIAL POSITION

31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**507,045**	506,424
Deferred tax assets	27	**290**	179
Total non-current assets		**507,335**	506,603
CURRENT ASSETS			
Prepayments	22	**170**	170
Tax recoverable		**139**	–
Cash and bank balances	24	**17**	23
Total current assets		**326**	193
CURRENT LIABILITIES			
Other payables and accruals	26	**232**	168
NET CURRENT ASSETS		**94**	25
TOTAL ASSETS LESS CURRENT LIABILITIES		**507,429**	506,628
NON-CURRENT LIABILITY			
Loan from a subsidiary	16	**257,517**	246,443
Net assets		**249,912**	260,185
EQUITY			
Issued capital	28	**32,365**	32,365
Reserves	30(b)	**204,601**	218,111
Proposed special and final dividends	11	**12,946**	9,709
Total equity		**249,912**	260,185

Hui Leung Wah
Director

Poon Sui Hong
Director

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 2012. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

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 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*
HKAS 24 (Revised)	*Related Party Disclosures*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised) and amendments to HKAS 1 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAs 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 35 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [4]
HKFRS 9	*Financial Instruments* [6]
HKFRS 10	*Consolidated Financial Statements* [4]
HKFRS 11	*Joint Arrangements* [4]
HKFRS 12	*Disclosure of Interests in Other Entities* [4]
HKFRS 13	*Fair Value Measurement* [4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [2]
HKAS 19 (2011)	*Employee Benefits* [4]
HKAS 27 (2011)	*Separate Financial Statements* [4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]
Annual Improvements to HKFRSs 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012 [4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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.

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

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

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 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities* . HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements* , HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 April 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 April 2013.

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

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

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 April 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 April 2012.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 April 2013.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

s ubsidiaries

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 investments 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 or 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

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 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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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.

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 will be 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 identifiable net 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment 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 depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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:

Leasehold land under finance leases	Over the lease terms
Buildings	Shorter of the lease terms and 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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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 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.

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 cash equivalents, 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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, in rare circumstances, 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. 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 as these instruments cannot be reclassified after initial recognition.

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 finance costs for loans and in other operating expenses for receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments 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 assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale asset revaluation 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 asset is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale asset revaluation reserve to the income statement in other operating expenses. Interest and dividends earned whilst holding the available-for-sale financial assets 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial assets (continued)

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

For available-for-sale financial assets, 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 plus, in the case of loans and borrowings, directly attributable transaction costs.

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

Subsequent measurement

The subsequent 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (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.

o ffsetting 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 currently an 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.

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 consolidated and company 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

- when 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, when 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.

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

- when 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

s hare-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.

o ther 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 financial 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o ther employee benefits (continued)

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. These 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

Special and 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.

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 arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries, a jointly-controlled entity and an associate 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 j UDGEMENTS 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 ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-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 portions 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.

3. SIGNIFICANT ACCOUNTING j UDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

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.

e stimation 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 described 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.

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 certain items are no longer suitable for production use. In addition, physical counts on all inventories are 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. The carrying value of provision for obsolete inventories at 31 March 2012 was HK$32,417,000 (2011: HK$32,524,000).

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. The carrying value of impairment of trade receivables at 31 March 2012 was HK$3,088,000 (2011: HK$3,456,000).

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 2012 was HK$2,719,000 (2011: HK$179,000). The amount of unrecognised tax losses at 31 March 2012 was approximately HK$19,909,000 (2011: HK$20,717,000). Further details are contained in note 27 to the financial statements.

3. SIGNIFICANT ACCOUNTING j UDGEMENTS AND ESTIMATES (continued)

e stimation uncertainty (continued)

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 which was 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 has been recognised for available-for-sale financial assets (2011: Nil). The carrying amount of available-for-sale financial assets was HK$520,000 (2011: HK$15,693,000). In the prior year, the carrying amount of a loan to an available-for-sale financial asset was HK$16,456,000. Further details are contained in note 19 to the financial statements.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimates. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

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

	2012 **HK$'000**	2011 HK$'000
Europe	**244,206**	288,717
North America	**113,663**	157,591
The PRC (including Hong Kong)	**61,959**	46,172
Other Asian countries	**8,571**	10,313
Others	**2,775**	2,609
	431,174	505,402

The revenue information above is based on the location of the customers. The PRC (including Hong Kong) segment mainly represents the sales of eyewear products to agents located in Hong Kong, but also includes sales made to local retailers. The Directors believe that the agents in Hong Kong export most of the Group's products to Europe, North America and South America.

4. SEGMENT INFORMATION (continued)

Geographical information (continued)

(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 major customers

Revenue of approximately HK$110,444,000 (2011: HK$157,448,000) and HK$44,247,000 (2011: HK$47,758,000) was derived from sales to two separate customers, including sales to groups of entities which are known to be under common control with the customers.

5. REvENUE AND OTHER INCOME

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

An analysis of the Group's revenue and other income is as follows:

	2012 HK$'000	2011 HK$'000
Revenue		
Sale of goods	**431,174**	505,402
Other income		
Sale of scrap materials	**787**	572
Bank interest income	**677**	531
Gross rental income	**838**	787
Dividend income from equity investments at fair value through profit or loss	**4**	3
Others	**79**	933
	2,385	2,826

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2012 HK$'000	2011 HK$'000
Cost of inventories sold*		**429,569**	444,947
Depreciation	13	**29,288**	30,093
Amortisation of prepaid land lease payments	15	**412**	370
Auditors' remuneration		**880**	840
Minimum lease payments under operating leases in respect of land and buildings		**3,424**	3,250
Employee benefit expense (excluding directors' remuneration, as set out in note 8):			
Wages and salaries		**196,936**	191,732
Pension scheme contributions**		**858**	877
		197,794	192,609
Gross and net rental income		**(838)**	(787)
Provision/(write-back of provision) for inventory obsolescence*		**(166)**	2,896
Foreign exchange differences, net		**292**	214
Other operating expenses/(income), net:			
Write-back of impairment of trade receivables	21	**(134)**	(84)
Loss/(gain) on disposal of items of property, plant and equipment		**(150)**	2,102
Fair value losses/(gains), net:			
Equity investments at fair value through profit or loss – held for trading		**7**	(15)
Changes in fair value of an investment property	14	**(160)**	(1,540)
Gain on disposal of a subsidiary	31	**(453)**	–
Gain on disposal of available-for-sale financial assets		**(33,948)**	–
		(34,838)	463

* Included in "cost of sales" on the face of the consolidated income statement.

** 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 (2011: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Interest on bank loans wholly repayable within five years	**–**	3

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	
	2012	2011
	HK$'000	HK$'000
Fees	**300**	300
Other emoluments:		
Basic salaries and bonuses	**2,515**	2,507
Housing benefit	**1,506**	1,506
Pension scheme contributions	**54**	54
	4,075	4,067
	4,375	4,367

Three (2011: 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 (2011: HK$1,506,000) for the year ended 31 March 2012, which has been included in the amounts detailed above.

(a) Independent non-executive directors

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

	2012	2011
	HK$'000	HK$'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 (2011: Nil).

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

Directors' remuneration (continued)

(b) Executive directors and non-executive directors

	Basic salaries and bonuses HK$'000	Housing benefit HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2012				
Executive directors:				
Hui Leung Wah	**1,200**	**900**	**–**	**2,100**
Poon Sui Hong	**781**	**444**	**31**	**1,256**
Leung Shu Sum	**534**	**162**	**23**	**719**
	2,515	**1,506**	**54**	**4,075**
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

There were no fees and other emoluments payable to the non-executive directors during the year (2011: Nil).

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

Highest paid employees' emoluments

The five highest paid individuals during the year included two (2011: two) directors, details of whose remuneration are disclosed above. Details of the remuneration of the three (2011: three) non-director, highest paid individuals for the year are set out below:

	Group	
	2012 HK$'000	2011 HK$'000
Basic salaries and bonuses	**2,436**	2,429
Housing benefit	**252**	252
Pension scheme contributions	**80**	80
	2,768	2,761

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

Highest paid employees' emoluments (continued)

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

	Number of non-director, highest paid individuals	
	2012	2011
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 (2011: HK$252,000) for the year ended 31 March 2012, which has been included in the amounts detailed above.

9. INCOME TAX CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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 jurisdictions in which the Group operates.

	2012 HK$'000	2011 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**19**	563
Underprovision/(overprovision) in prior years	**408**	(530)
Current – Elsewhere		
Charge for the year	**21**	6
Underprovision in prior years	**4**	–
Deferred (note 27)	**(3,237)**	(970)
Total tax credit for the year	**(2,785)**	(931)

9. INCOME TAX CREDIT (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 – 2012

	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Loss before tax	**(12,126)**	**(4,575)**	**(16,701)**
Tax at the statutory tax rate	**(2,001)**	**(1,144)**	**(3,145)**
Adjustments in respect of current tax of previous periods	**408**	**4**	**412**
Profits and losses attributable to a jointly-controlled entity and an associate	**153**	**(230)**	**(77)**
Results from offshore manufacturing operations not subject to tax	**2,686**	**–**	**2,686**
Income not subject to tax	**(6,552)**	**(891)**	**(7,443)**
Expenses not deductible for tax	**1,970**	**481**	**2,451**
Estimated tax losses not recognised	**221**	**1,792**	**2,013**
Others	**305**	**13**	**318**
Tax charge/(credit) at the Group's effective rate	**(2,810)**	**25**	**(2,785)**

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)

The share of tax attributable to jointly-controlled entities and an associate amounting to HK$230,000 (2011: HK$144,000) and HK$153,000 (2011: HK$65,000), respectively, is included in "Share of profits and losses of jointly-controlled entities and associates" in the consolidated income statement.

10. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit/(loss) attributable to owners of the Company for the year ended 31 March 2012 includes a loss of HK$564,000 (2011: profit of HK$1,610,000) which has been dealt with in the financial statements of the Company (note 30(b)).

11. DIVIDENDS

	2012	2011
	HK$'000	HK$'000
Proposed special – HK4 cents (2011: Nil) per ordinary share	**12,946**	–
Proposed final – Nil (2011: HK3 cents) per ordinary share	**–**	9,709
	12,946	9,709

The 2012 special dividend of HK4 cents per ordinary share has been proposed to be paid to shareholders whose names appear on the register of members on 6 September 2012 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the loss for the year attributable to ordinary equity holders of the Company for the year of HK$11,334,000 (2011: profit of HK$2,653,000) and 323,649,123 (2011: 323,649,123) shares in issue.

No adjustment has been made to the earnings/(loss) per share attributable to ordinary equity holders of the Company presented for the years ended 31 March 2012 and 2011 in respect of a dilution as there were no potentially dilutive shares in issue during those years.

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$'000	Total HK$'000
31 March 2012						
At 31 March 2011 and at 1 April 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**
At 1 April 2011, net of accumulated depreciation and impairment	**153,594**	**27,115**	**46,981**	**7,616**	**3,684**	**238,990**
Additions	**–**	**1,194**	**11,005**	**663**	**694**	**13,556**
Disposals	**–**	**–**	**(3,153)**	**–**	**–**	**(3,153)**
Disposal of a subsidiary (note 31)	**–**	**(111)**	**(227)**	**(75)**	**(34)**	**(447)**
Depreciation provided during the year	**(4,377)**	**(4,481)**	**(17,400)**	**(1,529)**	**(1,501)**	**(29,288)**
Exchange realignment	**1,657**	**255**	**414**	**49**	**16**	**2,391**
At 31 March 2012, net of accumulated depreciation and impairment	**150,874**	**23,972**	**37,620**	**6,724**	**2,859**	**222,049**
At 31 March 2012:						
Cost	**186,798**	**74,479**	**267,445**	**40,486**	**13,554**	**582,762**
Accumulated depreciation and impairment	**(35,924)**	**(50,507)**	**(229,825)**	**(33,762)**	**(10,695)**	**(360,713)**
Net carrying amount	**150,874**	**23,972**	**37,620**	**6,724**	**2,859**	**222,049**
31 March 2011						
At 1 April 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
At 1 April 2010, net of accumulated depreciation and impairment	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

The Group's land included in property, plant and equipment with a net carrying amount of HK$28,408,000 (2011: HK$29,237,000) is held under medium term leases and is situated in Hong Kong.

14. INvESTMENT PROPERTY

		Group	
	Note	**2012** **HK$'000**	2011 HK$'000
Carrying amount at beginning of the year		**5,300**	3,760
Net gain from a fair value adjustment	6	**160**	1,540
Carrying amount at 31 March		**5,460**	5,300

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 2012 by Roma Appraisals Limited (2011: Vigers Appraisal & Consulting Limited), an independent professionally qualified valuer, at HK$5,460,000 (2011: HK$5,300,000) on an open market and existing use basis. The investment property is leased to a third party under an operating lease, further summary details of which are included in note 33(a) to the financial statements.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2012 **HK$'000**	2011 HK$'000
Carrying amount at beginning of the year	**15,538**	15,495
Recognised during the year	**(412)**	(370)
Exchange realignment	**351**	413
Carrying amount at 31 March	**15,477**	15,538
Current portion included in prepayments, deposits and other receivables	**(417)**	(370)
Non-current portion	**15,060**	15,168

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

16. INVESTMENTS IN SUBSIDIARIES

	Company 2012 HK$'000	Company 2011 HK$'000
Unlisted shares, at cost	**147,173**	147,173
Loans to subsidiaries	**359,872**	359,251
	507,045	506,424

The loans to subsidiaries above are unsecured, interest-free and not repayable within one year from the end of the reporting period. 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$257,517,000 (2011: HK$246,443,000) is unsecured, interest-free and not repayable within one year from the end of the reporting period.

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	Percentage of equity attributable to the Company 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	Property holding
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

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
Elegance Optical Production Limited	British Virgin Islands	Hong Kong	Ordinary US$1	–	100	Investment holding
Fortune Optical Limited**	PRC***	Mainland China	HK$42,400,000	–	55	Trading and manufacture of optical frames
Glory (Hui's) Trading Limited	Hong Kong	Hong Kong	Ordinary HK$200	–	100	Trading of optical frames in Hong Kong and 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	– (2011: Ordinary HK$10,000)	– (2011: –)	– (2011: 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

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
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
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.

16. INvESTMENTS IN SUBSIDIARIES (continued)

* 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.

17. INvESTMENT IN A jOINTLY-CONTROLLED ENTITY

	Group	
	2012	2011
	HK$'000	HK$'000
Share of net assets	**2,389**	1,525
Loan to a jointly-controlled entity	**3,498**	3,498
	5,887	5,023

The loan to the 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.

The Group's trade receivable balances due from the jointly-controlled entity are disclosed in note 21 to the financial statements.

Particulars of the jointly-controlled entity are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of Ownership interest	Percentage of voting power	Percentage of Profit sharing	Principal activities
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

The financial statements of the above jointly-controlled entity were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network and the above jointly-controlled entity has a financial year end date of 31 December.

17. INvESTMENT IN A jOINTLY-CONTROLLED ENTITY (continued)

The above jointly-controlled entity has been accounted for using the equity method in these financial statements.

The above investment in a jointly-controlled entity is held through a wholly-owned subsidiary of the Company.

During the year, the Group sold goods to and purchased goods from a jointly-controlled entity amounting to HK$589,000 (2011: HK$276,000) and HK$15,000 (2011: HK$5,000), respectively. These sales and purchases were carried out at prices mutually agreed between the parties.

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

	2012 **HK$'000**	2011 HK$'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**7,958**	6,232
Non-current assets	**25**	29
Current liabilities	**(1,955)**	(1,228)
Non-current liabilities	**(3,639)**	(3,508)
Net assets	**2,389**	1,525
Share of the jointly-controlled entities' results:		
Revenue	**3,637**	4,105
Expenses	**(2,718)**	(3,517)
Profit before tax	**919**	588
Tax	**–**	–
Profit after tax	**919**	588

18. INVESTMENT IN AN ASSOCIATE

	Group 2012 HK$'000	Group 2011 HK$'000
Share of net assets	**1,526**	1,842

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	43.75	Retailing of eyewear products

The financial statements of the above associate are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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 above associate has a financial year end date of 30 September. The consolidated financial statements are adjusted for the material transactions of the above associate between 1 October and 31 March. The above associate uses 30 September as its financial year end date to conform with that of its holding 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 then ended extracted from its management accounts:

	2012 HK$'000	2011 HK$'000
Assets	**4,831**	6,815
Liabilities	**(1,343)**	(1,180)
Revenues	**9,510**	13,046
Loss	**(2,117)**	(900)

19. AvAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2012	2011
	HK$'000	HK$'000
Non-current		
Club debenture, at fair value	**520**	520
Unlisted equity investment, at cost	**–**	15,173
Loan to an unlisted equity investment	**–**	16,456
	–	31,629
	520	32,149

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 was so significant that the directors were of the opinion that the fair value could not be measured reliably. On 6 January 2012, the unlisted equity investment and loan to an unlisted equity investment with carrying values of HK$8,980,000 and HK$9,739,000, respectively, were disposed of for net proceeds of HK$37,528,000. On 8 March 2012, the remaining unlisted equity investment and loan to an unlisted equity investment with carrying values of HK$6,193,000 and HK$6,717,000, respectively, were disposed of for net proceeds of HK$28,049,000. Further details are set out in note 35 to the financial statements.

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

20. INvENTORIES

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**28,401**	28,795
Work in progress	**32,040**	34,247
Finished goods	**13,255**	15,014
	73,696	78,056

21. TRADE AND BILLS RECEIvABLES

	Group 2012 HK$'000	2011 HK$'000
Trade and bills receivables	**94,886**	128,637
Impairment	**(3,088)**	(3,456)
	91,798	125,181

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 (2011: 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. The Group does not hold any collateral or other credit enhancements over its trade and bill receivable balances. 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 2012 and 2011:

	Group 2012 HK$'000	2011 HK$'000
Current to 90 days	**79,608**	112,624
91 to 180 days	**449**	145
181 to 360 days	**953**	–
Over 360 days	**1**	32
	81,011	112,801
Bills receivable	**10,787**	12,380
Total	**91,798**	125,181

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

	Group 2012 HK$'000	2011 HK$'000
At beginning of the year	**3,456**	3,561
Amount written off as uncollectible	**(234)**	(21)
Impairment losses reversed (note 6)	**(134)**	(84)
At 31 March	**3,088**	3,456

21. TRADE AND BILLS RECEIVABLES (continued)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$3,088,000 (2011: HK$3,456,000) with a carrying amount before provision of HK$3,088,000 (2011: HK$3,641,000). 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 aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**78,646**	101,494
Less than one month past due	**10,181**	21,047
One to three months past due	**1,568**	2,278
Over three months past due	**1,403**	177
	91,798	124,996

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.

Included in the Group's trade receivables is an amount due from the Group's jointly-controlled entity of HK$424,000 (2011: Nil), which is repayable on similar credit terms to those offered to the major customers of the Group.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**2,046**	2,296	**170**	170
Deposits and other receivables	**3,208**	1,058	**–**	–
	5,254	3,354	**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	
	2012	2011
	HK$'000	HK$'000
Listed equity investments in Hong Kong, at market value	**47**	52

The above equity investments at 31 March 2011 and 2012 were classified as held for trading.

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**76,227**	88,632	**17**	23
Time deposits	**86,044**	23,444	**–**	–
Cash and cash equivalents	**162,271**	112,076	**17**	23

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$58,582,000 (2011: HK$28,866,000). 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 earn 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.

25. TRADE AND BILLS PAYABLES

The following is an aged analysis of the trade and bills payables as at 31 March 2012 and 2011:

	Group	
	2012	2011
	HK$'000	HK$'000
Current to 90 days	**33,455**	41,143
91 to 180 days	**2,370**	1,792
181 to 360 days	**427**	771
Over 360 days	**1,040**	895
Total	**37,292**	44,601

Trade and bills payables are non-interest-bearing and are normally settled on 90-day (2011: 90-day) terms.

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**13,436**	12,795	**39**	35
Accruals	**25,024**	25,743	**193**	133
	38,460	38,538	**232**	168

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

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	**Others**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 April 2010	4,282	131	4,413
Deferred tax credited to the income statement during the year (note 9)	(1,288)	–	(1,288)
Net deferred tax liabilities at 31 March 2011 and 1 April 2011	2,994	131	3,125
Deferred tax charged/(credited) to the income statement during the year (note 9)	(2,994)	655	(2,339)
Net deferred tax liabilities at 31 March 2012	**–**	**786**	**786**

27. DEFERRED TAX (continued)

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

Deferred tax assets

Group

	Depreciation allowance in excess of related depreciation HK$'000	Losses available for offsetting against future taxable profits HK'000	Others HK$'000	Total HK$'000
At 1 April 2010	–	497	–	497
Deferred tax charged to the income statement during the year (note 9)	–	(318)	–	(318)
Net deferred tax assets at 31 March 2011 and 1 April 2011	–	179	–	179
Deferred tax credited/(charged) to the income statement during the year (note 9)	(1,730)	2,540	88	898
Net deferred tax assets at 31 March 2012	**(1,730)**	**2,719**	**88**	**1,077**

Company

	Losses available for offsetting against future taxable profits HK$'000
At 1 April 2010	497
Deferred tax charged to the income statement during the year	(318)
Gross deferred tax assets at 31 March 2011 and 1 April 2011	179
Deferred tax credited to the income statement during the year	111
Gross deferred tax assets at 31 March 2012	**290**

27. DEFERRED TAX (continued)

At the end of the reporting period, the Group had estimated tax losses arising in Hong Kong of HK$36,390,000 (2011: HK$21,803,000) 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 tax losses of approximately HK$19,909,000 (2011: HK$20,717,000) 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 the 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 a jointly-controlled entity established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 March 2012, 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$40,000 at 31 March 2012 (2011: HK$31,000).

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

28. SHARE CAPITAL

	2012 **HK$'000**	2011 HK$'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

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 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 10 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 10 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.

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 30 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$'000	**Proposed special and final dividends** HK$'000	**Total** HK$'000
At 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 and 1 April 2011		56,831	146,973	14,307	9,709	227,820
Loss for the year and total comprehensive loss for the year		–	–	(564)	–	(564)
Final 2011 dividend declared		–	–	–	(9,709)	(9,709)
Proposed special 2012 dividend	11	–	–	(12,946)	12,946	–
At 31 March 2012		**56,831***	**146,973***	**797***	**12,946**	**217,547**

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$204,601,000 (2011: HK$218,111,000) at the end of the reporting period.

31. DISPOSAL OF A SUBSIDIARY

	Notes	2012 HK$'000	2011 HK$'000
Net assets disposed of:			
Property, plant and equipment	13	**447**	–
Inventories		**1,479**	–
Trade receivables		**963**	–
Deposits, prepayments and other receivables		**7**	–
Cash and bank balances		**409**	–
Trade payables		**(735)**	–
Other payables and accruals		**(965)**	–
Non-controlling interests		**(336)**	–
		1,269	–
Gain on disposal of a subsidiary	6	**453**	–
		1,722	–
Satisfied by:			
Cash		**1,722**	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2012 HK$'000	2011 HK$'000
Cash consideration	**1,722**	–
Cash and bank balances disposed of	**(409)**	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**1,313**	–

32. CONTINGENT LIABILITIES

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

	Company	
	2012	2011
	HK$'000	HK$'000
Guarantees given for banking facilities granted to certain subsidiaries of the Company	**125,400**	151,400
Amount utilised	**983**	–

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

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

33. 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 2012, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**30**	617
In the second to fifth years, inclusive	**–**	30
	30	647

33. 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 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**1,089**	2,641
In the second to fifth years, inclusive	**3,888**	3,751
After five years	**51,510**	50,590
	56,487	56,982

The Company did not have any future minimum lease receivables or payments under non-cancellable operating leases at the end of the reporting period (2011: Nil).

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2012	2011
	HK$'000	HK$'000
Contracted, but not provided for:		
Leasehold improvements	**1,822**	–
Equipment and machinery	**546**	132
	2,368	132

The Company had no significant commitments at the end of the reporting period (2011: Nil).

35. 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) t ransactions with the s àfilo s .p.A. group of companies (“s àfilo”)

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

(i) Supply Agreement

The Group had committed to supply and Sàfilo had 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$110,444,000 (2011: HK$157,448,000).

The aggregate trade receivable balance due from Sàfilo at 31 March 2012 in respect of these sales amounted to HK$33,027,000 (2011: HK$48,791,000).

(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 (“the Shareholders’ Agreement”).

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.

In the prior year, the Group sold goods to Safint’s group companies with an aggregate sales value amounting to HK$481,000. The sales were carried out at prices mutually agreed between the parties.

(iii) Disposal of available-for-sale financial assets

On 6 January 2012, the unlisted equity investment in Safint and loan to Safint with carrying values of HK$8,980,000 and HK$9,739,000, respectively, were disposed of for net proceeds of HK$37,528,000 to SFEL. The proceeds from disposal of the available-for-sale financial assets were based on terms set out in the Shareholders’ Agreement.

On 8 March 2012, the remaining unlisted equity investment in Safint and loan to Safint with carrying values of HK$6,193,000 and HK$6,717,000, respectively, were disposed of for net proceeds of HK$28,049,000 to SFEL. The proceeds from disposal of the available-for-sale financial assets were based on terms set out in the Shareholders’ Agreement, plus a certain mark-up.

35. RELATED PARTY TRANSACTIONS (continued)

(b) t ransaction 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 (2011: 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.

(c) o utstanding balances with a jointly-controlled entity

(i) Details of the loan to a jointly-controlled entity granted by the Group as at the end of the reporting period are included in note 17 to the financial statements.

(ii) Details of the Group's trade receivables with its jointly-controlled entity as at the end of the reporting period are disclosed in note 21 to the financial statements.

(d) Compensation of key management personnel of the Group

	2012 **HK$'000**	2011 HK$'000
Short term employee benefits	**6,013**	5,998
Post-employment benefits	**111**	111
Total compensation paid to key management personnel	**6,124**	6,109

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.

36. 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:

2012

Financial assets

	Group			
	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	–	–	520	520
Trade and bills receivables	–	91,798	–	91,798
Financial assets included in prepayments, deposits and other receivables	–	3,208	–	3,208
Equity investments at fair value through profit or loss	47	–	–	47
Cash and cash equivalents	–	162,271	–	162,271
	47	260,775	520	261,342

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade and bills payables	37,292
Financial liabilities included in other payables and accruals	27,533
	64,825

36. 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)

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	–	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	12,795
	57,396

36. 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	
	2012	2011
	HK$'000	HK$'000
Loans to subsidiaries (note 16)	**359,872**	359,251
Cash and bank balances	**17**	23
	359,889	359,274

Financial liabilities

	Company Financial liabilities at amortised cost	
	2012	2011
	HK$'000	HK$'000
Loan from a subsidiary (note 16)	**257,517**	246,443
Financial liabilities included in other payables and accruals	**232**	35
	257,749	246,478

37. FINANCIAL RISK MANAGEMENT OBJ ECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. 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 and bills 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.

37. FINANCIAL RISK MANAGEMENT OBj ECTIvES AND POLICIES (continued)

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 expenditures incurred in the operations of manufacturing plants and capital expenditures were denominated in RMB. The Group currently does not have a foreign currency hedging policy. However, 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 loss 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 loss before tax HK$'000	Increase/ (decrease) in equity* HK$'000
2012			
If Hong Kong dollar weakens against RMB	**5%**	**(1,886)**	**(267)**
If Hong Kong dollar strengthens against RMB	**(5%)**	**1,886**	**267**
2011			
If Hong Kong dollar weakens against RMB	4%	(55)	47
If Hong Kong dollar strengthens against RMB	(4%)	55	(47)

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties and related 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 32 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties and related parties, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 36% (2011: 39%) and 65% (2011: 60%) of the Group's trade and bills receivables were due from the Group's largest customer and the five largest customers, respectively, within the Europe, North America and the PRC (including Hong Kong) 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.

37. FINANCIAL RISK MANAGEMENT OBj ECTIvES AND POLICIES (continued)

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 and bills 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	2012		2011	
	On demand and less than 12 months HK$'000	**Total HK$'000**	On demand and less than 12 months HK$'000	Total HK$'000
Trade and bills payables	**37,292**	**37,292**	44,601	44,601
Financial liabilities included in other payables and accruals	**27,533**	**27,533**	12,795	12,795
	64,825	**64,825**	57,396	57,396

Company	2012		2011	
	On demand HK$'000	**Total HK$'000**	On demand HK$'000	Total HK$'000
Loan from a subsidiary	**257,517**	**257,517**	246,443	246,443
Financial liabilities included in other payables and accruals	**232**	**232**	35	35
	257,749	**257,749**	246,478	246,478

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. The Group is subject to certain externally imposed capital requirements on its net cash external gearing ratio and net assets which the Group had complied with the externally imposed capital requirements during the years ended 31 March 2012 and 2011. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2012 and 2011.

38. EvENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, on 26 June 2012, the Group entered into a shareholders' agreement to form a new company to be incorporated in the PRC (the "NewCo") with one independent third party and three other existing shareholders of 廣州市佳視光學眼鏡有限公司 ("佳視光學"), a jointly-controlled entity of the Group as at 31 March 2012. The registered capital of the NewCo is expected to be RMB1,000,000 and will be contributed by these five shareholders in accordance with their equity holding percentage. The Group will have 25% interest in the NewCo. Under the same agreement, the existing business of 佳視光學, including all of the tangible and intangible assets, customer base, liabilities, human resources and inventories, will be transferred to the NewCo for an agreed consideration. The directors intend to cease operations of 佳視光學 once its business has been transferred to the NewCo. The financial impacts of these transactions have not been reflected in these financial statements.

39. APPROvAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 June 2012.