



ELEGANCE

International Holdings Limited

(Incorporated in Bermuda with limited liability)

2012/13 Interim Report

Stock code : 907

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

LISSI Barbara
MARCHISIO Paola

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

TSUI Choi Yee, Connie

PRINCIPAL BANKERS

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

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
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WEBSITE

www.elegance-group.com

STOCK CODE

907

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has recorded a loss for the six months ended 30 September 2012. The challenges faced by the Group as mentioned in its last annual report have not been eased, and the global economic slowdown remains if not deepens. The ongoing European debt crisis still dampened the buying desires of the customers from the Group's largest market. On the other hand, demand from the Group's second largest market, North America, did not rebound. As a result, the Group's revenue from these two largest market segments dropped by 19.99% and 14.07% respectively as compared with those for the same period last year. The total revenue decreased 16.46% from HK\$229,264,000 for the six months ended 30 September 2011 to HK\$191,537,000 for the six months ended 30 September 2012.

Although the minimum wages of the workers in the southern China where the factories of the Group are located did not increase further during the period under review, the operating environment in the People's Republic of China (the "PRC") is still tough, as various manufacturing costs remain at a high level.

Without enough orders for metal eyewear products to utilise its production capacity, both the Group's gross profit and net profit were seriously affected. Compared with the loss attributable to owners of the Company in the amount of HK\$15,465,000 for the corresponding six months last year, the loss of the Group has increased to HK\$25,636,000.

PROSPECTS

The global economic slowdown is still underway. It is uncertain when the global economy will rebound. This uncertainty has been adversely affecting consumer confidence and hence the sales of the Group's products.

Recently, the Renminbi has become strong against the United States Dollar and Hong Kong Dollar after having been stable for a while. The appreciation of Renminbi will push up the production costs of the Group's operation in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

Given the optical goods segment is always a laggard amongst different industrial sectors in the economy, and also for the fact that the market is still in favour of the acetate products, any rebound in the market demand for the eyewear products will be gradual. In view of this expectation, the Company believes that improving efficiency is a critical way to improve the performance of the Group. To that end, the management of the Group will endeavor to strengthen its manufacturing activities. At the same time, more efforts will be put by the Group into marketing activities to get more orders from both existing and new customers. The management will also continue to work diligently and carefully to weather the forthcoming difficulties and to seek actively any possible business opportunities.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to maintain a strong financial position with cash and cash equivalents of HK\$109,284,000 (31 March 2012: HK\$162,271,000) and a zero gearing ratio as at 30 September 2012. The Group's equity attributable to owners of the Company as at 30 September 2012 amounted to HK\$454,487,000 (31 March 2012: HK\$493,192,000).

FOREIGN CURRENCY RISK

The Group conducts its business transactions mainly in Hong Kong Dollar, Renminbi and United States Dollar. As long as Hong Kong Dollar is pegged to the United States Dollar, the Group does not foresee any material exchange risk in this respect. However, the Group remains to be subject to certain foreign exchange impacts caused by the appreciation of Renminbi. The Group has not entered into any foreign exchange contracts. The management of the Company is closely monitoring foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2012, the Group employed 3,866 (30 September 2011: 4,663) full time employees in Mainland China and in Hong Kong. Salaries, bonuses and benefits are determined with reference to market terms and the performance, qualifications and experience of the individual employee, and are subject to review from time to time.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



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

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

INTRODUCTION

We have reviewed the interim condensed consolidated financial information of Elegance International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 6 to 22 which comprises the interim condensed consolidated statement of financial position as at 30 September 2012 and the related interim condensed consolidated income statement, interim condensed consolidated statements of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants

Hong Kong
28 November 2012

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended
30 September

	Notes	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
REVENUE	3	191,537	229,264
Cost of sales		(189,370)	(218,462)
Gross profit		2,167	10,802
Other income	3	2,137	1,152
Selling and distribution costs		(3,914)	(4,091)
Administrative expenses		(30,117)	(24,369)
Other operating income/(expenses), net		1,112	(5)
Share of losses of:			
Jointly-controlled entities		(275)	(11)
An associate		(449)	(335)
LOSS BEFORE TAX	4	(29,339)	(16,857)
Income tax credit	5	2,186	1,213
LOSS FOR THE PERIOD		(27,153)	(15,644)
Attributable to:			
Owners of the Company		(25,636)	(15,465)
Non-controlling interests		(1,517)	(179)
		(27,153)	(15,644)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7	(7.92) HK cents	(4.78) HK cents
Basic and diluted			

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(27,153)	(15,644)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Share of exchange differences on translation of jointly-controlled entities	(140)	–
Share of exchange differences on translation of an associate	25	–
Exchange differences on translation of foreign operations	(7)	1,133
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(122)	1,133
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(27,275)	(14,511)
Attributable to:		
Owners of the Company	(25,759)	(14,602)
Non-controlling interests	(1,516)	91
	(27,275)	(14,511)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		217,049	222,049
Investment property		7,445	5,460
Prepaid land lease payments		14,846	15,060
Investments in jointly-controlled entities	8	3,797	5,887
Investment in an associate		1,102	1,526
Available-for-sale financial assets		520	520
Deferred tax assets		3,278	1,077
Deposits paid for items of property, plant and equipment		2,765	1,786
Total non-current assets		250,802	253,365
CURRENT ASSETS			
Inventories		85,522	73,696
Trade and bills receivables	9	102,073	91,798
Prepayments, deposits and other receivables		3,246	5,254
Equity investments at fair value through profit or loss	10	55	47
Tax recoverable		1,188	1,131
Cash and cash equivalents		109,284	162,271
Total current assets		301,368	334,197

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
CURRENT LIABILITIES			
Trade and bills payables	11	44,640	37,292
Other payables and accruals		35,942	38,460
Tax payable		2,949	2,950
Total current liabilities		83,531	78,702
NET CURRENT ASSETS		217,837	255,495
TOTAL ASSETS LESS CURRENT LIABILITIES		468,639	508,860
NON-CURRENT LIABILITIES			
Deferred tax liabilities		786	786
Net assets		467,853	508,074
EQUITY			
Equity attributable to owners of the Company			
Issued capital		32,365	32,365
Reserves		422,122	447,881
Proposed dividend		–	12,946
		454,487	493,192
Non-controlling interests		13,366	14,882
Total equity		467,853	508,074

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2012

	Attributable to owners of the Company										
	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 2012	32,365	56,831	41,925	(130)	(152)	7,629	341,778	12,946	493,192	14,882	508,074
Loss for the period	-	-	-	-	-	-	(25,636)	-	(25,636)	(1,517)	(27,153)
Other comprehensive income/(loss) for the period:											
Share of exchange differences on translation of jointly-controlled entities	-	-	-	-	-	(140)	-	-	(140)	-	(140)
Share of exchange differences on translation of an associate	-	-	-	-	-	25	-	-	25	-	25
Exchange differences on translation of foreign operations	-	-	-	-	-	(8)	-	-	(8)	1	(7)
Total comprehensive loss for the period	-	-	-	-	-	(123)	(25,636)	-	(25,759)	(1,516)	(27,275)
2012 dividend paid	-	-	-	-	-	-	-	(12,946)	(12,946)	-	(12,946)
At 30 September 2012 (unaudited)	<u>32,365</u>	<u>56,831*</u>	<u>41,925*</u>	<u>(130)*</u>	<u>(152)*</u>	<u>7,506*</u>	<u>316,142*</u>	<u>-</u>	<u>454,487</u>	<u>13,366</u>	<u>467,853</u>
At 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 period	-	-	-	-	-	-	(15,465)	-	(15,465)	(179)	(15,644)
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	863	-	-	863	270	1,133
Total comprehensive loss for the period	-	-	-	-	-	863	(15,465)	-	(14,602)	91	(14,511)
2011 dividend paid	-	-	-	-	-	-	-	(9,709)	(9,709)	-	(9,709)
At 30 September 2011 (unaudited)	<u>32,365</u>	<u>56,831</u>	<u>41,800</u>	<u>(130)</u>	<u>(152)</u>	<u>6,588</u>	<u>350,718</u>	<u>-</u>	<u>488,020</u>	<u>17,535</u>	<u>505,555</u>

* These reserve accounts comprise the consolidated reserves of HK\$422,122,000 (31 March 2012: HK\$447,881,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash flows from/(used in) operating activities	(30,747)	16,285
Net cash flows used in investing activities	(9,263)	(5,465)
Net cash flows used in a financing activity	(12,946)	(9,709)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(52,956)	1,111
Cash and cash equivalents at beginning of period	162,271	112,076
Effect of foreign exchange rate changes, net	(31)	992
CASH AND CASH EQUIVALENTS AT END OF PERIOD	109,284	114,179
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	51,557	65,116
Non-pledged time deposits with original maturity of less than three months when acquired	57,727	49,063
	109,284	114,179

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the six months ended 30 September 2012 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “SEHK”). The accounting policies and the basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 March 2012, except as described below. In the current period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”, which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA which are first effective for the current accounting period of the Group.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the above amendments to HKFRSs has had no significant financial effect on these interim condensed consolidated financial statements.

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. SEGMENT INFORMATION

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

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

Geographical information

(a) *Revenue from external customers*

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Europe	115,983	144,955
North America	52,718	61,347
The PRC (including Hong Kong)	17,730	15,943
Other Asian countries	4,572	5,747
Others	534	1,272
	191,537	229,264

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 of the Company (the "Directors") believe that the agents in Hong Kong export most of the Group's products to Europe, North America and South America.

(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\$57,595,000 (2011: HK\$61,083,000) and HK\$21,607,000 (2011: HK\$27,196,000) was derived from sales to two separate customers, including sales to groups of entities which are known to be under common control with those customers.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. 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 revenue and other income is as follows:

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue – sales of goods	191,537	229,264
Sales of scrap materials	62	54
Bank interest income	806	367
Gross rental income	474	390
Dividend income from equity investments at fair value through profit or loss	4	2
Others	791	339
Other income	2,137	1,152

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. LOSS BEFORE TAX

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

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Cost of inventories sold	186,725	216,706
Depreciation	14,846	15,138
Amortisation of prepaid land lease payments	208	189
Minimum lease payments under operating leases in respect of land and buildings	1,250	1,698
Employee benefits expenses (including directors' remunerations):		
Wages and salaries	98,190	105,200
Pension scheme contributions	450	463
	98,640	105,663
Provision for inventory obsolescence	2,645	1,756
Foreign exchange differences, net	(426)	420
Other operating expenses/(income), net:		
Loss on disposal of items of property, plant and equipment	879	–
Fair value losses/(gains), net		
Equity investments at fair value through profit or loss – held for trading	(6)	5
Changes in fair value of an investment property	(1,985)	–
	(1,112)	5

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. INCOME TAX CREDIT

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current – Elsewhere	15	19
Deferred	<u>(2,201)</u>	<u>(1,232)</u>
Total tax credit for the period	<u>(2,186)</u>	<u>(1,213)</u>

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

6. INTERIM DIVIDEND

The board of directors (the "Board") does not recommend payment of any interim dividend for the six months ended 30 September 2012 (2011: Nil).

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the loss for the period attributable to ordinary equity holders of the Company of HK\$25,636,000 (2011: HK\$15,465,000) and 323,649,123 (2011: 323,649,123) shares in issue during the period.

No adjustment has been made to the loss per share attributable to ordinary equity holders of the Company presented for the six months ended 30 September 2012 and 2011 in respect of a dilution as there were no potentially dilutive shares in issue during those periods.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Share of net assets	257	2,389
Loans to jointly-controlled entities	3,540	3,498
	3,797	5,887

The loans to jointly-controlled entities are unsecured, interest-free and not repayable within one year from the end of the reporting period. In the opinion of the directors, the loans are considered as quasi-equity investments in the jointly-controlled entities.

The Group's trade receivable balances due from the jointly-controlled entities are disclosed in note 9 to the interim condensed consolidated financial statements.

Particulars of the jointly-controlled entities are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
廣州市佳視光學眼鏡有限公司 ("佳視光學")	Registered capital of RMB1,000,000	PRC	41	41	41	Dormant (31 March 2012: Retailing and trading of optical frames)
廣州佳視美光學眼鏡有限公司 ("佳視美")	Registered capital of RMB1,000,000	PRC	25	25	25	Retailing and trading of optical frames

The above jointly-controlled entities have been accounted for using the equity method in these interim condensed consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

The above investments in jointly-controlled entities are held through a wholly-owned subsidiary of the Company.

On 26 June 2012, the Group entered into a shareholders' agreement ("Shareholders Agreement") to form 佳視美 with one independent third party and three other existing shareholders of 佳視光學. On 6 July 2012, 佳視美 was incorporated with registered capital of RMB1,000,000. The Group has 25% equity interest in 佳視美 and under the Shareholders Agreement, the Group's total commitment was RMB3,115,000 (equivalent to HK\$3,849,000) which was fulfilled during the current period. Pursuant to the Shareholders Agreement, all assets and liabilities of 佳視光學 were transferred to 佳視美 at their carrying amounts. After such transfer, 佳視光學 ceased operations and started its de-registration process. As at 30 September 2012, the de-registration process had not yet been completed.

9. TRADE AND BILLS RECEIVABLES

Credit is offered to customers following a financial assessment by the Group with regard to their established payment records. The Group usually allows average credit periods ranging from 45 to 120 days (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 bills receivable balances. Trade and bills receivables are non-interest bearing.

The following is an aged analysis of trade and bills receivables (net of impairment of trade receivables) as at 30 September 2012 and 31 March 2012:

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Current to 90 days	86,620	79,608
91–180 days	720	449
181–360 days	678	953
Over 360 days	–	1
	88,018	81,011
Bills receivable	14,055	10,787
Total	102,073	91,798

Included in the Group's trade receivables are amounts due from a substantial shareholder and a jointly-controlled entity of the Group of HK\$40,390,000 (31 March 2012: HK\$33,027,000) and HK\$331,000 (31 March 2012: HK\$424,000), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Listed equity investments in Hong Kong, at market value	55	47

The above equity investments at 30 September 2012 and 31 March 2012 were classified as held for trading.

11. TRADE AND BILLS PAYABLES

The following is an aged analysis of the trade and bills payables as at 30 September 2012 and 31 March 2012:

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Current to 90 days	43,471	33,455
91–180 days	498	2,370
181–360 days	362	427
Over 360 days	309	1,040
Total	44,640	37,292

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases and subleases certain of its office premises under operating lease arrangements, with the leases negotiated for terms of two years. The terms of the leases also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 September 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Within one year	554	30
In the second to fifth years, inclusive	694	–
	1,248	30

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

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Within one year	1,057	1,089
In the second to fifth years, inclusive	3,851	3,888
After five years	50,996	51,510
	55,904	56,487

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. COMMITMENTS

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Capital expenditure contracted, but not provided for:		
Leasehold improvements	957	1,822
Equipment and machinery	338	546
	<u>1,295</u>	<u>2,368</u>

14. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	For the six months ended 30 September 2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Transactions with a substantial shareholder:		
Sales of goods to the group of Safilo Group S.p.A.	57,595	61,083
Sales of goods to jointly-controlled entities	280	152
Purchase of goods from a jointly-controlled entity	–	5
Rental expenses paid to a director	222	222
	<u>222</u>	<u>222</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balances with related parties

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Amount due from a substantial shareholder: Trade receivables from the group of Safilo Group S.p.A.	40,390	33,027
Loans to jointly-controlled entities	3,540	3,498
Trade receivables from a jointly-controlled entity	331	424

(c) Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Short term employee benefits	2,929	2,925

SUPPLEMENTARY INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 September 2012, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

Long position 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
	<u>21,506,000</u>	<u>141,316,000</u>	<u>162,822,000</u>	<u>50.30</u>

Note: The 141,316,000 shares held as other interests 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 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).

SUPPLEMENTARY INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(continued)

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

Mr. Hui Leung Wah is beneficially interested in 200,000 non-voting deferred shares in the capital of Elegance Optical Investments Limited. The rights and restrictions of these non-voting deferred shares are disclosed in the audited financial statements of the Company for the year ended 31 March 2012.

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

Saved as disclosed above, as at 30 September 2012, none of the directors or chief executive of the Company had registered an interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme in the section "share option scheme", at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company, their respective 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 of its associated corporations.

SUPPLEMENTARY INFORMATION

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

At 30 September 2012, the following interests in the shares and underlying shares 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)	141,316,000	Trustee	43.66
Safilo Far East Limited ("SFEL") (Note3)	74,599,123	Beneficial owner	23.05
Safilo Group S.p.A. (Note 3)	74,599,123	Controlled corporation	23.05

Notes:

- Ms. Poon Yuk Yee is the spouse of Mr. Hui Leung Wah, she is deemed to be interested in the shares held by and shares taken to be interested by Mr. Hui Leung Wah for the purposes of Divisions 2 and 3 of Part XV of the SFO.
- Details are stated in the above section headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures".
- SFEL is a wholly-owned subsidiary of Safilo Group S.p.A.

Save as disclosed above, as at 30 September 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, underlying shares and debentures" above, had interest or short position in the shares or underlying shares of the Company recorded in the register of interests required to be kept pursuant to Section 336 of the SFO.

SUPPLEMENTARY INFORMATION

SHARE OPTION SCHEME

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

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

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 six months ended 30 September 2012.

CORPORATE GOVERNANCE

During the six months ended 30 September 2012, the Group has adopted and met the Code Provisions as set out in the Corporate Governance Code set out in Appendix 14 of the Listing Rules, except for the following deviation:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive 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 is assuming the positions of both Chairman and Managing Director of the Company. 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 capture business opportunities efficiently and promptly. The Board also believes that through the supervision of its Board and its Independent Non-Executive Directors, a balancing mechanism is in place and operating so that the interests of the shareholders are adequately and fairly represented.

SUPPLEMENTARY INFORMATION

CORPORATE GOVERNANCE *(continued)*

The Company has set up a remuneration committee in June 2005. The duties of the remuneration committee as set out in its terms of references include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management of the Company. It is also making recommendations to the Board on the remuneration of the Independent Non-Executive Directors and on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee comprises three Independent Non-Executive Directors.

The Company has also set up a nomination committee in June 2005 to review the structure and composition of the Board on a regular basis. The duties of the nomination committee as set out in its terms of references include selection or making recommendations to the Board on the selection of individuals nominated for directorships and on relevant matters relating to the appointment or re-appointment of Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct ("Code of Conduct") applying to directors' securities transactions on terms no less exacting than the required standard set out in the Model Code in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, 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 period.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing oversight of the Group's financial reporting process and internal controls. The audit committee comprises Mr. Poon Kwok Fai, Ronald, Dr. Tam Hok Lam, Tommy, PhD, JP and Mr. Wong Chung Mat, Ben, JP, the Independent Non-Executive Directors of the Company.

SUPPLEMENTARY INFORMATION

REVIEW OF INTERIM RESULTS

The unaudited interim condensed consolidated financial information for the six months ended 30 September 2012 has been reviewed by the audit committee and the external auditors of the Company in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

APPRECIATION

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

On behalf of the Board
Elegance International Holdings Limited
Hui Leung Wah
Chairman

Hong Kong, 28 November 2012