



Elegance International Holdings Limited

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

Interim Report 2006/2007



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mario PIETRIBIASI
Massimiliano TABACCHI

Independent Non-Executive Directors

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

QUALIFIED ACCOUNTANT & COMPANY SECRETARY

KWAN Chi Kin, Wallace

PRINCIPAL BANKERS

Dah Sing Bank Limited
The Hongkong and Shanghai
Banking Corporation Limited
Hang Seng Bank Limited
Citibank, N.A.
UniCredito Italiano S.p.A.

AUDITORS

Ernst & Young

HONG KONG LEGAL ADVISERS

Richards Butler

BERMUDA LEGAL ADVISERS

Conyers, Dill & Pearman

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

HONG KONG SHARE REGISTRARS

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

PRINCIPAL SHARE REGISTRARS

The Bank of Bermuda
6 Front Street
Hamilton HM 11
Bermuda

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

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

WEBSITE

www.elegance-group.com

STOCK CODE

907

FINANCIAL RESULTS

The Board of Directors of Elegance International Holdings Limited (the “Company” or “Elegance”) are pleased to present the Interim Report of the Company and its subsidiaries (collectively referred to as the “Group”) to the shareholders of the Company for the six months ended 30 September 2006. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

		For the six months ended 30 September	
		2006	2005
	<i>Notes</i>	(Unaudited) HK\$'000	(Unaudited) HK\$'000
REVENUE	3, 4	286,318	199,058
Cost of sales		(218,488)	(149,292)
Gross profit		67,830	49,766
Other income and gain	4	1,245	2,508
Selling and distribution costs		(6,004)	(5,549)
General and administrative expenses		(30,422)	(28,832)
Other operating income		5,687	–
Finance costs	6	(1,731)	(1,061)
Share of profits and losses of associates		285	(1,131)
PROFIT BEFORE TAX	5	36,890	15,701
Tax	7	(4,461)	(2,639)
PROFIT FOR THE PERIOD		32,429	13,062
Attributable to:			
Equity holders of the parent		33,522	16,048
Minority interests		(1,093)	(2,986)
	3	32,429	13,062
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		HK10.4 cents	HK5.0 cents
Diluted		N/A	N/A
DIVIDEND PER SHARE	9	HK3.0 cents	HK2.5 cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2006

	Notes	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		228,523	226,481
Investment properties		2,210	2,210
Prepaid land lease payments		46,236	46,692
Interests in associates		6,516	5,849
Available-for-sale financial assets		79,134	83,635
Available-for-sale investment		650	650
Total non-current assets		363,269	365,517
CURRENT ASSETS			
Inventories		88,875	88,025
Trade and bills receivables	10	148,656	146,874
Prepayments, deposits and other receivables		6,114	6,200
Equity investments at fair value through profit or loss	11	420	437
Available-for-sale financial asset		7,505	–
Tax recoverable		–	57
Cash and cash equivalents		42,878	30,385
Non-current assets classified as held for sale		294,448	271,978
		–	7,753
Total current assets		294,448	279,731
CURRENT LIABILITIES			
Trade and bills payables	12	64,787	52,709
Other payables and accrued liabilities		29,474	21,298
Tax payable		8,066	5,800
Interest-bearing bank and other borrowings	13	47,514	71,476
Due to an associate		4,600	4,700
Total current liabilities		154,441	155,983
NET CURRENT ASSETS		140,007	123,748
TOTAL ASSETS LESS CURRENT LIABILITIES		503,276	489,265
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	7,500	13,583
Deferred tax liabilities		8,685	7,985
Total non-current liabilities		16,185	21,568
Net assets		487,091	467,697
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		32,365	32,365
Reserves		429,248	402,353
Proposed dividend		9,709	16,182
Minority interests		471,322	450,900
		15,769	16,797
Total equity		487,091	467,697

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	Note	Attributable to equity holders of the parent										Total equity HK\$'000
		Issued share capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Available- for-sale financial asset revaluation reserve HK\$'000	Goodwill eliminated against reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	
At 1 April 2006 (audited)		32,365	56,831	41,800	(9,809)	(152)	1,148	312,535	16,182	450,900	16,797	467,697
Change in fair value of available-for-sale financial assets		-	-	-	3,004	-	-	-	-	3,004	-	3,004
Exchange realignment		-	-	-	-	-	78	-	-	78	65	143
Total income for the period recognised directly in equity		-	-	-	3,004	-	78	-	-	3,082	65	3,147
Net profit for the period		-	-	-	-	-	-	33,522	-	33,522	(1,093)	32,429
Total income and expenses for the period (unaudited)		-	-	-	3,004	-	78	33,522	-	36,604	(1,028)	35,576
2006 final dividend declared		-	-	-	-	-	-	-	(16,182)	(16,182)	-	(16,182)
2007 proposed interim dividend	9	-	-	-	-	-	-	(9,709)	9,709	-	-	-
At 30 September 2006 (unaudited)		32,365	56,831*	41,800*	(6,805)*	(152)*	1,226*	336,348*	9,709	471,322	15,769	487,091

* represents aggregate reserves of HK\$429,248,000 (31 March 2006: HK\$402,353,000) included in the condensed consolidated balance sheet.

	Note	Attributable to equity holders of the parent								Total equity HK\$'000
		Issued share capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Goodwill eliminated against reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	
At 1 April 2005 (audited)		32,365	56,831	41,800	(152)	304,821	16,182	451,847	20,004	471,851
Net profit for the period (unaudited)		-	-	-	-	16,048	-	16,048	(2,986)	13,062
2005 final dividend declared		-	-	-	-	-	(16,182)	(16,182)	-	(16,182)
2006 proposed interim dividend	9	-	-	-	-	(8,091)	8,091	-	-	-
At 30 September 2005 (unaudited)		32,365	56,831	41,800	(152)	312,778	8,091	451,713	17,018	468,731

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2006*

	For the six months ended 30 September 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash inflow from operating activities	66,924	24,412
Net cash outflow from investing activities	(6,473)	(42,146)
Net cash inflow/(outflow) from financing activities	(47,958)	13,402
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	12,493	(4,332)
Cash and cash equivalents at beginning of period	30,385	134,374
CASH AND CASH EQUIVALENTS AT END OF PERIOD	42,878	130,042
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	42,878	30,358
Non-pledged time deposits	–	99,684
	42,878	130,042

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 and the principal place of business is located at B2 & B4, 8/F, Block B, Mai Hing Industrial Building, 16-18 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong.

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

The directors of the Company consider Wahyee Limited, a company incorporated in the British Virgin Islands, to be the Company's ultimate holding company.

2. ACCOUNTING POLICIES

The condensed consolidated interim financial statements for the six months ended 30 September 2006 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and the basis of preparation adopted in the preparation of the Interim Financial Statements are the same as those used in the preparation of the Group's annual financial statements for the year ended 31 March 2006, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which also include HKASs and Interpretations that affect the Group and are adopted for the first time in the current period's financial statements:

HKAS 39 & HKFRS 4 Amendments

Financial Guarantee Contracts

In accordance with the amendments to HKAS 39 and HKFRS 4 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

The adoption of the above new and revised HKFRSs has had no material impact on the accounting policies of the Group and the method of computation in the Group's Interim Financial Statements.

The Group has not early adopted the following new or revised HKFRSs which have been issued but not yet effective, in these condensed consolidated financial statements:

HKAS 1 Amendment
HKFRS 7
HK(IFRIC)-Int 8

Capital Disclosures
Financial Instruments: Disclosures
Scope of HKFRS 2

The adoption of these new or revised HKFRSs is not expected to result in material impact on the Group's financial statements in the period of initial application.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

3. SEGMENT INFORMATION

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. No business segment analysis is presented as management considers that the Group has operated in one single business segment.

An analysis of the Group's revenue and profit for the period by geographical area of market for the six months ended 30 September 2006 and 2005 is as follows:

	For the six months ended 30 September			
	2006		2005	
	Revenue (Unaudited) HK\$'000	Profit for the period (Unaudited) HK\$'000	Revenue (Unaudited) HK\$'000	Profit for the period (Unaudited) HK\$'000
By geographical area:				
Europe	173,447	23,930	116,137	10,144
North America	85,931	11,856	66,000	5,765
The People's Republic of China (including Hong Kong)*	15,972	2,204	10,739	938
Other Asian countries	6,754	932	5,566	486
Others	4,214	581	616	54
	286,318	39,503	199,058	17,387
Bank interest income		228		1,193
Unallocated corporate expenses		(1,395)		(687)
Finance costs		(1,731)		(1,061)
Share of profits and losses of associates		285		(1,131)
Tax		(4,461)		(2,639)
Profit for the period		32,429		13,062

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

4. REVENUE, OTHER INCOME AND GAIN

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

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

	For the six months ended 30 September 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Revenue – net sales of goods	286,318	199,058
Sale of scrap materials	655	442
Bank interest income	228	1,193
Fair value gain on equity investments at fair value through profit or loss	–	81
Others	362	792
Other income and gain	1,245	2,508

5. PROFIT BEFORE TAX

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

	For the six months ended 30 September 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Cost of inventories sold	218,643	149,983
Depreciation	16,322	15,344
Amortisation of prepaid land lease payments	481	214
Minimum lease payments under operating leases in respect of buildings	1,519	1,720
Employee benefits expenses	59,508	48,383
Loss on disposal of items of property, plant and equipment	36	599
Reversal of provision for bad and doubtful debts	(1,550)	–
Provision/(write-back of provision) for inventory obsolescence	(155)	661

6. FINANCE COSTS

	For the six months ended 30 September 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	1,706	1,061
Interest on finance leases	25	–
	1,731	1,061

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

7. TAX

	For the six months ended 30 September 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current – Hong Kong profits tax	3,761	2,439
Deferred tax	700	200
Total tax charge for the period	<u>4,461</u>	<u>2,639</u>

The Group provides for tax on the basis of their income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Hong Kong profits tax for the Company and subsidiaries in Hong Kong has been provided at a rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. The subsidiaries operating in Mainland China (the “PRC”) were not subject to the PRC income tax in the current or prior periods as they did not generate any taxable income in the PRC.

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

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

The calculation of basic earnings per share amounts for the period is based on the net profit for the period attributable to ordinary equity holders of the parent of HK\$33,522,000 (six months ended 30 September 2005: HK\$16,048,000) and 323,649,123 (2005: 323,649,123) shares in issue.

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

9. DIVIDEND

At a meeting of board of directors held on 7 December 2006, the directors resolved to pay an interim dividend of HK3.0 cents (2005: HK2.5 cents) to shareholders whose name appear on the Register of Members of the Company on 18 January 2007. The interim dividend will be paid on or before 26 January 2007.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

10. TRADE AND BILLS RECEIVABLES

Credit is offered to customers following a financial assessment by the Group and with regard to their established payment records. The Group usually allows average credit periods ranging from 45 to 120 days (2005: 45 to 120 days) to its customers and seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management and collections are followed up by accounting personnel. Trade and bills receivables are non-interest-bearing.

The following is an aged analysis of trade and bills receivables (net of provision for bad and doubtful debts) as at 30 September 2006 and 31 March 2006:

Ageing	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Current to 90 days	144,356	141,600
91 – 180 days	1,730	1,468
181 – 360 days	174	968
Bills receivables	146,260 2,396	144,036 2,838
Total	148,656	146,874

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Listed equity investments in Hong Kong, at market value	420	437

The above equity investments at 30 September 2006 were classified as held for trading.

12. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables as at 30 September 2006 and 31 March 2006:

Ageing	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Current to 90 days	59,845	50,877
91 – 180 days	3,385	935
181 – 360 days	1,557	498
Over 360 days	–	399
Total	64,787	52,709

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	47,000	70,934
In the second year	5,000	8,333
In the third to fifth years, inclusive	2,500	5,000
	<u>54,500</u>	<u>84,267</u>
Finance lease repayable:		
Within one year	514	542
In the second year	–	250
	<u>514</u>	<u>792</u>
	<u>55,014</u>	<u>85,059</u>
Portion classified as current liabilities	<u>(47,514)</u>	<u>(71,476)</u>
Long term portion	<u>7,500</u>	<u>13,583</u>

The Group's building situated in Hong Kong with an aggregate net book value of HK\$3,712,000 (31 March 2006: HK\$3,787,000), the investment property situated in Hong Kong with an aggregate valuation of HK\$1,431,000 (31 March 2006: HK\$1,431,000) and leasehold land situated in Hong Kong with an aggregate net prepaid land lease payments of HK\$10,836,000 (31 March 2006: HK\$11,145,000) were pledged to secure the bank loans and general banking facilities granted to the Group at the balance sheet date. The banking facilities were also secured by corporate guarantees in the amount of HK\$149,316,000 (31 March 2006: HK\$147,600,000) from the Company.

14. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	For the six months ended 30 September 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Transactions with a substantial shareholder:		
Sale of goods to Safilo S.p.A group of companies	<u>135,750</u>	<u>88,980</u>

Guarantees granted to subsidiaries are included in note 15.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

14. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Amount due from a substantial shareholder: Trade receivable from Safilo S.p.A group of companies	<u>89,481</u>	<u>102,754</u>
Amount due to an associate	<u>4,600</u>	<u>4,700</u>

(c) In addition to the transactions with the Safilo S.p.A group of companies set out above, during the period, the Company executed guarantees in respect of banking facilities granted to certain non-wholly-owned subsidiaries, namely Gold Strong Industrial Limited and Grand Artic Limited. Please refer to note 15 below for further details.

(d) Compensation of key management personnel of the Group

	For the six months ended 30 September 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Short term employee benefits	<u>3,349</u>	<u>2,978</u>

15. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Guarantees given by the Company for banking facilities granted to:		
– wholly-owned subsidiaries	144,316	142,600
– non-wholly-owned subsidiaries	<u>5,000</u>	<u>5,000</u>
	<u>149,316</u>	<u>147,600</u>

Details of the corporate guarantees given by the Company to banks to secure banking facilities granted to the non-wholly-owned subsidiaries are as follows:

	Corporate guarantee given by the Company 30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Grand Artic Limited	2,000	2,000
Gold Strong Industrial Limited	<u>3,000</u>	<u>3,000</u>

These banking facilities were utilised by these subsidiaries to the extent of approximately HK\$965,000 as at the balance sheet date (31 March 2006: approximately HK\$341,000).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

16. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases one of its investment properties under an operating lease arrangement, with the lease negotiated for a term of four 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 30 September 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Within one year	15	61

(b) As lessee

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

At 30 September 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Within one year	2,256	2,516
In the second to fifth years, inclusive	6,353	7,109
After five years	41,251	41,868
	49,860	51,493

17. COMMITMENTS

Capital expenditure contracted, but not provided for:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Land and buildings	426	1,753
Equipment and machinery	1,755	1,503
	2,181	3,256

18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised by the board of directors as on 7 December 2006.

INTERIM DIVIDEND

At a meeting of board of directors held on 7 December 2006, the directors resolved to pay an interim dividend of HK3.0 cents (2005: HK2.5 cents) to shareholders whose name appear on the Register of Members of the Company on 18 January 2007. The interim dividend will be paid on or before 26 January 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the production and sales of medium and high-end quality optical frame and sunglasses. During the six months ended 30 September 2006, the Group achieved a substantial improvement on the financial and operating results with a remarkable growth of 43.84% in the Group's consolidated revenue to HK\$286,318,000 (2005: HK\$199,058,000) and a significant growth in net profit attributable to equity holders of the parent by an increase of 108.89% to HK\$33,522,000 (2005: HK\$16,048,000). In the first half of the year 2006/2007, the Group recorded an other operating income of HK\$5,687,000 (2005: Nil), including the net gain of HK\$4,137,000 from the disposal of staff quarters in Mainland China and the write-back of overprovision of doubtful debts of HK\$1,550,000. Excluding the other operating income, the Group's net profit attributable to equity holders of the parent amounts to HK\$27,835,000 (2005: HK\$16,048,000) representing an encouraging growth of 73.45% compared to the corresponding period last year. The net profit attributable to equity holders of the parent excluding the other operating income improved to 9.72% for the period concerned from 8.06% for the period ended 30 September 2005. It reflected the benefits of greater degree of economies of scale resulting from increased revenue and controlled operating costs respectively.

During the period under review, the Group's strong operating performance in the increasingly competitive environment and a rapidly changing market attributed to a strong demand for optical products in the markets in Europe and North America and the Group's continual efforts in pursuing volume customers and new customers in potential markets, coupled with other favourable factors such as strengthening of Euro, further migration of the manufacturing process of optical products to the China region and the Group's enlarged production capacity via simplification and automation of production processes. Europe is still the largest market of the Group, accounting for 60.58% (2005: 58.34%) of the total revenue. The Group's sales to Europe increased by 49.35% compared to the corresponding period ended 30 September 2005. In addition, the Group also achieved a satisfactory rebound in sales by 30.20% to North America and the sales to North America accounted for 30.01% of the Group's revenue for the six months ended 30 September 2006. In the first half of this financial year, the Group was keen to strengthen its working relationships with existing clients and directly cooperated with renowned optical brands and chain stores in product design and development. Besides, the Group has successfully established a co-operation with numerous new potential clients and received an increasing numbers of orders from them during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Although the macroeconomic environment during the period under review was satisfactory, uncertainties arising from an unfavourable environment built up by prevailing high material prices, appreciation of Renminbi and interest rate hike in developed economies continued to take their toll, placing enormous upward pressure on operating costs of the optical industry. However, the Group was able to withstand the continual pressure on our gross profit margin through combined results of cost reduction measures and increased efficiency. During the period under review, the Group's gross profit margin was maintained at a stable level of 23.69% compared to the gross profit margin of the corresponding period in 2005/2006 of 23.97% after adjusting for the one-off insurance compensation received of approximately HK\$2,053,000 in the period ended 30 September 2005 to cover the cost of remedial measures for the fire occurred in our factory complex at Shenzhen, China in October 2004. Leveraged on its solid foundation in the industry, the Group continued to adopt a prudent development and operating strategy to address the adverse impact of rising material price and production overheads on the Group. The Group has continued its efforts to adjust its logistic process, procurement procedures and manufacturing technology to enhance production yield and focused its business development in markets of medium and high valued-added products that are capable of reducing effects of escalating operating costs.

Despite the adverse impact of high production costs, due to the continual efforts in reducing expenses and cutting costs in supporting functions, the ratio of the general and administrative expenses to total revenue reduced to 10.63% compared to that of 14.48% for the period ended 30 September 2005. The controlled selling and distribution expenses increased moderately by 8.20% in view of the rapid growth in revenue in the first half of this financial year. Therefore, given the combined effects of economies of scale resulting from momentum in revenue and contained selling and administrative expenses, the operating efficiency of the Group improved such that the ratio of profit before tax excluding the other operating income to revenue increased to 10.90% from that of 7.89% for the comparable period last year.

PROSPECT

Looking forward, despite the uncertainty of performance of the global economy in 2007, mainly clouded by factors such as high energy and material prices and its effect on consumer spending, the demand for optical products in Europe remains healthy and our received orders from European customers are growing in the second half of this financial year. The global trend of migration of optical production to manufacturers with production base in Mainland China continues and it will bring stable orders to the optical manufacturing business in Hong Kong and China.

Although the upward pressure of raw materials and overheads in Mainland China is a reality, the Group innovates and improves its existing production techniques and technology on an ongoing basis with a view to controlling costs and achievement of greater production capacity and production efficiency. The workflows at all levels including the front-line and supporting departments, human resources and capital expenditures will undergo redesign to reduce wastage and control cost further. The above measure will enable the Group to maintain its competitiveness in the optical industry.

The new workshop at Dongguan, China for production of self-made machines will commence operation in the first half of 2007. We shall as a result expand our capacity to produce more tailor-made machines to upgrade our ability to produce quality components and parts and in a cost effective way so as to increase our overall production capacity to cater for greater potential market demand. We believe innovation and selective automation is a key to the future.

In view of the above, the Group will remain cautiously positive about its performance and realisation of enhanced efficiency in the coming future.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

LIQUIDITY AND CAPITAL RESOURCES

The Group commits to adopt prudent and stable strategy in managing its treasury function. It was reflected by the Group's solid financial position at the end of the period under review. Due to an improved operating cash-inflow of HK\$66,924,000 (2005: HK\$24,412,000) for the period under review, total cash and bank balances of the Group as at 30 September 2006 increased to HK\$42,878,000 (31 March 2006: HK\$30,385,000), which were mainly denominated in HK dollars, U.S. dollars and Renminbi and the Group's aggregate utilised banking facilities also reduced to HK\$55,014,000 (31 March 2006: HK\$85,059,000). The Group's available unutilised banking facilities amounted to HK\$94,302,000 at the end of 30 September 2006. The improved liquidity position enabled the Group's gearing ratio to be maintained at the reduced level of 11.29% (31 March 2006: 18.19%) at 30 September 2006, defined as the total bank borrowings over total equity. A current ratio of 1.91:1 (31 March 2006: 1.79:1) and the quick acid ratio of 1.33:1 (31 March 2006: 1.23:1) were maintained as at the end of the period under review.

The Group's investment for the period under review in new machinery and leasehold improvements in premises in Mainland China amounted to HK\$21,775,000 (2005: HK\$30,741,000) and it was mostly funded by internally generated working capital and banking facilities.

The Group contracts business transactions mainly in Hong Kong dollars, Renminbi and U.S. dollars and, whereas bank deposits are maintained in Hong Kong dollars and U.S. dollars. Hong Kong dollars is pegged to U.S. dollars and there has not been any major fluctuation in the exchange rate between U.S. dollars and Hong Kong dollars, the Group does not foresee any material exchange risk in this respect. The Group's forecasted exposure to the foreign exchange fluctuations was caused by the upward revaluation of Renminbi during the period under review. However, the Group has not experienced any difficulties or material effects on its fund requirements or liquidity due to movement in currency exchange for the period under review. There is no outstanding foreign exchange contract as at 30 September 2006.

THE PLEDGE OF ASSETS

The Group's building situated in Hong Kong with an aggregate net book value of HK\$3,712,000 (31 March 2006: HK\$3,787,000), the investment property situated in Hong Kong with an aggregate valuation of HK\$1,431,000 (31 March 2006: HK\$1,431,000) and leasehold land situated in Hong Kong with an aggregate net prepaid land lease payments of HK\$10,836,000 (31 March 2006: HK\$11,145,000) were pledged to secure the bank loans and general banking facilities granted to the Group at the balance sheet date. The banking facilities were also secured by corporate guarantees in the amount of HK\$149,316,000 (31 March 2006: HK\$147,600,000) from the Company.

EMPLOYEES

As at 30 September 2006, the Group employed approximately 5,998 (31 March 2006: 6,131) full time staff in China and in Hong Kong. Total staff costs of the Group for the period under review amounted to HK\$59,508,000 (2005: HK\$48,383,000). The Group remunerates its employees based on their performance, working experience and the prevailing labour market. Performance related bonuses are granted on a discretionary basis. The Group also provides medical insurance coverage and provident fund to employees in Hong Kong.

By Order of the Board
Hui Leung Wah
Chairman

Hong Kong, 7 December 2006

OTHER INFORMATION

CLOSURE OF THE REGISTER

The Register of Members will be closed from 12 January 2007 to 18 January 2007 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 11 January 2007.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2006, the interests and short positions of the directors of the Company in the shares and 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")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Shares in the Company (Long Position)

Name of Director	Number of shares held		Total	Percentage of issued share capital of the Company
	Personal Interest	Other Interests		
Hui Leung Wah (<i>Note</i>)	8,308,000	141,316,000	149,624,000	46.23
Poon Sui Hong	6,900,000	–	6,900,000	2.13
Leung Shu Sum	6,000,000	–	6,000,000	1.85
Mario Pietribiasi	100,000	–	100,000	0.03
	<u>21,308,000</u>	<u>141,316,000</u>	<u>162,624,000</u>	<u>50.24</u>

Note: 141,116,000 shares held as Other Interests of Mr. Hui are 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 are held by Wahyee Limited as trustee for a unit trust, which, in turn, is beneficially owned by Docater Trust, a discretionary trust with Ansbacher (BVI) 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).

OTHER INFORMATION (Continued)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Long Position in Ordinary Shares in the Subsidiaries

Mr. Hui Leung Wah is beneficially interested in 200,000 non-voting deferred shares in the capital of Elegance Optical Investments Limited. The rights and restrictions of such non-voting deferred shares are disclosed in the audited financial statements for the year ended 31 March 2006.

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

Saved as disclosed above, as at 30 September 2006, none of the directors had any interest or short position in the shares, 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 in the register required to be kept by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the SEHK pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES

Other than as disclosed above under the section headed "Director's Interests and Short Positions in Shares, Underlying Shares and Debentures" so far as is known to the directors of the Company, as at 30 September 2006, 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	Percentage of Issued Shares
Poon Yuk Yee (<i>Note 1</i>)	149,624,000	46.23
Ansbacher (BVI) Limited (<i>Note 2</i>)	141,316,000	43.66
Wahyee Limited (<i>Note 2</i>)	141,316,000	43.66
Safilo Far East Limited	74,599,123	23.05

OTHER INFORMATION (Continued)

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

Notes:

1. Ms. Poon Yuk Yee is the wife of Mr. Hui Leung Wah and is deemed to be interested in shares held by and shares taken to be interested by Mr. Hui Leung Wah.
2. Details are stated in above section "Director's Interests and Short Positions in Shares, Underlying Shares and Debentures".

Saved as disclosed above, as at 30 September 2006, no person, other than the directors and chief executives of the Company, whose interests are set out in "Director's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short positions in the shares, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

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

As at 30 September 2006, no options granted under the Old Share Option Scheme remained outstanding and no options were granted under the New Share Option Scheme during the period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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 supervision over the Group's financial reporting process and internal controls for the six months ended 30 September 2006. The audit committee comprises Poon Kwok Fai, Ronald, Wong Chung Mat, Ben and Tam Hok Lam, Tommy, the independent non-executive directors of the Company, with Tam Hok Lam, Tommy, JP, having appropriate professional financial qualifications.

OTHER INFORMATION (Continued)

CORPORATE GOVERNANCE

Except for the below mentioned Code Provision A.2.1, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the “Code”) set out in Appendix 14 of the Listing Rules on the SEHK throughout the six months ended 30 September 2006, except the following deviation:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Hui Leung Wah is the founder and Chairman of the Board. The Company does not have any officer with the title “chief executive officer”. Mr. Hui 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 considers that the combination of the roles of chairman and chief executive officer can promote the efficient formulation and implementation of the strategies, which will enable the Company to take advantage of market opportunities promptly. The Company will review the feasibility of separating the two roles to comply with Code Provision A.2.1.

The Company has set up a remuneration committee in June 2005 responsible for formulating and making recommendation to the Board on the Group’s policy and structure for all the remunerations of the Directors and senior management and on the establishment of formal procedures for developing policy on such remuneration.

The Company has also set up a nomination committee in June 2005. The committee is responsible for nominating and affirming potential directors approved by the Board, reviewing the structure and composition of the Board on a regular basis and ensuring fair and transparent procedures for the appointment of Directors to the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (the “Model Code”)

The Company had adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding Director’s securities transactions. Upon specific enquiry of the Company, all of the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 September 2006.