Elegance International Holdings Limited

(Stock Code: 907)

ANNUAL REPORT 2007

Contents

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
(Resigned with effect from 8 July 2007)

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

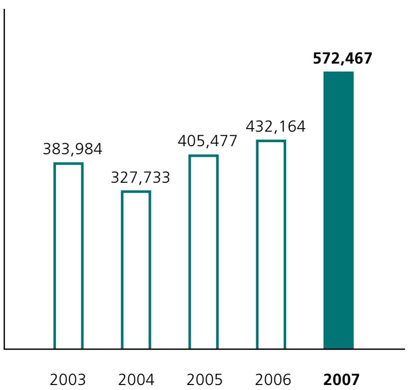
STOCK CODE

907

Financial Highlights

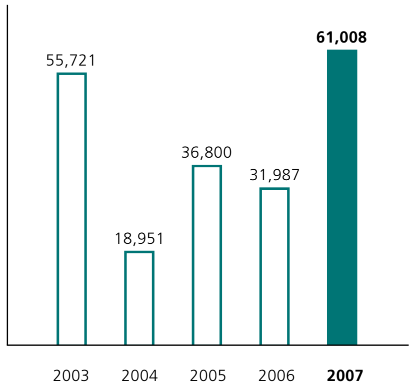
REVENUE

(HK$'000)

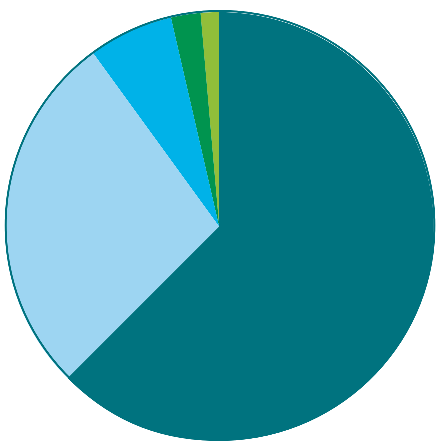


PROFIT ATTRIBUTABLE TO SHAREHOLDERS

(HK$'000)



BREAKDOWN OF REVENUE BY GEOGRAPHICAL AREA FOR THE YEAR ENDED 31 MARCH 2007



Europe	62.70%
North America	27.43%
The People's Republic of China (including Hong Kong)*	6.29%
Other Asian countries	2.26%
Others	1.32%

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

Chairman's Statement

DIVIDENDS

The Board of Directors have resolved to recommend the payment of a final dividend of HK6.0 cents per ordinary share (2006: HK5.0 cents) for the year ended 31 March 2007 at the forthcoming Annual General Meeting to be held on 31 August 2007. The final dividend together with the interim dividend of HK3.0 cents per ordinary share, will make a total dividend for the year of HK9.0 cents (2006: HK7.5 cents) per ordinary share. The final dividend, if approved by shareholders, is expected to be payable on 28 September 2007 to those shareholders whose names appear on the Register of Members on 31 August 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 25 August 2007 to 31 August 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 24 August 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Review of Industry

The financial year 2006/2007 has been a good year for the Group in which a satisfactory financial performance was delivered. During the year under review, the demand for quality optical products was promising due to the stable economic conditions in Europe and North America, where the market threshold of our major customers are. With the continual growth of fashion brands worldwide which coupled with the increasing importance of eyewear products as major fashion accessories, the market potential for the optical industry in Hong Kong is promising. The trend of the outsource of production orders from traditional optical distributors in Europe and Japan to mainland China to enjoy cheaper product costing is continuing. Taking advantage of the favourable market sentiment for optical products, both of the Group's turnover and profit attributable to equity shareholders recorded a satisfactory growth, reflecting the continuous efforts of the Group in the improvement in product quality, production management and marketing strategy to enhance value of our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Financial Performance

Due to successful marketing strategy, the satisfactory order placements from our long-term and new customers have been realised. The implementation of stringent measures on enhancement of product quality also helps. The Group leveraged on its immense industry expertise to increase turnover by a robust growth of 32.47% to HK$572,467,000 from HK$432,164,000 for the year 2005/2006. The increase in sales and production output, the resulting economies of scale, further streamlining of the production and logistic processes raised the profit attributable to equity shareholders to HK$61,008,000 (2006: HK$31,987,000) for the year ended 31 March 2007, representing an increase of over 90.72% on a year-on-year basis. The abovementioned profit for the year has already taken into account the other operating items including gain on disposal of the PRC staff quarter of HK$4,118,000 (2006: Nil), write-back of impairment of trade receivables of HK$1,699,000 (2006: HK$4,782,000), fair value gain of investment properties of HK$919,000 (2006: loss of HK$3,813,000) and gain on disposal of items of property, plant and equipment of HK$802,000 (2006: loss of HK$56,000) in the year under review. Without the effects of the other operating items, the profit attributable to equity shareholders amounts to HK$53,081,000, which represented an increase of 92.56% when compared with that of HK$27,566,000 last year. Earnings per share also improved from HK9.88 cents to HK18.85 cents for the year ended 31 March 2007. The return on equity also increased to 12.40% from 7.09% for the previous financial year which reflects improved efficiency on deployment of the Group's assets in generating return.

The gross profit margin and net profit margin have also been improved to 22.47% and 10.66% from 21.21% and 7.40%, respectively, last year despite the fact that increasing operating costs such as wages and electricity charges in Mainland China on top of keen competition posed immense pressure on our efforts in keeping satisfactory return to our shareholders. The improvement to net profit margin also showed our continual efforts of imposing stringent cost control measures in containing the general and administrative expenses. It accounted for approximately 9.69% to the Group's turnover compared to that of 12.49% for the year 2005/2006.

Sales Analysis

With a continual strengthening of marketing channels and a favourable consumer sentiment in the developed countries, the Group successfully captured the growth in revenue across overseas markets both in Europe and North America. European markets continued to be the Group's major export market. Sales to European market increased by more than 36.66% to HK$358,937,000 (2006: HK$262,649,000), representing 62.7% (2006: 60.78%) of the total turnover of the Group for the year ended 31 March 2007. The Group will accelerate our business expansion in the European markets with new product design and more proactive marketing activities. The sales to North America recorded a stable growth of 16.75% to HK$157,041,000, as compared to that of HK$134,515,000 for the financial year ended 31 March 2006 and it contributed to 27.43% (2006: 31.13%) of the total Group's turnover. It was resulted from the turnaround of market demand for optical products in the United States.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Business Review (continued)

Sales Analysis (continued)

To improve the margin of the financial performance, the policy of the Group is to impose strict control in use of materials and consumables, diligently adopt various measures to cut production overhead and reduce materials usage and to enrich our integrated value-added services. With the benefit of this policy and the impact of economies of scale brought by increasing capacity and production output, the Group successfully achieved improvement in our production efficiency and increased our capacity in peak period.

New Facilities for Self-made Machines

The Group's production facility in Dongguan, the PRC for self-development of machinery for use in optical industry was completed in March 2007. With this new premise, the Group managed to install more self-made computer numeric control machines tailored to optical industry to improve production know-how and enhance our productivity in quality product with sophisticated and varied design layout. Besides, the Group is in a better position to control the capital expenditure and the use of operating cash flow by means of deployment of self-made machines in a greater extent in contrast to the purchase of machinery.

PROSPECT

The Group foresees that the financial year ended 31 March 2008 continues to be a challenging year for our manufacturing business. Given the volatile metal and petro-chemical prices and expected further appreciation of Renminbi against US dollars and Hong Kong dollars unfavourably, our gross margin will be under pressure. To maintain profitability amid the high-cost operating environment in mainland China, the Group will strategically directed our resources to support customers with higher margin and in larger volume. To effectively counter the adverse operating cost environment, the Group strives to maintain a diverse product mix and monitor closely the profit contribution of different products and customers and to concentrate on those with satisfactory profit margin. The Group also plans to foster relationship with major customers so as to seek repeated orders with larger volume from these customers to boost profit margin to alleviate the continual adverse impacts from rising materials and overhead costs in the foreseeable future.

The Group is committed to understanding the needs of customers and market development of fashion trend to help our customers develop innovative design layout and materials used for optical products so that the Group is able to add value to our customers and will be in a better position to introduce our products to all potential customers with better sales margin.

Looking ahead, it is obvious that the Group is well positioned to take advantage of its status as a renowned and fully vertically integrated optical manufacturer to produce quality and fashionable optical products to meet increasing demand from customers in Europe and North America when Southern China where our production bases locate has became one of the important manufacture base of optical products in the world. As the optical markets maintains stable growth momentum in early 2007, I am looking forward to placing the Group on the path to further growth and bring fruitful returns to shareholders in the coming financial year.

LIQUIDITY AND CAPITAL RESOURCES

The Group generally finances its operations with internally generated working capitals and external banking facilities. The financial position of the Group remained strong during the year under review.

The Group's current ratio, being the ratio of total current assets divided by the total current liabilities, was 1.95:1 (31 March 2006: 1.79:1). The gearing ratio of the Group, calculated on the basis of interest-bearing bank and other borrowings over shareholders' funds maintained at 13.17% (31 March 2006: 18.86%) as at the year-end date. The improvement in current ratio and gearing ratio reflected the strong cash inflow from operations of HK$90,591,000 compared to HK$24,763,000 for the year 2005/2006.

LIQUIDITY AND CAPITAL RESOURCES (continued)

The Group had banking facilities amounted to HK$162,600,000 (31 March 2006: HK$147,600,000), of which approximately HK$66,833,000 (31 March 2006: HK$85,059,000) were utilised. All outstanding bank borrowings were for purposes of trade-finance and working capital and short to medium term in nature.

The Group successfully tightened control on purchase and use of raw materials to maintain a healthy inventory level despite an increase of turnover of over 32.47%. Stock turnover days decreased from 82 days for the previous financial year to 72 days in 2006/2007.

As at 31 March 2007, the Group's capital commitment was of HK$2,113,000 (31 March 2006: HK$3,256,000).

FOREIGN CURRENCY RISK

The Group's monetary assets, liabilities, and transactions are mainly denominated in Hong Kong dollars, Renminbi and US dollars. The management believes that the Group's working capital is not exposed to any significant risk from exchange rate. All of the bank borrowings are denominated in Hong Kong dollars and US dollars. The revenue of the Group, being mostly denominated in US dollars, was fairly matched with the currency requirements of operating expenses.

CONTINGENT LIABILITIES

At 31 March 2007, the Group had contingent liabilities of HK$162,600,000 (31 March 2006: HK$147,600,000), comprised of guarantees given to banks in connection with facilities granted to its fellow subsidiaries.

THE PLEDGE OF ASSETS

At 31 March 2007, the Group has pledged its leasehold land, leasehold buildings and investment properties with an aggregate carrying value of approximately HK$17,206,000 (31 March 2006: HK$16,363,000) as security for bank loan and general banking facilities granted to the Group. Except the above, there are no other charges on the Group's assets.

EMPLOYEES

As at 31 March 2007, the Group has over 6,666 (31 March 2006: 6,131) employees in Hong Kong and China. Most of them were stationed in the Mainland China while the rest were in Hong Kong and overseas. Employee costs (excluding director's emoluments) amounting to approximately HK$118,007,000 (2006: HK$95,567,000). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance, individual experience and performance. Various fringe benefits ranging from Mandatory Provident Fund and medical insurance are provided. Employee's remuneration is consistent with the prevailing industry practice in the respective countries where the Group operates.

APPRECIATION

I would like to take this opportunity to express my deepest gratitude and sincere thanks to all of our staff and fellow directors for their contributions and efforts to the Group in the past. I would also like to thank our customers, shareholders, bankers, suppliers and other business partners for their continuous support to the success of the Group.

ON BEHALF OF THE BOARD
Hui Leung Wah
Chairman

Hong Kong
6 July 2007

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

HUI Leung Wah, aged 54, the chairman and managing director of the Group. He is the founder of the Group and has 41 years of experience in the optical frames manufacturing industry. He received one of the "Young Industrialist Awards of Hongkong" in September 1995. These awards are given by the Federation of Hong Kong Industries. He is responsible for the overall supervision of the Group's activities and for policy making. Mr. Hui has served as a Committee Member of The Hong Kong Optical Manufacturers Association since 1990. In 1998/2000, 2000/2002 and 2006/2008, Mr. Hui serves as the President of The Association.

POON Sui Hong, aged 48, is a general manager of the Group. He joined the Group in 1984 and has over 21 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. Mr. Poon is a brother-in-law of Mr. Hui Leung Wah.

LEUNG Shu Sum, aged 52, is one of the founding members of the Group and has over 31 years of experience in optical frames production. He is currently responsible for supervising the production and engineering activities at the PRC production facilities.

NON-EXECUTIVE DIRECTORS

Mario PIETRIBIASI, aged 50, is the director of Safilo Far East Limited and Safilo Hong Kong Limited. He holds a Degree in Economics from University of Padova (Italy) and has over 23 years of experience in the commercial field.

Massimiliano TABACCHI, aged 36, joined the Company as a non-executive director on 24 September 2004. Mr. Tabacchi is a director of Safilo S.p.A., which is incorporated in Italy. He holds a Mechanical Engineering Degree from Padua University, Italy.

INDEPENDENT NON-EXECUTIVE DIRECTORS

POON Kwok Fai, Ronald, aged 58, is a solicitor and notary public practicing in Hong Kong and has over 26 years of experience in the legal profession. Mr. Poon is currently an independent non-executive director of abc Multiactive Limited (Stock Code: 8131), a listed company on the GEM Board of The Stock Exchange of Hong Kong Limited (the "SEHK").

TAM Hok Lam, Tommy, JP, aged 58, 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 a honorary director of Hong Kong Watch Manufacturers Association Limited and a council member of The Hong Kong Institute of Directors and a council member of the Singapore Chamber of Commerce (Hong Kong). Mr. Tam is currently an Independent Non-executive director of Winbox International (Holdings) Limited (Stock Code: 474), a listed company on the Main Board of the SEHK (the "Main Board"), which is principally engaged in the manufacturing and sales of packaging products. Mr. Tam currently is a Managing Director of Tomson Holdings Limited which is an investment holdings company. Mr. Tam is a member of Chinese People Political Consultative Conference in Shangdong Province, the People's Republic of China.

WONG Chung Mat, Ben, aged 55, is the Chairman and CEO of Wong's International (Holdings) Limited, a Hong Kong listed company on the Main Board (Stock code: 099). He obtained a Master of Science Degree in Operations Research from Ohio State University and has over 32 years of experience in the electronics industry.

SENIOR MANAGEMENT

TSANG Tak Hung, Donald, aged 48, 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 had over 12 years of management experience by serving in various banking institutions in Hong Kong and Canada and in the Stock Exchange.

CHENG Wai Keung, Edmond, aged 47, is the 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 a brother-in-law of Mr. Hui Leung Wah and is the spouse of Ms. Poon Kam Yee. He holds directorships in some of the subsidiaries in the Group.

POON Kam Yee, aged 46, is the assistant to the chairman and managing director and is also a supervisor of the Group's marketing department – the PRC division. She joined the Group in 1988 and has over 26 years of experience in accounting and administration. She is responsible for the Group's sales in the PRC market. Ms. Poon is a sister-in-law of Mr. Hui Leung Wah. She holds directorships in some of the subsidiaries in the Group.

KWAN Chi Kin, Wallace, aged 37, is the financial controller and company secretary of the Group. He holds a Bachelor of Social Science Degree from The Chinese University of Hong Kong. He also holds a Master of Business Administration Degree from the University of Manchester. He is an associate of the Hong Kong Institute of Certified Public Accountants and also a fellow of the Association of Chartered Certified Accountants. Mr. Kwan joined the Group in 1997 and has over 15 years of experience in accounting with listed companies and an international accountancy firm. Mr. Kwan has tendered his resignation from the office with effect from 8 July 2007.

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 2007.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 74.

An interim dividend of HK3.0 cents per share was paid on 26 January 2007. The directors recommend the payment of a final dividend of HK6.0 cents per share in respect of the year, to shareholders on the register of members on 31 August 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority 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				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**572,467**	432,164	405,477	327,733	383,984
PROFIT FOR THE YEAR	**61,323**	27,896	35,645	20,265	57,348
Attributable to:					
Equity holders of the parent	**61,008**	31,987	36,800	18,951	55,721
Minority interests	**315**	(4,091)	(1,155)	1,314	1,627
	61,323	27,896	35,645	20,265	57,348

SUMMARY FINANCIAL INFORMATION (continued)

Assets, liabilities and minority interests

	31 March				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TOTAL ASSETS	**679,777**	645,248	606,055	547,502	558,671
TOTAL LIABILITIES	**(170,241)**	(177,551)	(134,204)	(80,810)	(75,024)
MINORITY INTERESTS	**(17,722)**	(16,797)	(20,004)	(21,159)	(19,845)
	491,814	450,900	451,847	445,533	463,802

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties 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 29 and 30 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 31(b) to the financial statements and in the consolidated statement of changes in equity set out on page 28 of this annual report, respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2007, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$183,411,000 of which HK$19,419,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK$56,831,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$519,000.

DIRECTORS

The directors of the Company during the year were:

Executive directors
Hui Leung Wah *(Chairman and Managing Director)*
Poon Sui Hong
Leung Shu Sum

Non-executive directors
Mario Pietribiasi
Massimiliano Tabacchi

Independent non-executive directors
Poon Kwok Fai, Ronald
Wong Chung Mat, Ben
Tam Hok Lam, Tommy, JP

In accordance with the Company's bye-laws, Messrs. Leung Shu Sum, Tam Hok Lam, Tommy, JP, and Wong Chung Mat, Ben 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 Messrs. Poon Kwok Fai, Ronald, Wong Chung Mat, Ben and Tam Hok Lam, Tommy, JP 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

Mr. Poon Sui Hong and Mr. Leung Shu Sum have each entered into a renewed service agreement with the Company for a term of three years commencing on 17 February 2005. The service agreements continue after the expiry of their previous terms, subject to termination by either party giving not less than three months' notice.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2007, the interests and short positions of the directors in the share capital 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 Stock Exchange of Hong Kong Limited (the "SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of shares held and capacity in which the shares are held: Beneficial owner	Other interests	Total	Percentage of the issued share capital of the Company
Hui Leung Wah *(Note)*	8,308,000	141,316,000	149,624,000	46.23
Poon Sui Hong	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
	21,308,000	141,316,000	162,624,000	50.24

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 LGT Trustees Limited (previously named as 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).

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 set out in note 17 to the financial statements.

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

Save as disclosed herein and as at 31 March 2007, none of the directors or chief executive of the Company had any interest in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the SEHK.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosures set out in note 30 to the financial statements, at no time during the year was the Company, its holding company, or any of its subsidiaries or 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 directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

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

As at 31 March 2007, so far as is known to the directors or chief executive of the Company, the following persons, had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities, together with particulars of any option in respect of such share capital:

Long positions:

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

Notes:

1. Ms. Poon Yuk Yee is the 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 the above section headed "Directors' interests and short positions in shares and underlying shares".

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's largest customer and the Group's five largest customers accounted for 47.64% and 62.60% of the Group's total sales, respectively. The Group's largest customer, the Safilo S.p.A. group of companies, owned 23.05% of the Company's issued share capital at the balance sheet date. Details of the sales to the Safilo S.p.A. group of companies are included in note 36 to the financial statements.

During the year under review, the Group's largest supplier and the Group's five largest suppliers accounted for 11.46% and 39.79% of the Group's total purchases, respectively.

MAJOR CUSTOMERS AND SUPPLIERS (continued)

Other than as detailed 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.

(I) Pursuant to a special general meeting held on 31 March 2004 by the independent shareholders, an ordinary resolution (the "Former Resolution") was passed which approved the sale of optical frames, sunglasses and related products (the "Sales") by the Company and its subsidiaries to the Safilo S.p.A. group of companies for the three years ended 31 March 2007 subject to certain conditions. According to the Former Resolution, the aggregate values of the Sales shall not exceed HK$230 million, HK$255 million and HK$280 million for each of the three years ended 31 March 2005, 2006 and 2007, respectively.

The Former Resolution replaces the waiver granted by the SEHK to the Company on 29 October 2001, which expired on 31 March 2004. Further details are set out in the circular to the Company's shareholders dated 15 March 2004.

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

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

(b) 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) 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 interest of the Group as a whole; and

(d) did not exceed HK$280 million for the year.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 36 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 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.

Further details of the Sales to the Safilo S.p.A. group of companies are set out in note 36 to the financial statements.

Pursuant to a special general meeting held on 30 March 2007 by the independent shareholders, an ordinary resolution was passed which approved the sale of optical frames, sunglasses and related products (the "New Sales") by the Company and its subsidiaries to the Safilo S.p.A. group of companies for the three years ending 31 March 2010 subject to certain conditions. According to the resolution, the aggregate values of the New Sales shall not exceed HK$390 million, HK$470 million and HK$565 million for each of the three years ending 31 March 2008, 2009 and 2010, respectively. This resolution replaces the Former Resolution, which expired on 31 March 2007. Further details are set out in the circular to the Company's shareholders dated 9 March 2007.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS (continued)

(II) In addition to the transactions with the Safilo S.p.A. group of companies set out above, during the year, 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.

Details of such guarantees are set out below:

Name of non-wholly-owned subsidiaries to which banking facilities were granted	**Extent of guarantees given by the Company**
Gold Strong Industrial Limited	Corporate guarantee to the extent of HK$3 million
Grand Artic Limited	Corporate guarantee to the extent of HK$2 million

Certain non-wholly-owned subsidiaries of the Group also owed certain of the Group's wholly-owned subsidiaries amounts arising from their ordinary and usual course of business during the year. The amounts due are unsecured, interest-free and are repayable in accordance with normal trading terms. Details of the amounts outstanding at the respective balance sheet dates are set out below:

	31 March 2007 ***HK$'000***	31 March 2006 *HK$'000*
Gold Strong Industrial Limited	**33,708**	30,144
Grand Artic Limited	**1,778**	1,688
Leader Up Limited *(Note)*	**–**	4,347
	35,486	36,179

Note: Leader Up Limited has become a wholly-owned subsidiary of the Group since 22 May 2006.

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
6 July 2007

Corporate Governance Report

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors is committed to maintaining high standard of corporate governance practices and procedures in fulfilling the responsibilities to shareholders. The Company has always recognised that the importance of the shareholder's transparency and accountability. It is the belief of the board that shareholders can maximise their benefits from good corporate governance.

The Group has adopted the Code Provisions set out in the Code ("Code") of Corporate Governance Practices ("CGP") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") as its own code of corporate governance practices. The Directors consider that the Company has complied with the Code during the financial year ended 31 March 2007 except in certain circumstances where in the opinion of the Directors are unsuitable to be adopted by the Company at present. Details of such deviation are discussed later in the following:

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Company does not have any officer with the title "chief executive officer". Mr. Hui Leung Wah assumes the role of both Chairman and Managing Director of the Company and he is in charge of the overall management of the Company. The Company does not have a separate Chairman and Managing Director as Mr. Hui Leung Wah currently holds both positions. The Board believes that the combination of the roles of chairman and chief executive officer can promote the efficient formulation and implementation of the strategies of the Company which will enable the Group to grasp business opportunities efficiently and promptly. The Board also maintains that through the supervision of its Board and its Independent Non-executive Directors (the "INED"), a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

Accordingly, except for the above mentioned Code Provision A.2.1, the Directors consider that the Company has complied with the code provisions set out in the Code of CGP.

BOARD OF DIRECTORS

Board Composition

The Board of Directors (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. Leung Shu Sum and Mr. Poon Sui Hong, two Non-executive Directors are Mr. Mario Pietribiasi and Mr. Massimiliano Tabacchi and three Independent Non-executive Directors are Mr. Poon Kwok Fai, Ronald, Mr. Tam Hok Lam, Tommy, JP 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 Board composition will be reviewed regularly to ensure that it has a balance of skills and experience appropriate for the requirements of the business. The Directors' biographical information is set out on pages 8 to 9 to the annual report.

BOARD OF DIRECTORS (continued)

Appointment and Re-election

To comply with the Code Provision A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director of the Company shall be subject to retirement by rotation at least once every three years respectively. All non-executive directors were re-elected as a non-executive director for a specific terms of not more than three years in previous annual general meetings.

At the forthcoming Annual General Meeting. Mr. Leung Shu Sum, Mr. Tam Hok Lam, Tommy, JP and Mr. Wong Chung Mat, Ben will retire by rotation and, being eligible, will offer themselves for re-elections by shareholders.

Duties of the Board

The Board formulates the overall policies and strategies, monitors the financial performance, oversees the management, and ensures good corporate governance practices of the Company. The Board is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

The Directors meet regularly to review the financial performance and operational performance of the Company and to discuss and formulate the development plan of the Group. Daily operations and administration are delegated to the Executive Directors and management of the Group. The members of the Board are mostly professionally qualified and widely experienced personnel who bring in valuable contribution add different professional advices and consultancy for the development of the Company. They provide strong support towards the effective discharge of the duties and responsibilities of the Board. Every Director has access to board papers and related information; and has access to the services of the Company Secretary who updates the Board on corporate governance and regulatory frameworks.

The Chairman of the Board shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed and approved by the Board before the execution. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

Functions of the Board

During the financial year ended 31 March 2007, four regular quarterly Board meetings were held and the attendance of each director is set out as follows:

Name of director	Attendance in 2006/2007
Executive Directors	
Hui Leung Wah	4/4
Poon Sui Hong	2/4
Leung Shu Sum	3/4
Non-executive Directors	
Mario Pietribiasi	1/4
Massimiliano Tabacchi	0/4
Independent Non-executive Directors	
Poon Kwok Fai, Ronald	3/4
Tam Hok Lam, Tommy, JP	4/4
Wong Chung Mat, Ben	4/4

BOARD OF DIRECTORS (continued)

Functions of the Board (continued)

Four regular Board meetings of the year ended 31 March 2007 were scheduled in advance to give all Directors an opportunity to attend and these meetings at approximately quarterly intervals. One of the Board meetings had been convened by the Chairman to discuss a discloseable transaction which was constituted and required to be disclosed under the Listing Rules. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and adequate and reliable information are given to the Board in a timely manner.

The Company Secretary shall convene the Board meetings on the request of any one director of the Company and 14 days' notice of Board meetings will be given to all Directors. The Board papers are tabled not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. The Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings. Minutes of the Board are kept by the Company Secretary and are open for inspection at any reasonable time by any Director.

RESPONSIBILITY OF DIRECTORS AND AUDITORS FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and prevailing accounting standards with the assistance of the Finance Department which is under the supervision of the Qualified Accountant of the Company. The Directors also ensure the 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 the Independent Auditors' Report on pages 23 to 24 to the annual report.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted the code of conducts regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code in Appendix 10 to the Listing Rules. The Company, having made specific enquiry, confirms that all Directors complied throughout the year with the required standard set out in the Model Code and the Company's code of conduct regarding Director's securities transactions.

REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION

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

The attendance of each member is set out as follows:

Members	Number of Attendence
Poon Kwok Fai, Ronald	1/1
Tam Hok Lam, Tommy, JP	1/1
Wong Chung Mat, Ben	1/1

REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION (continued)

Its terms of reference are summarised as follows:

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

2. to review and determine the remuneration packages of all executive directors; and

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

The Remuneration Committee has reviewed and recommended to the Board on the remuneration policy and remuneration of the executive Directors, the remuneration of the INED and senior management, retirement schemes, the existing share option policy and the rewarding scheme for executive Directors and senior management. The Board reviewed and approved the Directors' remuneration at the Board Meeting held on 6 July 2007.

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 members including three INED. Mr. Tam Hok Lam, Tommy, JP is the chairman of the Nomination Committee. The other members are Mr. Poon Kwok Fai, Ronald and Mr. Wong Chung Mat, Ben. The Nomination Committee assists the Board to fulfill its supervisory role over the Group in nominating new directors to the Board and assessing the performance and skills of Directors. The terms of reference of the Nomination Committee have been posted on the website of the Company. Nomination Committee does not held any meeting during the financial year ended 31 March 2007.

AUDIT COMMITTEE

The Audit Committee was established in 1999 to consider the appointment of auditors and audit fee, to discuss with the auditors the nature and scope of audit, to review the Group's financial reporting, internal controls and corporate governance issues and make relevant recommendations to the Board. Its current members comprise Mr. Poon Kwok Fai, Ronald, Mr. Tam Hok Lam, Tommy, JP 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 INED. One of the members has appropriate professional qualifications, accounting or related financial management expertise as required under the Listing Rules. None of them is employed by or otherwise affiliated with former or existing auditors of the Company. The main duties of the Audit Committee are as follows:

1. To consider the appointment, reappointment and removal of the external auditors, and to approve the remuneration and the terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors of the Company;

2. To assess the independence of external auditors and discuss with the external auditors the nature and scope of audit;

3. To review interim and annual financial statements before approval of the Board;

4. To review the financial control, internal control, and risk management system of the Group and make recommendations to the Board; and

5. To review the external auditor's engagement letter and material queries raised by the auditors to management in respect of accounting records, financial control, internal control and response of management.

AUDIT COMMITTEE (continued)

The Audit Committee held two meetings during the year under review and one of the meetings was attend by external auditors. 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 conclusions of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of director	Attendance in 2006/2007
Poon Kwok Fai, Ronald	2/2
Tam Hok lam, Tommy, JP	2/2
Wong Chung Mat, Ben	2/2

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

1. To review with external auditors the accounting policies and the financial statements for the year ended 31 March 2007 and for the six months ended 30 September 2006 respectively;

2. To review the accounting principles and practices adopted by the Group and ensure the Company to comply with the Listing Rules and other statutory compliance;

3. To review the effectiveness of internal control system;

4. To review the external auditor's management letter and reports issued by external auditors;

5. To review and recommend for the Board's approval the audit scope for the year ended 31 March 2007 and auditors' remuneration; and

6. To review and consider the connected transactions entered into 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 2007, the remuneration paid to the Company's auditors, Messrs Ernst & Young, is set out as follows:

Services rendered	Fees paid/payable *HK$'000*
Audit services	1,278
Non-audit services i.e. taxation	150
Total	1,428

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 and key information of the Group are available on the website of 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. At the annual general meeting, a separate resolution was proposed by the Chairman in respect of each separate issue including re-election of directors and the Chairman demanded on a poll on all resolutions. The procedures for and the rights of shareholders for demanding a poll by the shareholders were incorporated in the circular dated 20 July 2007.

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

INTERNAL CONTROL

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

The system of internal controls aims to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for 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 Board has reviewed the effectiveness of the existing system internal control and found no material suspected frauds and irregularities, internal control deficiencies or infringement of relevant regulations and rules come to the attention of the Board and the existing system of internal control is adequate to the Group.

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

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements of Elegance International Holdings Limited set out on pages 25 to 74, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosures requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
6 July 2007

Consolidated Income Statement

(Year ended 31 March 2007)

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**572,467**	432,164
Cost of sales		**(443,818)**	(340,499)
Gross profit		**128,649**	91,665
Other income and gain	5	**3,314**	3,668
Selling and distribution costs		**(12,317)**	(9,435)
General and administrative expenses		**(55,492)**	(53,958)
Other operating income, net		**7,927**	4,421
Finance costs	7	**(3,199)**	(2,840)
Share of profits and losses of associates		**1,482**	283
PROFIT BEFORE TAX	6	**70,364**	33,804
Tax	9	**(9,041)**	(5,908)
PROFIT FOR THE YEAR		**61,323**	27,896
Attributable to:			
Equity holders of the parent	10	**61,008**	31,987
Minority interests		**315**	(4,091)
		61,323	27,896
DIVIDENDS	11		
Interim		**9,709**	8,091
Proposed final		**19,419**	16,182
		29,128	24,273
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**18.85 cents**	9.88 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

(31 March 2007)

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**232,848**	226,481
Investment properties	14	**3,129**	2,210
Prepaid land lease payments	15	**45,974**	46,692
Interests in associates	18	**8,913**	5,849
Available-for-sale financial assets	19	**81,638**	84,285
Total non-current assets		**372,502**	365,517
CURRENT ASSETS			
Inventories	20	**86,616**	88,025
Trade and bills receivables	21	**160,058**	146,874
Prepayments, deposits and other receivables		**5,627**	6,200
Equity investments at fair value through profit or loss	22	**451**	437
Tax recoverable		**15**	57
Available-for-sale financial assets	19	**7,699**	–
Due from an associate	18	**7,722**	–
Cash and bank balances	23	**39,087**	30,385
		307,275	271,978
Non-current assets classified as held for sale	24	**–**	7,753
Total current assets		**307,275**	279,731
CURRENT LIABILITIES			
Trade and bills payables	25	**56,003**	52,709
Other payables and accrued liabilities		**27,516**	21,298
Tax payable		**9,370**	5,800
Interest-bearing bank and other borrowings	26	**59,767**	71,476
Due to an associate	18	**4,600**	4,700
Total current liabilities		**157,256**	155,983
NET CURRENT ASSETS		**150,019**	123,748
TOTAL ASSETS LESS CURRENT LIABILITIES		**522,521**	489,265
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**5,000**	13,583
Deferred tax liabilities	28	**7,985**	7,985
Total non-current liabilities		**12,985**	21,568
Net assets		**509,536**	467,697

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*29*	**32,365**	32,365
Reserves	*31(a)*	**440,030**	402,353
Proposed final dividend	*11*	**19,419**	16,182
		491,814	450,900
Minority interests		**17,722**	16,797
Total equity		**509,536**	467,697

Hui Leung Wah
Director

Poon Sui Hong
Director

Consolidated Statement Of Changes In Equity

(Year ended 31 March 2007)

		Attributable to equity holders of the parent										
		Issued share capital	**Share premium account**	**Capital reserve**	**Available-for-sale financial asset revaluation reserve**	**Goodwill eliminated against reserves**	**Exchange fluctuation reserve**	**Retained profits**	**Proposed final dividend**	**Total**	**Minority interests**	**Total equity**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2005		32,365	56,831	41,800	(5,469)	(152)	–	304,821	16,182	446,378	20,004	466,382
Change in fair value of available-for-sale financial assets	19	–	–	–	(4,340)	–	–	–	–	(4,340)	–	(4,340)
Exchange realignment		–	–	–	–	–	1,148	–	–	1,148	884	2,032
Total income and expense for the year recognised directly in equity		–	–	–	(4,340)	–	1,148	–	–	(3,192)	884	(2,308)
Profit for the year		–	–	–	–	–	–	31,987	–	31,987	(4,091)	27,896
Total income and expense for the year		–	–	–	(4,340)	–	1,148	31,987	–	28,795	(3,207)	25,588
2005 final dividend declared		–	–	–	–	–	–	–	(16,182)	(16,182)	–	(16,182)
2006 interim dividend paid	11	–	–	–	–	–	–	(8,091)	–	(8,091)	–	(8,091)
2006 proposed final dividend	11	–	–	–	–	–	–	(16,182)	16,182	–	–	–
At 31 March and 1 April 2006		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	19	–	–	–	5,052	–	–	–	–	5,052	–	5,052
Exchange realignment		–	–	–	–	–	745	–	–	745	610	1,355
Total income and expense for the year recognised directly in equity		–	–	–	5,052	–	745	–	–	5,797	610	6,407
Profit for the year		–	–	–	–	–	–	61,008	–	61,008	315	61,323
Total income and expense for the year		–	–	–	5,052	–	745	61,008	–	66,805	925	67,730
2006 final dividend declared		–	–	–	–	–	–	–	(16,182)	(16,182)	–	(16,182)
2007 interim dividend paid	11	–	–	–	–	–	–	(9,709)	–	(9,709)	–	(9,709)
2007 proposed final dividend	11	–	–	–	–	–	–	(19,419)	19,419	–	–	–
At 31 March 2007		**32,365**	**56,831***	**41,800***	**(4,757)***	**(152)***	**1,893***	**344,415***	**19,419**	**491,814**	**17,722**	**509,536**

* *Comprise the consolidated reserves of HK$440,030,000 (2006: HK$402,353,000) at the balance sheet date.*

Consolidated Cash Flow Statement

(Year ended 31 March 2007)

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**70,364**	33,804
Adjustments for:			
Finance costs	7	**3,199**	2,840
Share of profits and losses of associates		**(1,482)**	(283)
Interest income	5	**(436)**	(1,436)
Dividend income from listed investments	5	**(11)**	(11)
Loss/(gain) on disposal of items of property, plant and equipment	6	**(802)**	56
Gain on disposal of staff quarters	6	**(4,118)**	–
Gain on disposal of investment properties	6	**(50)**	–
Changes in fair value of investment properties	6	**(919)**	3,813
Write-back of provision for impairment of buildings	6	**(45)**	(552)
Write-back of provision for impairment of prepaid land lease payments	6	**(290)**	(2,920)
Fair value gains, net:			
Equity investments at fair value through profit or loss	6	**(14)**	(36)
Depreciation	6	**37,365**	32,025
Recognition of prepaid land lease payments	15	**1,162**	1,125
Write-back of impairment of trade receivables	6	**(1,699)**	(4,782)
Provision/(write-back of provision) for inventory obsolescence	6	**(2,412)**	1,179
Write-off of other receivables	6	**10**	–
		99,822	64,822
Decrease/(increase) in inventories		**3,821**	(24,590)
Increase in trade and bills receivables		**(11,485)**	(24,628)
Decrease in prepayments, deposits and other receivables		**563**	3,405
Increase in trade and bills payables		**3,294**	9,191
Increase/(decrease) in other payables and accrued liabilities		**2,398**	(2,537)
Movements of balances with associates		**(7,822)**	(900)
Cash generated from operations		**90,591**	24,763
Interest paid		**(3,160)**	(2,816)
Interest element on finance lease rental payments		**(39)**	(24)
Hong Kong profits tax paid		**(5,429)**	(4,389)
Net cash inflow from operating activities		**81,963**	17,534

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**436**	1,436
Dividend received from listed investments		**11**	11
Purchases of items of property, plant and equipment	*13*	**(44,248)**	(40,930)
Additions to prepaid land lease payments	*15*	**–**	(1,056)
Proceeds from disposal of items of property, plant and equipment		**2,474**	2,480
Proceeds from disposal of non-current assets classified as held for sale		**15,741**	–
Increase in advances to an associate		**(1,582)**	(543)
Net cash outflow from investing activities		**(27,168)**	(38,602)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(62,046)**	(5,333)
New bank loans		**42,320**	40,600
Capital element of finance lease rental payments		**(566)**	(448)
Dividends paid		**(25,891)**	(24,273)
Net cash inflow/(outflow) from financing activities		**(46,183)**	10,546
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**8,612**	(10,522)
Cash and cash equivalents at beginning of year		**30,385**	40,930
Effect of foreign exchange rate changes, net		**90**	(23)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**39,087**	30,385
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**39,087**	30,385

Balance Sheet

(31 March 2007)

	Notes	2007 *HK$'000*	2006 *HK$'000*
NON-CURRENT ASSETS			
Interests in subsidiaries	*17*	**272,474**	252,489
CURRENT ASSETS			
Prepayments		**117**	131
Cash and bank balances	*23*	**379**	379
Total current assets		**496**	510
CURRENT LIABILITIES			
Other payables and accrued liabilities		**363**	385
NET CURRENT ASSETS		**133**	125
Net assets		**272,607**	252,614
EQUITY			
Issued capital	*29*	**32,365**	32,365
Reserves	*31(b)*	**220,823**	204,067
Proposed final dividend	*11*	**19,419**	16,182
Total equity		**272,607**	252,614

Hui Leung Wah
Director

Poon Sui Hong
Director

Notes to Financial Statements

(31 March 2007)

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 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.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 investment properties, available-for-sale financial assets and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars 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 2007. 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 significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards has had no material effect on these financial statements.

HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts

The principal changes in accounting policies are as follows:

HKAS 39 *Financial Instruments: Recognition and Measurement*

Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to HKAS 34 *Interim Financial Reporting*, requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about the products and services provided by the segments, geographical areas in which the Group operates and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting.*

HK(IFRIC)-Int 8 and HK(IFRIC)-Int 10 shall be applied for annual periods beginning on or after 1 May 2006 and 1 November 2006, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

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.

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 share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisition for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting.*

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against consolidated reserves

Prior to the adoption of the Hong Kong Institute of Certified Public Accountants' Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties, goodwill and non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as 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 in those expense categories consistent with the function of the impaired asset, 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 each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however 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 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, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale" below. 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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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:

Buildings	2%
Leasehold improvements	Shorter of the lease terms and the rate 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 depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Investment properties

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

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.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

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 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.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Investments and other financial assets

Financial assets in 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 assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using 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; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets

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 transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through 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 where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, interest-bearing loans and borrowings and an amount due to an associate are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest 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 amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

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.

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 cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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 balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability 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 and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability 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 and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

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 discounts the estimated future cash receipts through the expected life of the financial instrument 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

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

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 balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits 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 to the MPF Scheme vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the central pension scheme. The only obligation for the Group with respect to the central pension scheme is the associated required contributions under the central pension scheme, which are charged to the income statement in the year to which they relate.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, 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.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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 that it retains all the significant risks and rewards of the ownership of these properties which are leased out on operating leases.

Classification between investment properties and owned-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portion could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Impairment of assets

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

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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

Impairment of trade receivables

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 March 2007 was HK$15,596,000 (2006: HK$13,432,000). Further details are contained in note 28 to the financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by geographical segment.

No further business segment information is presented as the Group is principally engaged in the manufacture and trading of eyewear products and management considers that the Group operates in one single business segment.

4. SEGMENT INFORMATION (continued)

Each of the Group's geographical segments, based on the location of customers (the destination of sales), represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

(a) the North America segment mainly represents the sale of eyewear products to customers located in the United States;

(b) the Europe segment mainly represents the sale of eyewear products to customers located in Italy, the United Kingdom, Spain, France, Germany and Sweden;

(c) the People's Republic of China (including Hong Kong) segment mainly represents the sale 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 and North America;

(d) the Other Asian countries segment mainly represents the sale of eyewear products to customers located in Malaysia, Singapore, the Philippines, Japan and India; and

(e) the "Others" segment mainly represents the sale of eyewear products to customers located in Australia, South America and Africa.

4. SEGMENT INFORMATION (continued)

Geographical segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 March 2007 and 2006.

	North America		Europe		People's Republic of China (including Hong Kong)		Other Asian countries		Others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue:												
Sales to external customers	**157,041**	134,515	**358,937**	262,649	**36,016**	28,217	**12,939**	4,321	**7,534**	2,462	**572,467**	432,164
Segment results	**20,445**	11,486	**46,729**	22,427	**4,689**	2,409	**1,684**	369	**981**	210	**74,528**	36,901
Interest and dividend income											**447**	1,447
Unallocated corporate expenses											**(2,894)**	(1,987)
Finance costs											**(3,199)**	(2,840)
Share of profits and losses of associates	**–**	–	**–**	–	**1,005**	(1)	**477**	284	**–**	–	**1,482**	283
Profit before tax											**70,364**	33,804
Tax											**(9,041)**	(5,908)
Profit for the year											**61,323**	27,896
Segment assets	**31,321**	33,463	**121,501**	100,656	**474,858**	472,264	**3,047**	1,391	**1,035**	1,183	**631,762**	608,957
Interests in associates	**–**	–	**–**	–	**6,857**	4,270	**2,056**	1,579	**–**	–	**8,913**	5,849
Cash and bank balances											**39,087**	30,385
Unallocated assets											**15**	57
Total assets											**679,777**	645,248
Segment liabilities	**346**	1,672	**7,883**	11,390	**76,948**	63,704	**3,168**	2,733	**–**	–	**88,345**	79,499
Bank loans											**64,541**	84,267
Unallocated liabilities											**17,355**	13,785
Total liabilities											**170,241**	177,551
Other segment information:												
Capital expenditure	**–**	–	**–**	–	**44,248**	43,226	**–**	–	**–**	–	**44,248**	43,226
Depreciation and amortisation	**–**	–	**–**	–	**38,527**	33,150	**–**	–	**–**	–	**38,527**	33,150
Provision/(write-back of provision) for inventory obsolescence	**–**	–	**–**	–	**(2,412)**	1,179	**–**	–	**–**	–	**(2,412)**	1,179
Write-back of impairment of trade receivables	**(1,198)**	(145)	**–**	–	**(227)**	(3,662)	**(274)**	(975)	**–**	–	**(1,699)**	(4,782)
Changes in fair value of investment properties	**–**	–	**–**	–	**(919)**	3,813	**–**	–	**–**	–	**(919)**	3,813
Write-back of provision for impairment of prepaid land lease payments and buildings	**–**	–	**–**	–	**(335)**	(3,472)	**–**	–	**–**	–	**(335)**	(3,472)

5. 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:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**572,467**	432,164
Other income		
Sale of scrap materials	**1,741**	833
Bank interest income	**436**	1,436
Gross rental income	**190**	191
Dividend income from listed investments	**11**	11
Others	**837**	619
	3,215	3,090
Gain		
Foreign exchange differences, net	**99**	578
	3,314	3,668

6. PROFIT BEFORE TAX

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

	Notes	Group 2007 HK$'000	Group 2006 HK$'000
Cost of inventories sold		**446,230**	339,320
Depreciation	*13*	**37,365**	32,025
Auditors' remuneration		**1,278**	1,150
Minimum lease payments under operating leases in respect of buildings		**3,219**	3,257
Employee benefits expense (excluding directors' remuneration, as set out in note 8):			
Wages and salaries		**118,007**	95,567
Pension scheme contributions*		**1,072**	1,130
		119,079	96,697
Net rental income		**(190)**	(191)
Provision/(write-back of provision) for inventory obsolescence		**(2,412)**	1,179
Foreign exchange differences, net		**(99)**	(578)
Other operating expenses/(income):			
Write-back of impairment of trade receivables		**(1,699)**	(4,782)
Gain on disposal of staff quarters	*24*	**(4,118)**	–
Gain on disposal of investment properties	*24*	**(50)**	–
Loss/(gain) on disposal of items of property, plant and equipment		**(802)**	56
Write-back of provision for impairment of prepaid land lease payments	*15*	**(290)**	(2,920)
Write-back of provision for impairment of buildings	*13*	**(45)**	(552)
Write-off of other receivables		**10**	–
Fair value gains, net:			
Equity investments at fair value through profit or loss		**(14)**	(36)
Changes in fair value of investment properties	*14*	**(919)**	3,813
		(7,927)	(4,421)

* At the balance sheet date, the Group had no forfeited pension scheme contributions available to reduce its contributions to the pension schemes in future years (2006: Nil).

7. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	**3,160**	2,816
Interest on finance leases	**39**	24
	3,199	2,840

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	
	2007	2006
	HK$'000	*HK$'000*
Fees	**300**	263
Other emoluments:		
Basic salaries and bonuses	**2,474**	2,467
Housing and other benefits	**1,506**	1,506
Pension scheme contributions	**54**	54
	4,034	4,027
	4,334	4,290

Three (2006: 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 (2006: HK$1,506,000) for the year ended 31 March 2007, 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:

	2007	2006
	HK$'000	*HK$'000*
Poon Kwok Fai, Ronald	**100**	100
Wong Chung Mat, Ben	**100**	63
Tam Hok Lam, Tommy, JP	**100**	100
	300	263

There were no other emoluments payable to the independent non-executive directors during the year (2006: 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$'000*	Housing and other benefits *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2007				
Executive directors:				
Hui Leung Wah	**1,200**	**900**	**–**	**2,100**
Poon Sui Hong	**747**	**444**	**31**	**1,222**
Leung Shu Sum	**527**	**162**	**23**	**712**
	2,474	**1,506**	**54**	**4,034**
2006				
Executive directors:				
Hui Leung Wah	1,200	900	–	2,100
Poon Sui Hong	740	444	31	1,215
Leung Shu Sum	527	162	23	712
	2,467	1,506	54	4,027

There were no fees and other emoluments payable to the non-executive directors during the year (2006: 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 three (2006: three) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining two (2006: two) non-director, highest paid individuals for the year are set out below:

	Group	
	2007 *HK$'000*	2006 *HK$'000*
Basic salaries and bonuses	**1,677**	1,643
Housing and other benefits	**252**	252
Pension scheme contributions	**67**	67
	1,996	1,962

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	
	2007	2006
Nil – HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**1**	1
	2	2

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 for him was HK$252,000 (2006: HK$252,000) for the year ended 31 March 2007, which has been included in the amounts detailed above.

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) 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 country in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007 *HK$'000*	2006 *HK$'000*
Group:		
Current - Hong Kong		
Charge for the year	**8,151**	4,419
Under/(over) provision in prior years	**(48)**	542
Current - Elsewhere	**938**	143
Deferred *(note 28)*	**–**	804
Total tax charge for the year	**9,041**	5,908

9. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the country/jurisdiction in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group - 2007

	Hong Kong *HK$'000*	**Mainland China** *HK$'000*	**Total** *HK$'000*
Profit before tax	**70,224**	**140**	**70,364**
Tax at the statutory tax rate	**12,289**	**46**	**12,335**
Lower tax rate for specific provinces	**–**	**(58)**	**(58)**
Adjustments in respect of current tax of previous periods	**(48)**	**–**	**(48)**
Profits and losses attributable to associates	**(259)**	**–**	**(259)**
Results from offshore manufacturing operation not subject to tax	**(4,733)**	**–**	**(4,733)**
Income not subject to tax	**(1,205)**	**(844)**	**(2,049)**
Expenses not deductible for tax	**863**	**247**	**1,110**
Tax losses utilised from previous periods	**(9)**	**–**	**(9)**
Estimated tax losses not recognised	**388**	**1,547**	**1,935**
Others	**817**	**–**	**817**
Tax charge at the Group's effective rate	**8,103**	**938**	**9,041**

Group – 2006

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Profit/(loss) before tax	42,176	(8,372)	33,804
Tax at the statutory tax rate	7,381	(2,763)	4,618
Lower tax rate for specific provinces	–	269	269
Adjustments in respect of current tax of previous periods	542	–	542
Results from offshore manufacturing operation not subject to tax	(3,237)	–	(3,237)
Income not subject to tax	(1,127)	(22)	(1,149)
Expenses not deductible for tax	1,442	329	1,771
Estimated tax losses not recognised	138	2,187	2,325
Others	626	143	769
Tax charge at the Group's effective rate	5,765	143	5,908

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 March 2007 includes a profit of HK$45,884,000 (2006: HK$24,283,000) which has been dealt with in the financial statements of the Company (note 31(b)).

11. DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Interim – HK3.0 cents (2006: HK2.5 cents) per ordinary share	**9,709**	8,091
Proposed final – HK6.0 cents (2006: HK5.0 cents) per ordinary share	**19,419**	16,182
	29,128	24,273

The 2007 final dividend of HK6.0 cents per ordinary share has been proposed to be paid to shareholders whose names appear on the register of members on 31 August 2007 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent for the year of HK$61,008,000 (2006: HK$31,987,000) and 323,649,123 (2006: 323,649,123) shares in issue.

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

13. PROPERTY, PLANT AND EQUIPMENT
Group

	Note	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 March 2007								
At 31 March 2006 and at 1 April 2006:								
Cost		119,710	51,767	227,110	32,699	10,268	2,900	444,454
Accumulated depreciation and impairment		(6,360)	(26,399)	(153,183)	(24,297)	(7,734)	–	(217,973)
Net carrying amount		113,350	25,368	73,927	8,402	2,534	2,900	226,481
At 1 April 2006, net of accumulated depreciation and impairment		113,350	25,368	73,927	8,402	2,534	2,900	226,481
Additions		3,124	4,491	26,439	2,851	1,162	6,181	44,248
Disposals		–	–	(1,530)	(12)	(130)	–	(1,672)
Reversal of impairment	6	45	–	–	–	–	–	45
Depreciation provided during the year		(2,546)	(4,004)	(27,063)	(2,573)	(1,179)	–	(37,365)
Transfers		5,379	–	–	–	–	(5,379)	–
Exchange realignment		828	128	91	36	5	23	1,111
At 31 March 2007, net of accumulated depreciation and impairment		120,180	25,983	71,864	8,704	2,392	3,725	232,848
At 31 March 2007:								
Cost		129,057	56,394	251,885	35,564	11,273	3,725	487,898
Accumulated depreciation and impairment		(8,877)	(30,411)	(180,021)	(26,860)	(8,881)	–	(255,050)
Net carrying amount		120,180	25,983	71,864	8,704	2,392	3,725	232,848

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Notes	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 March 2006								
At 1 April 2005:								
Cost		120,753	44,478	203,437	31,632	12,123	62	412,485
Accumulated depreciation and impairment		(4,861)	(22,943)	(132,433)	(23,367)	(10,337)	–	(193,941)
Net carrying amount		115,892	21,535	71,004	8,265	1,786	62	218,544
At 1 April 2005, net of accumulated depreciation and impairment		115,892	21,535	71,004	8,265	1,786	62	218,544
Additions		–	8,851	25,919	3,000	1,562	2,838	42,170
Transfer to non-current assets classified as held for sale	24	(1,986)	–	–	–	–	–	(1,986)
Disposals		–	(833)	(1,139)	(564)	–	–	(2,536)
Reversal of impairment	6	552	–	–	–	–	–	552
Depreciation provided during the year		(2,568)	(4,336)	(21,957)	(2,345)	(819)	–	(32,025)
Exchange realignment		1,460	151	100	46	5	–	1,762
At 31 March 2006, net of accumulated depreciation and impairment		113,350	25,368	73,927	8,402	2,534	2,900	226,481
At 31 March 2006:								
Cost		119,710	51,767	227,110	32,699	10,268	2,900	444,454
Accumulated depreciation and impairment		(6,360)	(26,399)	(153,183)	(24,297)	(7,734)	–	(217,973)
Net carrying amount		113,350	25,368	73,927	8,402	2,534	2,900	226,481

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles at 31 March 2007, amounted to HK$880,000 (2006: HK$1,128,000).

Certain of the Group's buildings situated in Hong Kong of HK$3,731,000 (2006: HK$3,787,000) have been pledged to banks to secure the bank loans and general banking facilities granted to the Group (see note 26).

14. INVESTMENT PROPERTIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 April	**2,210**	10,947
Net profit/(loss) from a fair value adjustment	**919**	(3,813)
Transfer to non-current assets classified as held for sale *(note 24)*	**–**	(4,924)
Carrying amount at 31 March	**3,129**	2,210

At 31 March 2007, the investment properties were revalued at HK$3,129,000 (2006: HK$2,210,000) on an open market and existing use basis by Vigers Appraisal & Consulting Limited, an independent professionally qualified valuer. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

The investment properties above are held under medium term leases located in:

	2007	2006
	HK$'000	*HK$'000*
Hong Kong	**2,350**	1,431
Mainland China	**779**	779
	3,129	2,210

The Group's investment properties with valuation of HK$2,350,000 (2006: HK$1,431,000), which are situated in Hong Kong, have been pledged to a bank to secure the general banking facilities granted to the Group (see note 26).

15. PREPAID LAND LEASE PAYMENTS

		Group	
	Notes	**2007** **_HK$'000_**	2006 *HK$'000*
Carrying amount at 1 April		**47,854**	42,715
Additions		**–**	1,056
Transfer from deposit for prepaid land lease payments		**–**	2,838
Recognised during the year		**(1,162)**	(1,125)
Reversal of impairment loss during the year	*6*	**290**	2,920
Transfer to non-current assets classified as held for sale	*24*	**–**	(843)
Exchange realignment		**154**	293
Carrying amount at 31 March		**47,136**	47,854
Current portion included in prepayments, deposits and other receivables		**(1,162)**	(1,162)
Non-current portion		**45,974**	46,692

The leasehold land included above are held under medium term leases and situated in:

	2007 **_HK$'000_**	2006 *HK$'000*
Hong Kong	**31,937**	32,476
Mainland China	**15,199**	15,378
	47,136	47,854

Certain of the Group's leasehold land of HK$11,125,000 (2006: HK$11,145,000), which are situated in Hong Kong and held under medium term leases, have been pledged to banks to secure the bank loans and general banking facilities granted to the Group (see note 26).

16. GOODWILL

The amount of goodwill remaining in consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30, was HK$152,000 at 1 April 2006 and 31 March 2007. The amount of goodwill is stated at cost less impairment of HK$1,687,000 (2006: HK$1,687,000) which arose prior to 1 January 2005.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**147,173**	147,173
Loans to subsidiaries	**125,301**	105,316
	272,474	252,489

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

Particulars of the principal subsidiaries at 31 March 2007 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		Principal activities
				Direct	Indirect	
Diamond Bright Industries Limited	Hong Kong	Hong Kong	Ordinary HK$400	–	100	Investment holding
Dongguan Yick Yue Optical Limited**	People's Republic of China (the "PRC")***	Mainland China	HK$15,005,000	–	55	Manufacture of optical frames
Elegance Group Limited	British Virgin Islands	Hong Kong	Ordinary US$80	100	–	Investment holding
Elegance Optical Investments Limited	Hong Kong	Hong Kong	Ordinary HK$200 Non-voting deferred HK$20,000,000*	–	100	Investment and property holding
Elegance Optical Manufactory Limited	Hong Kong	Hong Kong	Ordinary HK$2	–	100	Trading and manufacture of optical frames
Fortune Optical Limited**	PRC***	Mainland China	HK$27,236,600 (2006: HK$23,270,000)	–	55	Trading and manufacture of optical frames

continued/...

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at 31 March 2007 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	Percentage of equity attributable to the Company Indirect	Principal activities
Glory (Hui's) Trading Limited	Hong Kong	Hong Kong	Ordinary HK$200	–	100	Trading of optical frames in Hong Kong and South East Asia
Gold Strong Industrial Limited	Hong Kong	Hong Kong	Ordinary HK$100	–	55	Investment holding and trading of optical frames
Grand Artic Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	76	Manufacture of optica cases
Grand River Investments 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 (2006: 60) ****	Changed from trading of spectacles to 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	Intellectual property holding
Sandwalk Far East Limited**	Hong Kong	Hong Kong	Ordinary HK$1	–	100	Changed from dormant to trading of leather products
Standard Sun International Limited	Hong Kong	Hong Kong	Ordinary HK$10,000	–	100	Changed from trading of eyewear products to dormant

continued/...

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at 31 March 2007 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
United Wish Company Limited	Hong Kong	Mainland China	Ordinary HK$100	–	100	Changed from retailing of optical frames to dormant
Yieldly (International) Investment Limited	Hong Kong	Hong Kong	Ordinary HK$400	–	100	Investment holding
Winston Technology Limited	Hong Kong	Hong Kong	Ordinary HK$1	–	100	Investment holding
東莞精奇機械科技有限公司**	PRC***	Mainland China	HK$11,000,000 (2006: HK$2,500,000)	–	100	Trading and manufacture of machinery
東莞豐誠貿易有限公司**	PRC***	Mainland China	HK$450,000 (2006: Nil)	–	100	Trading of optical frames

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* The first HK$1,000,000,000,000 of the profits which the subsidiary may determine to distribute in any financial year must be distributed among the holders of ordinary shares and one half of the balance of the said profits among the holders of the non-voting deferred shares, with the other half of such balance among the holders of ordinary shares. Save as aforesaid, 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 other Ernst & Young International member firms.

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

**** During the year, the Group acquired an additional 40% equity interest of Leader Up Limited from a third party of the Group at a consideration of HK$1. The acquisition has had no impact on the Group's turnover and result for the year since the minority interest had been fully eroded in the prior years.

18. INTERESTS IN ASSOCIATES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Share of net assets	**1,768**	286
Loan to an associate	**7,145**	5,563
	8,913	5,849
Due from an associate	**7,722**	–
Due to an associate	**(4,600)**	(4,700)
	12,035	1,149

The loan to an associate is unsecured, interest-free and not repayable within one year. The amounts due from and to associates included in the Group's current assets and liabilities of HK$7,722,000 (2006: Nil) and HK$4,600,000 (2006: HK$4,700,000), respectively, are unsecured, interest-free and are repayable on demand. The carrying amounts of the balances with the associates approximate to their fair values.

Particulars of the associates at 31 March 2007 are as follows:

Name	**Particulars of issued shares held**	**Place of incorporation/ registration**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Safint Optical Investments Limited*	Ordinary shares of HK$1 each	Hong Kong	24.5	Trading of eyewear products
Safilo Eyewear Ltd*	Registered capital of US$700,000	PRC	24.5 (2006: Nil)**	Trading of eyewear products
Safilo Trading (Shenzhen) Co., Ltd.	Registered capital of US$300,000	PRC	24.5	Distribution and sale of eyewear products
Optics 2000 & Optics Café Pte., Ltd.*	Ordinary shares of SGD1 each	Singapore	35	Retailing of eyewear products

* These associates are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** The associate is newly incorporated and become a wholly-owned subsidiary of Safint Optical Investments Limited during the year.

All the above associates have been accounted for using the equity method in these financial statements.

18. INTERESTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2007 *HK$'000*	2006 *HK$'000*
Assets	**117,251**	48,798
Liabilities	**112,750**	50,347
Revenues	**114,956**	70,059
Profit	**6,050**	444

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2007 *HK$'000*	2006 *HK$'000*
Current		
Time deposit, at fair value	**7,699**	–
Non-current		
Time deposits, at fair value	**80,988**	83,635
Club debenture, at fair value	**650**	650
	81,638	84,285

During the year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$5,052,000 (2006: Gross loss of HK$4,340,000).

The time deposits have maturity dates ranging from June 2007 to February 2010. Full principal amount of HK$93,444,000 will be repaid on maturity dates, subject to early repayment at the bank's option or the Group's request. Time deposits of HK$93,444,000 were designated as available-for-sale financial assets on 1 April 2005. Interest income is charged at 3% to 7% times the number of calendar days in the relevant period on which the LIBOR is within a pre-determined range. The fair values of available-for-sale financial assets have been estimated using a valuation technique based on the prevailing market interest rate. The directors believe that the estimated fair values resulting from such valuation technique, which are recorded directly in the consolidated balance sheet, and the related changes in fair values, which are recorded directly in equity, are reasonable, and that they are the most appropriate values at the balance sheet date.

20. INVENTORIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**35,737**	31,951
Work in progress	**38,736**	39,812
Finished goods	**12,143**	16,262
	86,616	88,025

21. 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 (2006: 45 to 120 days) to its customers and seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management and collections are followed up by accounting personnel. Trade and bills receivables are non-interest-bearing.

The following is an aged analysis of the trade and bills receivables (net of impairment of trade receivables) as at 31 March 2007 and 2006:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current to 90 days	**158,153**	141,600
91-180 days	**677**	1,468
181-360 days	**543**	968
	159,373	144,036
Bills receivable	**685**	2,838
Total	**160,058**	146,874

The trade receivables of the Group include trade balances due from the Safilo S.p.A group of companies of HK$100,600,000 (2006: HK$102,754,000) (note 36 (a)(i)) in aggregate, which are unsecured, interest-free and are repayable in accordance with normal trading terms of 120 days (2006: 120 days).

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at market value	**451**	437

The above equity investments at 31 March 2006 and 2007 were classified as held for trading.

23. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$17,580,000 (2006: HK$11,707,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amount of the cash and bank balances approximates to its fair value.

24. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 April	**7,753**	–
Disposals	**(7,753)**	–
Transfer from property, plant and equipment *(note 13)*	**–**	1,986
Transfer from investment properties *(note 14)*	**–**	4,924
Transfer from prepaid land lease payments *(note 15)*	**–**	843
Carrying amount at 31 March	**–**	7,753

On 8 December 2005 and 21 March 2006, the Group entered into sale and purchase agreements with independent third parties in relation to the disposals of certain of the Group's investment properties and land and buildings situated in Hong Kong and the PRC, respectively, for a total cash consideration of HK$15,741,000. Accordingly, assets related to such disposals were classified as non-current assets held for sale at their net carrying values at the date of the agreements in the prior year. The properties were used by the Group for rental purpose and as a staff quarter. The disposal of the land and building situated in the PRC was completed on 21 July 2006 and resulted in a gain on disposal of HK$4,118,000 (note 6) after deduction of the corresponding selling cost and estimated PRC tax liability. The disposal of the land and buildings situated in Hong Kong was completed on 23 June 2006, which generated a gain on disposal of HK$50,000 (note 6).

In the prior year, the non-current assets held for sale were included as segment assets in the PRC (including Hong Kong).

25. TRADE AND BILLS PAYABLES

The following is an aged analysis of the trade and bills payables as at 31 March 2007 and 2006:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current to 90 days	**55,562**	50,877
91 – 180 days	**145**	935
181 – 360 days	**160**	498
Over 360 days	**136**	399
Total	**56,003**	52,709

The trade and bills payables are non-interest-bearing and are normally settled on 30-day terms.

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	**2007**			2006		
	Effective interest rate (%)	**Maturity**	***HK$'000***	Effective interest rate (%)	Maturity	*HK$'000*
Current						
Finance lease payables *(note 27)*	**2.8–3.1**	**2007**	**226**	2.8–3.1	2006	542
Bank loans – secured	**HIBOR+0.7– HIBOR+1.1/ LIBOR+0.7**	**2007**	**59,541**	HIBOR+0.8– HIBOR+1/ LIBOR+0.7	2006	70,934
			59,767			71,476
Non-current						
Finance lease payables *(note 27)*	**2.8–3.1**	**–**	**–**	2.8–3.1	2007–2008	250
Bank loans – secured	**HIBOR+0.8**	**2008–2009**	**5,000**	HIBOR+0.8– HIBOR+1/ LIBOR+0.7	2007–2009	13,333
			5,000			13,583
			64,767			85,059

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	2007 HK$'000	2006 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	59,541	70,934
In the second year	5,000	8,333
In the third to fifth years, inclusive	–	5,000
	64,541	84,267
Other borrowings repayable:		
Within one year	226	542
In the second year	–	250
	226	792
	64,767	85,059

Except for the secured bank loans of HK$2,465,000 (2006: HK$15,600,000) which are denominated in United States dollars, all other borrowings are in Hong Kong dollars.

The Group's buildings situated in Hong Kong with an aggregate net book value of HK$3,731,000 (2006: HK$3,787,000) (note 13), the investment properties situated in Hong Kong with an aggregate valuation of HK$2,350,000 (2006: HK$1,431,000) (note 14) and leasehold land situated in Hong Kong with an aggregate net prepaid land lease payments of HK$11,125,000 (2006: HK$11,145,000) (note 15) 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$162,600,000 (2006: HK$147,600,000) from the Company (note 33).

Other interest rate information:

	Group			
	2007		2006	
	Fixed rate HK$'000	Floating rate HK$'000	Fixed rate HK$'000	Floating rate HK$'000
Finance lease payables	226	–	792	–
Bank loans – secured	–	64,541	–	84,267

The carrying amounts of the Group's borrowings approximate to their fair values. The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates.

27. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles for its optical frames business. These leases are classified as finance leases and have remaining lease terms of one year.

At 31 March 2007, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2007** *HK$'000*	Minimum lease payments 2006 *HK$'000*	**Present value of minimum lease payments 2007** *HK$'000*	Present value of minimum lease payments 2006 *HK$'000*
Amounts payable:				
Within one year	**230**	605	**226**	542
In the second year	**–**	230	**–**	250
Total minimum finance lease payments	**230**	835	**226**	792
Future finance charges	**(4)**	(43)		
Total net finance lease payables	**226**	792		
Portion classified as current liabilities *(note 26)*	**(226)**	(542)		
Non-current portion *(note 26)*	**–**	250		

28. DEFERRED TAX LIABILITIES

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

Group

	Depreciation allowance in excess of related depreciation *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
At 1 April 2005	8,718	(1,537)	7,181
Deferred tax charged to the income statement during the year *(note 9)*	432	372	804
At 31 March 2006, 1 April 2006 and 31 March 2007	**9,150**	**(1,165)**	**7,985**

28. DEFERRED TAX LIABILITIES (continued)

At the balance sheet date, the Group had tax losses arising in Hong Kong of HK$15,596,000 (2006: HK$13,432,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 March 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

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

29. SHARE CAPITAL

	Company	
	2007	2006
	HK$'000	*HK$'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

30. 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 minority shareholder in the Company's subsidiaries.

The share option scheme of the Company was approved by the shareholders at a special general meeting of the Company held on 16 May 2003 to comply with Chapter 17 of the Listing Rules on The Stock Exchange of Hong Kong Limited (the "SEHK"). The Scheme became effective on 16 May 2003 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

30. SHARE OPTION SCHEME (continued)

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 with no consideration being payable by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the SEHK closing price of the Company's shares on the date of offer of the share options; and (ii) the average SEHK closing price of the Company's shares for the five trading days immediately preceding the date of offer.

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

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

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28 of this annual report.

The capital reserve of the Group represents (i) the difference between 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. Such 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 as explained in note 16 to the financial statements.

(b) Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 April 2005		56,831	146,973	253	16,182	220,239
Profit for the year		–	–	24,283	–	24,283
2005 final dividend declared		–	–	–	(16,182)	(16,182)
2006 interim dividend paid	11	–	–	(8,091)	–	(8,091)
2006 final dividend proposed	11	–	–	(16,182)	16,182	–
At 31 March and 1 April 2006		56,831*	146,973*	263*	16,182	220,249
Profit for the year		–	–	45,884	–	45,884
2006 final dividend declared		–	–	–	(16,182)	(16,182)
2007 interim dividend paid	11	–	–	(9,709)	–	(9,709)
2007 final dividend proposed	11	–	–	(19,419)	19,419	–
At 31 March 2007		**56,831***	**146,973***	**17,019***	**19,419**	**240,242**

31. RESERVES (continued)

(b) Company (continued)

The contributed surplus of the Company represents the difference between the consolidated net asset value of EGL on 8 February 1996, when its entire issued share capital was acquired by the Company pursuant to the Group reorganisation referred to in note 31(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.

* *Comprise the Company's reserves of HK$220,823,000 (2006: HK$ 204,067,000) at the balance sheet date.*

32. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

During the year, the Group has made an accrual for value-added-tax and business tax of HK$3,820,000 in respect of the disposal of the land and building situated in the PRC as at 31 March 2007.

In the prior year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$1,240,000.

33. CONTINGENT LIABILITIES

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

	Company	
	2007	2006
	HK$'000	*HK$'000*
Guarantees given for banking facilities granted to (note 26):		
– wholly-owned subsidiaries	**157,600**	142,600
– non-wholly-owned subsidiaries	**5,000**	5,000
	162,600	147,600

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 guarantees given by the Company	
	2007	2006
	HK$'000	*HK$'000*
Grand Artic Limited	**2,000**	2,000
Gold Strong Industrial Limited	**3,000**	3,000

These banking facilities were utilised by these subsidiaries to the extent of approximately HK$575,000 as at the balance sheet date (2006: approximately HK$341,000).

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases one of its investment properties (note 14) under an operating lease arrangement, with the lease negotiated for a term of three months. 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 2007, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**22**	61

(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 50 years.

At 31 March 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**2,448**	2,516
In the second to fifth years, inclusive	**5,592**	7,109
After five years	**44,093**	41,868
	52,133	51,493

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
	2007	2006
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Land and buildings	**1,587**	1,753
Equipment and machinery	**526**	1,503
	2,113	3,256

The Company had no significant commitments at the balance sheet date.

36. RELATED PARTY TRANSACTIONS

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

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

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

(i) Supply Agreement

The Group committed to supply and the Safilo 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 the Safilo are similar to the terms that the Group offers to other major customers.

During the year, the Group sold goods to the Safilo with an aggregate sales value amounting to HK$271,991,000 (2006: HK$214,886,000). In accordance with the terms of the Supply Agreement, the corresponding sales volume discount for the year amounted to HK$2,664,000 (2006: HK$3,577,000). A discount of HK$6,696,000 (2006: HK$6,066,000) was paid during the year and HK$1,240,000 (2006: HK$5,272,000) was accrued in the financial statements at the balance sheet date.

The aggregate trade receivable balance due from the Safilo at 31 March 2007 in respect of these sales amounted to HK$100,600,000 (2006: HK$102,754,000) (note 21).

36. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with the Safilo S.p.A. group of companies ("Safilo") (continued)

(ii) Shareholders' Agreement and Sub-licence Agreement

Pursuant to the terms of the shareholders' agreement between the Group and Safilo Far East Limited ("SFEL") which is a wholly-owned subsidiary of Safilo 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 the PRC.

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 Safilo's branded products in the PRC. The sales of the Safilo's branded products in the PRC amounted to HK$14,407,000 for the year (2006: HK$10,877,000).

During the year, the Group sold goods to Safint's group companies with an aggregate sales value amounting to HK$6,116,000 (2006: Nil). The sales were carried out at prices mutually agreed between the parties.

(b) Transactions among Group companies

The Company granted corporate guarantees to banks in favour of certain of its subsidiaries, wholly-owned and non-wholly-owned, for no consideration to secure banking facilities available to these companies. Further details are set out in note 33 to the financial statements.

(c) Transaction with a director of the Company

During the year, a director's quarter was rented by the Group from Mr. Hui Leung Wah, the chairman and managing director of the Company, for the use by Mr. Poon Sui Hong as a directors' quarter. The annual rental amounting to HK$444,000 for the year (2006: 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.

(d) Outstanding balances with related parties

Details of the Group's balances with its associates as at the balance sheet date are included in note 18 to the financial statements.

(e) Compensation of key management personnel of the Group

	2007 ***HK$'000***	2006 *HK$'000*
Short term employee benefits	**5,909**	5,868
Post-employment benefits	**121**	121
Total compensation paid to key management personnel	**6,030**	5,989

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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations and the time deposits with a floating interest rate.

The Group does not hedge interest rate fluctuations. The Group's policy to manage its cash flow interest rate risk is to minimise its interest-bearing borrowings at floating rates.

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 currency. Most of the Group's sales are denominated in United States dollars while expenditures incurred in the operations of manufacturing plants and capital expenditure are denominated in Renminbi. 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.

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 6 July 2007.