



**ELEGANCE OPTICAL**

**INTERNATIONAL HOLDINGS LIMITED**

**高雅光學國際集團有限公司**

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

**INTERIM REPORT 2014/2015**

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### EXECUTIVE DIRECTORS

HUI Leung Wah (*Chairman*)

POON Sui Hong

LEUNG Shu Sum

#### NON-EXECUTIVE DIRECTORS

LISSI Barbara (resigned on 30 June 2014)

DE GASPERIS Maurizio

(resigned on 31 August 2014)

STEFANO Rizzo

(appointed on 1 September 2014)

CARLO Bonini

(appointed on 1 September 2014)

#### INDEPENDENT NON-EXECUTIVE DIRECTORS

POON Kwok Fai, Ronald

PANG Sung Yuen

KWONG Ping Man

(appointed on 16 May 2014)

#### AUDIT COMMITTEE

POON Kwok Fai, Ronald (*Chairman*)

PANG Sung Yuen

KWONG Ping Man

(appointed on 16 May 2014)

#### REMUNERATION COMMITTEE

PANG Sung Yuen (*Chairman*)

POON Kwok Fai, Ronald

KWONG Ping Man

(appointed on 16 May 2014)

#### NOMINATION COMMITTEE

KWONG Ping Man (*Chairman*)

(appointed on 16 May 2014)

POON Kwok Fai, Ronald

PANG Sung Yuen

#### COMPANY SECRETARY

MAK Suk Fan, Sophie

(appointed on 12 August 2014)

## PRINCIPAL BANKERS

Hang Seng Bank Limited

Chong Hing Bank Limited

Dah Sing Bank Limited

Standard Chartered Bank  
(Hong Kong) Limited

## AUDITORS

Ernst & Young

## HONG KONG SHARE REGISTRAR

Tricor Tengis Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

## PRINCIPAL SHARE REGISTRAR

Codan Services Limited

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

## REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

B2 & B4 8th Floor Block B

Mai Hing Industrial Building

16-18 Hing Yip Street

Kwun Tong

Kowloon

Hong Kong

## WEBSITE

[www.elegance-group.com](http://www.elegance-group.com)

## STOCK CODE

907

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

For the six months ended 30 September 2014, the Group recorded a loss after tax of HK\$42.8 million as compared with a loss of HK\$30.8 million for the same period last year. The loss was the combined results of the costly manufacturing environment in Mainland China, the strong Renminbi (“RMB”) which prevailed in the period under review, the strong competition in and tough requirements of the market and a provision for doubtful accounts receivable. An allowance for doubtful accounts receivable amounting to approximately HK\$9.6 million was made for potential credit losses based on the management’s assessment of the expected risk of not able to collect the amount owed from a customer.

As mentioned in our last annual report, the operating environment in Southern China where the Group’s manufacturing activities remained tough. The effect of the further increase in the statutory minimum wages in Shenzhen City by approximately 13% in 2014 and increased costs of paying social insurance premium for workers in Mainland China still lingered on. Coupled with the decline of the sales, the Group suffered from a gross loss of 1% instead of achieving a gross profit of 1.4% as seen in the corresponding period in 2013.

The Group’s sales decreased by 33.6% to approximately HK\$139.8 million in the period under review as compared with HK\$210.6 million for the same period last year. Sales to all geographical markets decreased. The Group’s largest market, Europe, decreased by 41.1% to approximately HK\$73.4 million, whereas sales to North America, the Group’s second largest market, decreased by 18.6% to HK\$51.5 million by comparing with the same period under review in 2013. The market was uncertain and customers were cautious in placing orders. We also felt victim to the customer whose credit is at risk as sales to her subsided.

Although the Group strived to cut costs including reducing the staff force, the substantial decline in sales took the toll on our production efficiency and hence profitability. Without the effect of the provision for the doubtful accounts receivable of approximately HK\$9.6 million, the net loss in the period is 23.8% as compared to 14.6% in the same period last year.

**MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)***PROSPECTS**

Although the recent economic recovery of the United States seems promising, the adverse effect of its withdrawal of the quantitative easing, the persistently weak European economy as well as the slowdown in China's economic growth will dominate the global economy and the buying sentiment of our customers in the times ahead. As the underutilized production capacity is costly to the Group, our prime objective in the period to come is to secure more orders. The key is to provide better service to the potential customers.

However, the persistently strong U.S. Dollars will adversely affect our effort as European market is a key one to us. As the European customers buy from us with the USD but sell their products in the European currency, this will affect their cost structure and subsequently the pressure will come back to us.

On the other hand, if the once prevailing strong RMB will hopeful ease off a bit, some of our cost pressure will be taken away. Otherwise, we shall be affected negatively in a continuous way. But in any case, cost cutting is our basic mandate.

As we said before, with the constant rise in labor and related costs in Mainland China, labor intensive manufacturing operation like the Group's operation will remain in a passive and disadvantaged position as the latest development of the Chinese economic policy is in general perceived as not favorable to the light industrial goods manufacturing industry. To cope with this challenging operating environment and to tackle the problem of labor shortage and instability, the Group facing the lack of choices will continue to design and tailor-make more machines through its machine making subsidiary to facilitate its selective automated production. Furthermore, the management of the Group will continue with the effort in streamlining the operation and motivating the team members to improve the Group's production efficiency.

Save as aforesaid, in order to secure the effective utilization of resources, two of the Group's investment properties in Hong Kong were rented out to generate a steady monthly income to the Group since August 2014. The Group is working on to rent out more unused premises in China that is a result of the streamlining effort for additional income.

In summary, despite various challenges and uncertainties, the Board strongly believes that the market demand is there and will endeavor to resume profitability from its core businesses. Although the temporary set back is a tough one, we will seize the business opportunities to achieve long term sustainable growth for the benefit of the Group and its shareholders as a whole.

## **CHARGES ON THE GROUP'S ASSETS**

As at 30 September 2014, the Group had available loan facilities of HK\$66 million which were secured by corporate guarantees of HK\$66 million (31 March 2014: HK\$74.8 million), out of which one of the Group's investment properties under all monies legal charge with a carrying amount of HK\$19.0 million (31 March 2014: HK\$19.3 million) was also secured for loan facilities to an extent of HK\$60 million. As at 30 September 2014, secured bank borrowings of HK\$3.9 million (31 March 2014: Nil) denominated in United States dollar was drawn at an interest rate of One-Month Hong Kong Interbank Offered Rate plus 2.25% per annum.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group continued to maintain a net cash position with cash and cash equivalents of HK\$21.3 million (31 March 2014: HK\$42.3 million). The debt-to-equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) remained less than zero as at 30 September 2014 (31 March 2014: same). The Group's equity attributable to owners of the Company as at 30 September 2014 amounted to HK\$320.6 million (31 March 2014: HK\$362.6 million).

## **FOREIGN CURRENCY RISK**

The Group conducts its business transactions mainly in Hong Kong Dollar, Renminbi and U.S. Dollar. As the Hong Kong Dollar is pegged to the U.S. Dollar, the Group does not foresee any material exchange risk in this respect. However, the Group is subject to certain foreign exchange impacts caused by the appreciation of Renminbi. As such, a RMB Forward Contract against USD was entered into for hedging its currency risk in 2014. The management will closely monitor foreign exchange exposure and will consider further hedging significant foreign currency exposure should the need arise.

## **CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

At 30 September 2014, the Group had capital commitments, which were contracted but not provided for, in respect of acquisition of property, plant and equipment of HK\$400,000 (31 March 2014: HK\$5,000). As at 30 September 2014, the Company had a contingent liability of HK\$66 million (31 March 2014: HK\$74.8 million) in respect of corporate guarantees given to banks in connection with the general banking facilities granted to one of its subsidiaries.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 September 2014, the Group employed approximately 2,300 (30 September 2013: 3,372) full time employees in Mainland China and Hong Kong. Salaries, bonuses and benefits are determined with reference to market terms and performance, qualifications and experience of each individual employee, and are subject to review from time to time. The employee benefits include insurance and medical coverage, training programmes as well as provident fund schemes.

## **BUSINESS MODEL AND STRATEGY**

Being one of the major manufacturers and exporters of optical frames, the Group has put its emphasis on product quality and production technology development. Putting the customers' needs on the highest priority, the Group always strives to provide customers with first class service and full satisfaction.

The Group's single operating segment, the manufacture and sale of eyewear products, represents the specific characteristics of the Group's business model. The Group strives to design and produce high quality eyewear products through its own manufacturing facilities based in Southern China. We would also seek to add value at each stage of our operations, from manufacturing to marketing. We believe that by building close business relationships and partnerships with our customers we can enhance our functional excellence to the benefits of the Group in areas such as advancement in manufacturing craftsmanship and production technology which can often be shared with our customers on a long term basis. We have long been working with large and small customers of leading international standing to produce eyewear products bearing their own or licensed brand names. Our customers by trade nature cover mainly distributors, who work on international, regional or local scales, national, regional or local optical chain stores and traders across different major countries and cities around the globe.

Most of our employees are located in Mainland China and Hong Kong. The qualities and abilities of our employees have a powerful effect on our business and ability to compete and meet our commitments to our customers. We continue to encourage development and training of skills and capabilities of our employees to contribute to our business growth. We are committed to improving work environment and seeking to create a safe and inclusive environment for our employees.

Although the operating performance of the Group in the period under review is short of satisfactory, the prevailing sales channels and the methods used are of proven importance and will be maintained. The management believes the drivers of the business will remain to be innovative, high quality products delivered at competitive price level and in short lead time. At a time when the global economy and the market conditions are not stable nor favourable, the Group will continue to focus on the manufacturing activities which it has excelled at for years and will seek to strengthen the internal organisation.

## REPORT ON REVIEW OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION



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

### INTRODUCTION

We have reviewed the unaudited interim condensed consolidated financial information of Elegance Optical International Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 09 to 25 which comprises the unaudited interim condensed consolidated statement of financial position as at 30 September 2014 and the related unaudited interim condensed consolidated statement of profit or loss, unaudited interim condensed consolidated statement of comprehensive income, unaudited interim condensed consolidated statement of changes in equity and unaudited interim condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on unaudited interim condensed consolidated financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

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

**SCOPE OF REVIEW**

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

**CONCLUSION**

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

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

26 November 2014

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 September	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
	Notes		
REVENUE	3	<b>139,757</b>	210,596
Cost of sales		<b>(141,170)</b>	(207,650)
Gross profit/(loss)		<b>(1,413)</b>	2,946
Other income	3	<b>829</b>	1,057
Selling and distribution expenses		<b>(2,326)</b>	(5,924)
Administrative expenses		<b>(30,367)</b>	(28,044)
Other operating expenses, net		<b>(9,505)</b>	(126)
Finance costs	4	<b>(13)</b>	–
Share of profits and losses of:			
A joint venture		<b>64</b>	(70)
An associate		<b>–</b>	(534)
LOSS BEFORE TAX	5	<b>(42,731)</b>	(30,695)
Income tax expense	6	<b>(73)</b>	(84)
LOSS FOR THE PERIOD		<b>(42,804)</b>	(30,779)
Attributable to:			
Owners of the Company		<b>(41,775)</b>	(29,628)
Non-controlling interests		<b>(1,029)</b>	(1,151)
		<b>(42,804)</b>	(30,779)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic and diluted		<b>(12.91) HK cents</b>	(9.15) HK cents

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended  
30 September

	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	<b>(42,804)</b>	(30,779)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Reclassification adjustment for impairment losses of an available-for-sale financial asset included in the statement of profit or loss	<b>250</b>	–
Share of exchange differences on translation of a joint venture	<b>6</b>	6
Share of exchange differences on translation of an associate	–	(3)
Exchange differences on translation of foreign operations	<b>(391)</b>	(162)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<b>(135)</b>	(159)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<b>(42,939)</b>	(30,938)
Attributable to:		
Owners of the Company	<b>(41,941)</b>	(29,856)
Non-controlling interests	<b>(998)</b>	(1,082)
	<b>(42,939)</b>	(30,938)

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>197,557</b>	201,998
Investment properties		<b>19,600</b>	19,600
Prepaid land lease payments		<b>14,209</b>	14,327
Investment in a joint venture		<b>4,164</b>	4,094
Available-for-sale financial asset		<b>400</b>	400
Deposits paid for items of property, plant and equipment		–	130
<b>Total non-current assets</b>		<b>235,930</b>	240,549
<b>CURRENT ASSETS</b>			
Inventories		<b>71,638</b>	68,230
Loan to a joint venture		<b>391</b>	668
Trade receivables	9	<b>56,451</b>	75,872
Prepayments, deposits and other receivables		<b>6,723</b>	4,615
Equity investments at fair value through profit or loss	10	<b>85</b>	68
Tax recoverable		<b>92</b>	56
Cash and cash equivalents		<b>21,254</b>	42,342
<b>Total current assets</b>		<b>156,634</b>	191,851

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
STATEMENT OF FINANCIAL POSITION** (Continued)

	Notes	<b>30 September 2014 (Unaudited) HK\$'000</b>	31 March 2014 (Audited) HK\$'000
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings, secured	11	<b>3,900</b>	–
Trade payables	12	<b>28,128</b>	27,627
Other payables and accruals		<b>26,402</b>	27,162
Derivative financial instrument	13	<b>1,361</b>	1,044
Tax payable		<b>2,646</b>	2,714
Total current liabilities		<b>62,437</b>	58,547
<b>NET CURRENT ASSETS</b>			
		<b>94,197</b>	133,304
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>330,127</b>	373,853
<b>NON-CURRENT LIABILITIES</b>			
Derivative financial instrument	13	<b>705</b>	1,495
Deferred tax liabilities		<b>983</b>	980
Total non-current liabilities		<b>1,688</b>	2,475
Net assets		<b>328,439</b>	371,378
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital		<b>32,365</b>	32,365
Reserves		<b>288,266</b>	330,207
		<b>320,631</b>	362,572
<b>Non-controlling interests</b>		<b>7,808</b>	8,806
Total equity		<b>328,439</b>	371,378

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2014

	Attributable to owners of the Company										
	Issued capital HK\$'000	Share premium account HK\$'000	Capital reserve HK\$'000	Asset revaluation reserve HK\$'000	Available-for-sale financial asset revaluation reserve HK\$'000	Goodwill eliminated against reserves HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 April 2014	32,365	56,831	41,925	9,910	(250)	(152)	8,130	213,813	362,572	8,806	371,378
Loss for the period	-	-	-	-	-	-	-	(41,775)	(41,775)	(1,029)	(42,804)
Other comprehensive income/(loss) for the period:											
Share of exchange differences on translation of a joint venture	-	-	-	-	-	-	6	-	6	-	6
Reclassification adjustment for available-for-sale financial asset revaluation reserve realised upon impairment of an available-for-sales financial asset	-	-	-	-	250	-	-	-	250	-	250
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(422)	-	(422)	31	(391)
Total comprehensive loss for the period	-	-	-	-	250	-	(416)	(41,775)	(41,941)	(998)	(42,939)
At 30 September 2014 (unaudited)	<u>32,365</u>	<u>56,831*</u>	<u>41,925*</u>	<u>9,910*</u>	<u>-</u>	<u>(152)*</u>	<u>7,714*</u>	<u>172,038*</u>	<u>320,631</u>	<u>7,808</u>	<u>328,439</u>
At 1 April 2013	32,365	56,831	41,925	-	(130)	(152)	8,105	282,113	421,057	11,469	432,526
Loss for the period	-	-	-	-	-	-	-	(29,628)	(29,628)	(1,151)	(30,779)
Other comprehensive income/(loss) for the period:											
Share of exchange differences on translation of a joint venture	-	-	-	-	-	-	6	-	6	-	6
Share of exchange differences on translation of an associate	-	-	-	-	-	-	(3)	-	(3)	-	(3)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(231)	-	(231)	69	(162)
Total comprehensive loss for the period	-	-	-	-	-	-	(228)	(29,628)	(29,856)	(1,082)	(30,938)
At 30 September 2013 (unaudited)	<u>32,365</u>	<u>56,831</u>	<u>41,925</u>	<u>-</u>	<u>(130)</u>	<u>(152)</u>	<u>7,877</u>	<u>252,485</u>	<u>391,201</u>	<u>10,387</u>	<u>401,588</u>

\* These reserve accounts comprise the consolidated reserves of HK\$288,266,000 (31 March 2014: HK\$330,207,000) in the interim condensed consolidated statement of financial position.

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(18,426)	(46,997)
Interest received	223	117
Dividend received from equity investments at fair value through profit or loss	2	2
Purchases of items of property, plant and equipment	(7,247)	(10,019)
Deposits paid for items of property, plant and equipment	-	(427)
Proceeds from disposal of items of property, plant and equipment	85	63
Repayment loan from a joint venture	277	246
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(6,660)	(10,018)
CASH FLOWS FROM A FINANCING ACTIVITY		
New bank loan and cash flow from a financing activity	3,900	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,186)	(57,015)
Cash and cash equivalents at beginning of period	42,342	93,031
Effect of foreign exchange rate changes, net	98	232
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>21,254</u>	<u>36,248</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	14,289	32,314
Non-pledged time deposits with original maturity of less than three months when acquired	6,965	3,934
	<u>21,254</u>	<u>36,248</u>

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

### I. CORPORATE INFORMATION

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

During the period, the Group was engaged in the manufacture and trading of optical frames and sunglasses.

#### Basis of Preparation and Accounting Policies

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2014 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “SEHK”). The accounting policies and the basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 March 2014, except as described below. In the current period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA which are first effective for the current accounting period of the Group.

HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
HKAS 36 Amendments	Amendments to HKAS 36 <i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

The adoption of the above new and revised HKFRSs has had no significant financial effect on these unaudited interim condensed consolidated financial statements.

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

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2. SEGMENT INFORMATION

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

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

#### Geographical information

(a) Revenue from external customers

	For the six months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Europe (Note a)	73,421	124,600
North America (Note b)	51,455	63,188
The PRC (including Hong Kong)	8,369	14,145
Other Asian countries (Note c)	5,036	7,469
Oceania (Note d)	46	266
Other areas	1,430	928
	<b>139,757</b>	<b>210,596</b>

Notes:

- (a) European countries mainly included Italy, the United Kingdom, Germany, France, Switzerland, Poland, Netherland and Belgium.
- (b) North America included the United States and Canada.
- (c) Other Asian countries mainly included Brunel, indonesia, Korea, Malaysia, Philippines, Singapore, Thailand, Russia and Laos.
- (d) Oceania included Australia and New Zealand.

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

(b) Non-current assets

All significant operating assets of the Group are located in the PRC. Accordingly, no geographical information of segment assets is presented.

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2. SEGMENT INFORMATION (Continued)

#### Information about major customers

Revenue of approximately HK\$30,282,000 (2013: HK\$56,765,000) and HK\$12,550,000 (2013: HK\$18,939,000) was derived from sales to two separate customers, including sales to groups of entities which are known to be under common control with those customers.

### 3. REVENUE AND OTHER INCOME

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

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

	For the six months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
<b>Revenue</b>		
Sale of goods	<u>139,757</u>	<u>210,596</u>
<b>Other income</b>		
Sale of scrap materials	57	76
Bank interest income	223	117
Gross rental income	487	448
Dividend income from equity investments at fair value through profit or loss	2	2
Others	<u>60</u>	<u>414</u>
	<u>829</u>	<u>1,057</u>

### 4. FINANCE COSTS

	For the six months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>13</u>	<u>—</u>

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. LOSS BEFORE TAX

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

	For the six months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Cost of inventories sold *	140,125	208,050
Depreciation	12,603	13,056
Amortisation of prepaid land lease payments	210	210
Minimum lease payments under operating leases in respect of land and buildings	984	943
Employee benefit expense (including directors' remunerations):		
Wages and salaries	75,396	96,508
Pension scheme contributions **	662	431
	76,058	96,939
Provision/(write-back of provision) for inventory obsolescence *	1,045	(400)
Foreign exchange differences, net	(1,287)	833
Other operating expenses/(income), net:		
Loss/(gain) on disposal of items of property, plant and equipment	(49)	123
Impairment of trade receivables	9,575	–
Fair value losses/(gains), net:		
Equity investments at fair value through profit or loss – held for trading	(17)	3
Derivative financial instrument	(254)	–
Impairment of an available-for-sales financial asset	250	–
	9,505	126

\* Included in “cost of sales” on the face of the consolidated statement of profit or loss.

\*\* At the end of the report period, the Group had no forfeited pension scheme contributions available to reduce its contributions to the pension schemes in future years (2013: Nil).

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 6. INCOME TAX EXPENSES

	For the six months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Current – Elsewhere – Charge for the period	<u>73</u>	<u>84</u>

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the period (2013: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

### 7. INTERIM DIVIDEND

The board of directors (the “Board”) does not recommend payment of any interim dividend for the six months ended 30 September 2014 (2013: Nil).

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

The calculation of basic loss per share is based on the loss for the period attributable to ordinary equity holders of the Company of HK\$41,775,000 (2013: HK\$29,628,000) and 323,649,123 (2013: 323,649,123) shares in issue during the period.

No adjustment has been made to the basic loss per share attributable to ordinary equity holders of the Company presented for the six months ended 30 September 2014 and 2013 in respect of a dilution as there were no potentially dilutive shares in issue during those periods.

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. TRADE RECEIVABLES

Credit is offered to customers following a financial assessment by the Group with regard to their established payment records. The Group usually allows average credit periods ranging from 45 to 120 days (2013: 45 to 120 days) to its customers and seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management and collections are followed up by accounting personnel. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest bearing.

An aged analysis of trade receivables as at 30 September 2014 and 31 March 2014, based on the payment due date and net of impairment of trade receivables, is as follows:

	<b>30 September 2014 (Unaudited) HK\$'000</b>	31 March 2014 (Audited) HK\$'000
Current to 90 days	<b>55,649</b>	74,618
91–180 days	<b>570</b>	160
181–360 days	<b>13</b>	940
Over 360 days	<b>219</b>	154
Total	<b>56,451</b>	75,872

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

	<b>30 September 2014 (Unaudited) HK\$'000</b>	31 March 2014 (Audited) HK\$'000
Listed equity investments in Hong Kong, at market value	<b>85</b>	68

The above equity investments at 30 September 2014 and 31 March 2014 were classified as held for trading.

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### II. INTEREST-BEARING BANK BORROWINGS, SECURED

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Secured bank borrowings	<b>3,900</b>	–
Carrying amount of the bank borrowings repayable based on repayment schedules:		
– within one year	<b>3,900</b>	–
Less: Carrying amount of bank borrowings that contain a repayment on demand clause (shown under current liabilities)	<b>(3,900)</b>	–
Amounts due after one year shown under non-current liabilities	–	–

The Group had available loan facilities of HK\$66 million which were secured by corporate guarantees of HK\$66 million (31 March 2014: HK\$74.8 million), out of which one of the Group's investment properties under all monies legal charge with a carrying amount of HK\$19.0 million (31 March 2014: HK\$19.3 million) was also secured for loan facilities to an extent of HK\$60 million. As at 30 September 2014, secured bank borrowings of HK\$3.9 million (31 March 2014: Nil) denominated in United States dollar was drawn at an interest rate of One-Month Hong Kong Interbank Offered Rate plus 2.25% per annum.

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 12. TRADE PAYABLES

An aged analysis of the trade payables as at 30 September 2014 and 31 March 2014, based on the payment due date, is as follows:

	<b>30 September 2014 (Unaudited) HK\$'000</b>	31 March 2014 (Audited) HK\$'000
Current to 90 days	<b>27,388</b>	26,244
91–180 days	<b>379</b>	637
181–360 days	<b>116</b>	326
Over 360 days	<b>245</b>	420
Total	<b>28,128</b>	27,627

### 13. DERIVATIVE FINANCIAL INSTRUMENT

	<b>30 September 2014 (Unaudited) HK\$'000</b>	31 March 2014 (Audited) HK\$'000
Forward currency contract	<b>2,066</b>	2,539
Portion classified as non-current forward currency contract	<b>(705)</b>	(1,495)
Current portion	<b>1,361</b>	1,044

The Group has entered into a forward currency contract to manage its exchange rate exposures. This forward currency contract is not designated for hedge purposes and is measured at fair value through profit or loss. Fair value gain of a non-hedging currency derivative amounting to HK\$254,000 (2013: Nil) was charged to profit or loss during the year.

The total notional principal amount of the outstanding forward currency contract as at 30 September 2014 was HK\$66,300,000 (31 March 2014: HK\$89,200,000).

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

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

At 30 September 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>30 September 2014 (Unaudited) HK\$'000</b>	31 March 2014 (Audited) HK\$'000
Within one year	743	611
In the second to fifth years, inclusive	798	–
	<u>1,541</u>	<u>611</u>

#### (b) As lessee

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

At 30 September 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 September 2014 (Unaudited) HK\$'000</b>	31 March 2014 (Audited) HK\$'000
Within one year	1,842	1,834
In the second to fifth years, inclusive	5,144	5,458
After five years	49,954	49,990
	<u>56,940</u>	<u>57,282</u>

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15. COMMITMENTS

	<b>30 September 2014 (Unaudited) HK\$'000</b>	31 March 2014 (Audited) HK\$'000
Capital expenditure contracted, but not provided for: Equipment and machinery	<b>400</b>	<b>5</b>

### 16. RELATED PARTY TRANSACTIONS

#### (a) Transactions with related parties

	<b>For the six months ended 30 September</b>	
	<b>2014 (Unaudited) HK\$'000</b>	2013 (Unaudited) HK\$'000
Transactions with a substantial shareholder: Sales of goods to the group of Safilo Group S.p.A.*	<b>30,282</b>	56,765
Sales of goods to a joint venture	<b>30</b>	80
Rental expenses paid to a director	<b>222</b>	222

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Outstanding balances with related parties

	<b>30 September 2014 (Unaudited) HK\$'000</b>	31 March 2014 (Audited) HK\$'000
Amount due from a substantial shareholder: Trade receivables from the group of Safilo Group S.p.A.	<b>17,570</b>	30,764
Loan to a joint venture	<b>3,931</b>	4,208
Trade receivables from a joint venture	<b>2</b>	145

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

	<b>For the six months ended 30 September</b>	
	<b>2014 (Unaudited) HK\$'000</b>	2013 (Unaudited) HK\$'000
Short term employee benefits	<b>2,923</b>	2,956

- \* Continued connected transaction, details please refer to the announcement dated 22 March 2013 and the headline of "Connected transactions and Continuing connected transactions" of the report of the directors on page 23 of the audited financial statements as at 31 March 2014.

### 17. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 26 November 2014.

## SUPPLEMENTARY INFORMATION

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

At 30 September 2014, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, were as follows:

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

Name of director	Number of shares held, capacity and nature of interest		Total	Percentage of the issued share capital of the Company
	Beneficial owner	Other interests		
Hui Leung Wah (Note)	8,308,000	141,316,000	149,624,000	46.23
Poon Sui Hong	7,000,000	–	7,000,000	2.16
Leung Shu Sum	6,000,000	–	6,000,000	1.85
	<u>21,308,000</u>	<u>141,316,000</u>	<u>162,624,000</u>	<u>50.24</u>

Note: The 141,316,000 shares held as other interests by Mr. Hui comprised 141,116,000 shares held by Best Quality Limited and 200,000 shares held by Deluxe Concept Limited. The entire issued share capital of both Best Quality Limited and Deluxe Concept Limited is held by Wahyee (PTC) Limited as trustee for a unit trust, which, in turn, is beneficially owned by Docater Trust, a discretionary trust with LGT Trustees Limited as trustee, the beneficiaries of which include the spouse and children of Mr. Hui Leung Wah (Mr. Hui himself is not a beneficiary of the discretionary trust).

## **SUPPLEMENTARY INFORMATION** *(Continued)*

### **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(Continued)*

#### **Long position in ordinary shares of the subsidiaries:**

Mr. Hui Leung Wah is beneficially interested in 200,000 non-voting deferred shares in the capital of Elegance Optical Investments Limited. The rights and restrictions of these non-voting deferred shares are disclosed in the audited financial statements of the Company for the year ended 31 March 2014.

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

Save as disclosed above, as at 30 September 2014, none of the directors or chief executive of the Company had an interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed in the share option scheme disclosures under the section "share option scheme", at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company, their respective spouses or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### **DIRECTORS' INTERESTS IN CONTRACTS**

None of the directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period.

**SUPPLEMENTARY INFORMATION** *(Continued)***DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(Continued)*

At 30 September 2014, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interest required to be kept by the Company pursuant to Section 336 of the SFO:

**Long positions:**

Name	Number of issued ordinary shares held	Capacity and nature of interest	Percentage of issued share capital of the Company
Poon Yuk Yee <i>(Note 1)</i>	149,624,000	Beneficiary of a trust	46.23
LGT Trustees Limited <i>(Note 2)</i>	141,316,000	Trustee	43.66
Wahyee (PTC) Limited <i>(Note 2)</i>	141,316,000	Trustee	43.66
Safilo Far East Limited ("SFEL") <i>(Note 3)</i>	74,599,123	Beneficial owner	23.05
Safilo Group S.p.A. <i>(Note 3)</i>	74,599,123	Controlled corporation	23.05

## Notes:

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

Save as disclosed above, as at 30 September 2014, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## **SUPPLEMENTARY INFORMATION** *(Continued)*

### **SHARE OPTION SCHEME**

The Company adopted a share option scheme (the “Scheme”) on 16 May 2003 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. No options have been granted since the adoption of the Scheme. The Scheme expired on 15 May 2013. The Company has not adopted any new share option scheme thereafter.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 September 2014.

### **CHANGES IN DIRECTORS’ INFORMATION**

The changes in Directors’ information disclosed pursuant to Rule 13.51B(1) of the Listing Rules are as follows:

1. Ms. Lissi Barbara resigned as a Non-Executive Director on 30 June 2014.
2. Mr. Kwong Ping Man was appointed as an independent Non-Executive Director on 16 May 2014.
3. Mr. Maurizio De Gasperis resigned as a Non-Executive Director on 31 August 2014.
4. Mr. Stefano Rizzo was appointed as a Non-Executive Director on 1 September 2014.
5. Mr. Carlo Bonini was appointed as a Non-Executive Director on 1 September 2014.
6. Ms. Mak Suk Fan, Sophie was appointed as a Company Secretary, Financial Controllers and Authorized Representative on 12 August 2014.

**SUPPLEMENTARY INFORMATION** *(Continued)***CORPORATE GOVERNANCE**

During the six months ended 30 September 2014, the Company has adopted and complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules, except for the following deviation:

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company does not have any officer with the title “chief executive” under the Board. Mr. Hui Leung Wah assumes the role of both Chairman and Managing Director of the Company and he is in charge of the overall management of the Company. The Company does not have a separate Chairman and Managing Director as Mr. Hui currently holds both positions. The Board believes that the assumption of the roles of Chairman and Managing Director can, as far as the Group is concerned, promote the efficient formulation and implementation of the strategies of the Company, which will enable the Group to capture business opportunities efficiently and promptly. The Board also believes that through the supervision of its Board and its Independent Non-Executive Directors, a balancing mechanism is in place and operating so that the interests of the shareholders are adequately and fairly represented.

**REMUNERATION COMMITTEE**

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

## **SUPPLEMENTARY INFORMATION** *(Continued)*

### **NOMINATION COMMITTEE**

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

### **AUDIT COMMITTEE**

The Audit Committee has been established since 1999 and currently consists of three Independent Non-Executive Directors, namely, Mr. Poon Kwok Fai, Ronald, Mr. Pang Sung Yuen and Mr. Kwong Ping Man. The main duties of the Audit Committee include the review of the relationship with external auditors of the Company, review of the Group's financial information, oversight of the Group's financial reporting system and internal control procedures and performance of the corporate governance functions delegated by the Board.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 September 2014.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conducts ("Code of Conduct") 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. Having made specific enquiry of all Directors, the Company has received confirmations from all of them that they have complied with the required standard set out in the Model Code and the Company's Code of Conduct throughout the period under review.

### **REVIEW OF UNAUDITED INTERIM RESULTS**

The unaudited interim condensed consolidated financial information for the six months ended 30 September 2014 has been reviewed by the audit committee and the external auditors of the Company in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

**APPRECIATION**

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

On behalf of the Board  
**Hui Leung Wah**  
*Chairman*

Hong Kong, 26 November 2014