# 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

## Annual Report | 2016

# Contents



# Corporate Information

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

HUI Leung Wah *(Chairman)*
POON Sui Hong
HUI Chun Yuen *(appointed on 31 August 2015)*
LEUNG Shu Sum *(retired on 31 August 2015)*

### NON-EXECUTIVE DIRECTORS

RIZZO Stefano *(resigned on 20 April 2015)*
BONINI Carlo *(resigned on 7 August 2015)*
GRASSINI Andrea *(appointed on 20 April 2015 & resigned on 7 August 2015)*

### INDEPENDENT NON-EXECUTIVE DIRECTORS

POON Kwok Fai, Ronald
PANG Sung Yuen
KWONG Ping Man

## AUDIT COMMITTEE

POON Kwok Fai, Ronald *(Chairman)*
PANG Sung Yuen
KWONG Ping Man

## REMUNERATION COMMITTEE

PANG Sung Yuen *(Chairman)*
POON Kwok Fai, Ronald
KWONG Ping Man

## NOMINATION COMMITTEE

KWONG Ping Man *(Chairman)*
POON Kwok Fai, Ronald
PANG Sung Yuen

## COMPANY SECRETARY

MAK Suk Fan, Sophie

## PRINCIPAL BANKERS

Hang Seng Bank Limited
Chong Hing Bank Limited
Dah Sing Bank 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

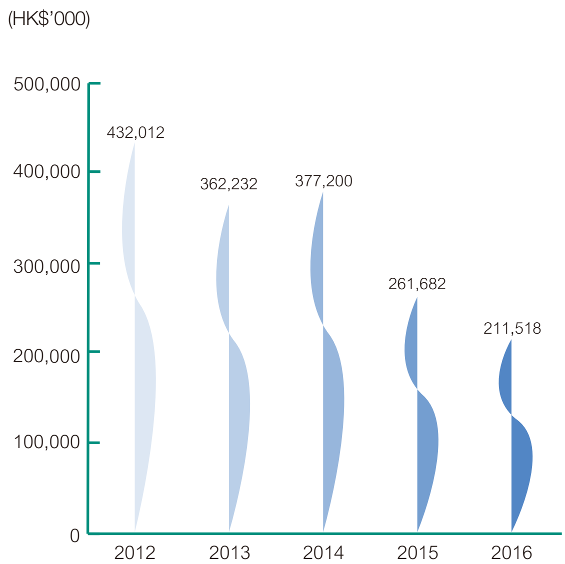
www.elegance-group.com

## STOCK CODE

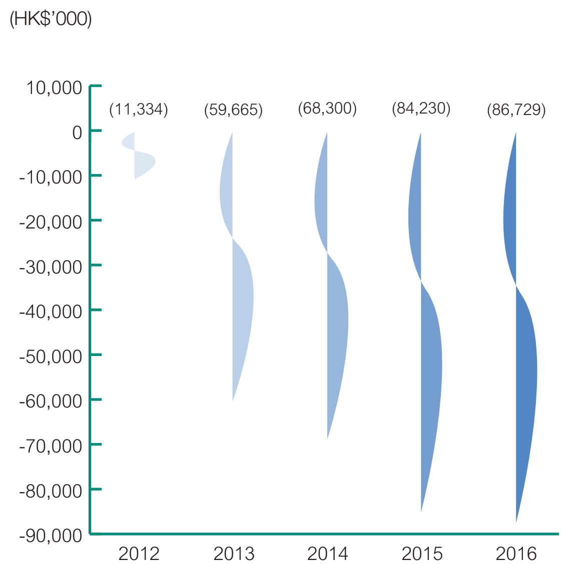
907

# Financial Highlights

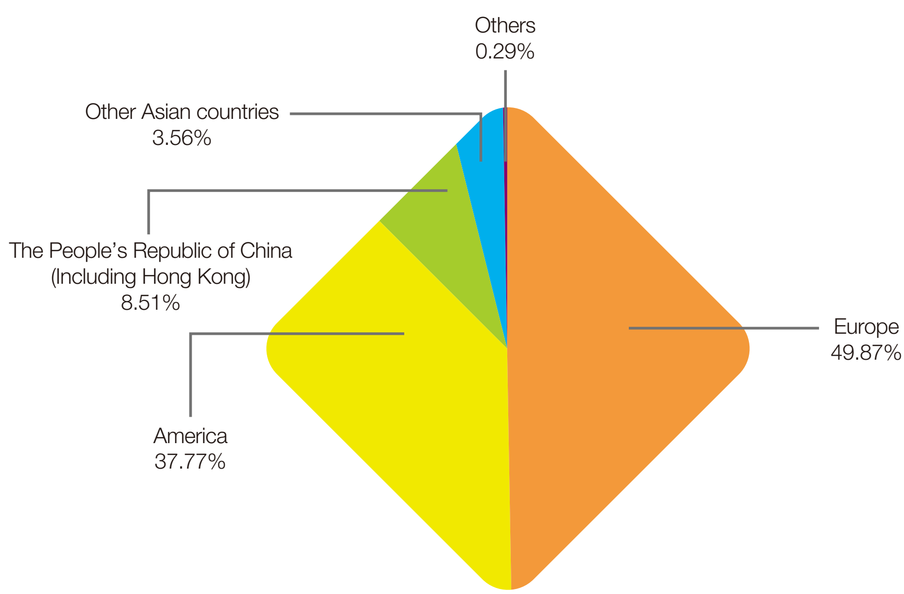
## REVENUE
(Restated)




## LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY




## BREAKDOWN OF REVENUE BY GEOGRAPHICAL AREA FOR THE YEAR ENDED 31 MARCH 2016



# Chairman's Statement

## DIVIDEND

The board of directors (the "Board") of Elegance Optical International Holdings Limited (the "Company") does not recommend any dividend (2015: Nil) for the year ended 31 March 2016 at the forthcoming annual general meeting of the Company to be held on 26 August 2016 ("Annual General Meeting").

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Friday, 26 August 2016 (being the date of the annual general meeting of the Company) for facilitating the processing of proxy voting at the Annual General Meeting, during which the registration of transfers of shares will be suspended. All transfers of shares, accompanied by the relevant share certificates, must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 25 August 2015 in order to be eligible to attend and vote at the forthcoming Annual General Meeting.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the financial year ended 31 March 2016, the Group continued to record a financial loss. The loss attributable to the owners of the Company for the year ended 31 March 2016 was approximately HK$86.7 million (2015: HK$84.2 million).

The total revenue for the reporting period was approximately HK$211.5 million. Compared to approximately HK$261.7 million recorded for the year ended 31 March 2015, it represented a decrease of approximately 19.2%. The total revenue was comprised of 2 segments, being manufacture and trading of optical frames and sunglasses and property investment. The lion share of the total revenue came from the sales of optical frames and sunglasses. They were reduced by approximately HK$53.2 million to approximately HK$206.6 million (2015: HK$259.8 million) or approximately 20.5%. For property investment, rental income increased remarkably from approximately HK$1.8 million in 2015 to approximately HK$4.9 million in 2016. However, it is still relatively unimportant to the Group.

On the eyewear sales, noticeable reduction was seen. This is due to weak market condition and our downsized production capacity. European customers, probably affected by the weaker European currency and the consistently poor economies, bought approximately 19.8% less from the Group, comparing the year under review with the previous year. Sales to American customers in sales amount were also checked and saw an approximately 18.6% reduction, the relative importance of the America sales is still second to that of the European sales (America 37.8%; Europe 49.9% of the total).

Sales sold to Safilo Group, Safilo S.p.A., a subsidiary of Safilo Group S.p.A., once a substantial shareholder of the Group, have also seen a marked reduction, in dollar term, by 37.0% as compared with that of the same period last year. Safilo Group ceased to be a substantial shareholder of the Company since 22 September 2015.

# Chairman's Statement

During the reporting period, the management has worked on various fronts to cut costs. The most obvious one was to streamline the production workforce. The number of production workforce was reduced roughly by 16.6% compared to previous year.

The financial results of the Group were also affected by the fluctuation of Renminbi ("RMB") during the year. A weak Renminbi helped to lower our payment cost to workers in the People's Republic of China ("PRC").

Another reason for the enlarged general and administrative expenses in the reporting period was that the Company has engaged financial and legal professionals to help exploring various options in strengthening the financial situation of the Company and all these work incurred costly bills which aggravated the loss of the Group.

Added to our disfavour in the financial results was the fair value loss of the investment properties of the Group, because of the slowed down economies and property markets in the PRC and in Hong Kong, a fair value loss of HK$23.9 million from a fair value downward adjustment recognized in the operating expenses was recorded.

As a means to improve our working capital and to realize the value of the assets of the Group, an agreement dated 18 January 2016 was entered into with an independent third party to dispose of the entire registered capital in 東莞精奇機械科技有限公司 ("Jet Kingdom"), a wholly owned subsidiary of the Group, at a total cash price of RMB26 million. The approval needed to sell the registered capital of Jet Kingdom required by the laws of the PRC has been obtained, the equity transfer has been completed on 23 May 2016.

## PROSPECT

As it has been the trend of the industry and been affecting the Group for years, buying appetite of our major eyewear customers is expected to remain low. European customers were hit by their sluggish economies and weak currency. American economies were better but the customers were more cost conscious. Some of them switched to cheaper producers. We have not been able to increase the average selling price markedly nor to get the agreement of the customers to place substantially greater purchase volume for individual models. Lesser demand triggered greater competition. The trend is likely to remain the same. The confirmed Brexit will add to the market uncertainty. In the time to come, the management will have to work harder on the loyal customers to court their continuous and enlarged patronage.

Original equipment manufacturing or original design manufacturing for eyewear products is at its matured stage of development. Unless the worldwide economy bounces back strongly or a breakthrough trend in product design or raw material deployment is seen, customer demand in the coming year is expected to be lackluster. The operation will remain to be a market share scrambling game.

The Group has spent more resources in developing and promoting the products bearing our own brand in the reporting year. Eyewear products branded "People by People" have received our major push and the effort will be continued. Sales were carried out mainly through the online internet setup and coupled with some retail sales made in our Shenzhen optical shop and retail outlet in Hong Kong. Selling of handbags under the People by People brand was our another attempt to test a new revenue channel. This segment is chosen because it is part of the fashion accessories. The management is hopeful on the development but expects it will take time to see the result.

# Chairman's Statement

Rental collection is the way to make use of the real estate assets of the Group which cannot be fully utilized because of our downsized operation. It provides a steady income stream for the Group which will be continued. However, given the slow PRC economy and the size of our spare production spaces to be made available is limited, it can only be a steady income of a modest amount rather than one with a quick and substantial growth potential.

Because of the poor market situation and the costly yet difficult production environment in mainland China where the production facilities of the Group are based, the road ahead requires our greater focus and effort. The management is working on various ways to improve on the operation of the Group which include revenue generation and cost cutting. The target is to keep the book balanced sooner.

## EVENTS AFTER THE REPORTING PERIOD

On 12 April 2016, the Company announced that Mr. Hui Leung Wah ("Mr. Hui") (a controlling shareholder, the Chairman and the managing director of the Company and as seller) and a potential purchaser (the "Potential Purchaser") (an independent third party not connected to the Company nor any of its connected persons and as purchaser) entered into a non-legally binding memorandum of understanding (the "MOU") on 11 April 2016 (after trading hours) regarding the possible sale of shares representing not less than 51% interest in the issued share capital of the Company.

As at the date of this report, Mr. Hui and his associates beneficially own an aggregate of 153,624,000 shares, representing approximately 47.47% of the issued share capital of the Company. Pursuant to the MOU, Mr. Hui agreed to procure that the sale shares representing not less than 51% interest in the issued share capital of the Company (including the aforesaid 153,624,000 shares beneficially held by Mr. Hui and his associates) shall be sold to the Potential Purchaser in accordance with the terms and subject to the conditions set out in the MOU (the "Possible Sale"). If the Possible Sale is materialized, the Potential Purchaser and any parties acting in concert with it are obliged to make a mandatory unconditional general offer for all the shares of the Company (other than those already owned or agreed to be acquired by them) under the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code").

On 30 April 2016, the Company announced that (i) the MOU lapsed upon expiry of the exclusivity period thereunder on 30 April 2016 and (ii) the Company was informed by Mr. Hui that he might continue to discuss with any potential investors (including but not limited to the Potential Purchaser) and provide them with information with respect to the Possible Sale.

An update announcement was issued by the Company pursuant to Rule 3.7 of the Takeovers Code on 30 May 2016 in which the Company announced that the discussions in respect of the Possible Sale between Mr. Hui and the potential investors (including but not limited to the Potential Purchaser) were still ongoing.

As at the date of this report, as informed by Mr. Hui, the discussions in respect of the Possible Sale are still in progress but no legally binding agreement for the Possible Sale has been entered into between him and the Potential Purchaser or any other potential investor. As such, the Possible Sale may or may not proceed. For details, please refer to the announcements of the Company dated 12 April 2016, 30 April 2016 and 30 May 2016.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position with cash and cash equivalents of approximately HK$45.0 million (2015: HK$41.0 million), short-term bank borrowings of approximately HK$45.3 million (2015: HK$35.9 million) and the debt to equity ratio (expressed as a percentage of non-current liabilities over equity attributable to owners of the Company) is approximately 3.0% as at 31 March 2016 (2015: 2.4%). The non-current liabilities of the Group comprised of deferred tax liabilities and deposit received amounting to approximately HK$6.4 million and approximately HK$1.4 million respectively (2015: HK$8.5 million and Nil) which came up a total amount of approximately HK$7.8 million as at 31 March 2016 (2015: HK$8.5 million). The Group's equity attributable to owners of the Company as at 31 March 2016 amounted to approximately HK$262.6 million (2015: HK$352.8 million).

## CHARGES ON GROUP'S ASSETS

At 31 March 2016, one of the Group's land and building with carrying amount and market value of approximately HK$18.2 million and approximately HK$75.1 million respectively (2015: HK$18.7 million and HK$81.8 million), was pledged to a bank for a general banking facilities to an extent of HK$60 million (2015: HK$60 million). The Company had provided corporate guarantees up to a maximum amount of HK$60 million (2015: HK$60 million) to secure the general banking facilities granted to its subsidiaries and an amount of approximately HK$45.2 million had been utilized by its subsidiaries as at 31 March 2016 (2015: HK$35.9 million).

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 March 2016, the Group had capital commitments, which were contracted but not provided for, in respect of acquisition of property, plant and equipment of approximately HK$93,000 (2015: HK$5,000). As at 31 March 2016, the Company had a contingent liabilities amounting to approximately HK$53,354,000 (2015: HK$74,052,000) in respect of corporate guarantees given to banks for the general banking facilities granted to its subsidiary.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2016, the Group employed 1,557 (2015: 1,866) 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.

## 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.

## PRINCIPAL RISKS AND UNCERTAINTIES

The following are the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the Companies Ordinance (Chapter 622 of the laws of Hong Kong) and are in addition to the matters referred to in the Chairman's Statement and Management Discussion and Analysis.

In the normal course of business, the Group's operations, business performance, financial position and prospects may be exposed to the following risks and uncertainties:

### 1. ECONOMIC CONDITIONS AND MARKET RISK

The impact of economic conditions on consumer confidence and buying habits would affect the sales, revenue and results of the Group. The economic growth or decline in respective geographical markets that affected consumer spending on our products would also affect the Group's business. The Group continues to implement its strategies to develop and strengthen penetration of different geographical markets thereby reducing its dependency on specific markets.

# Chairman's Statement

### 2. CREDIT RISK

The Group's major financial instruments include trade and other receivables, equity investments, bank balances and cash, trade and other payables, and interest-bearing bank borrowings.

### 3. INTEREST RATE RISK

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing financial assets and liabilities, mainly interest-bearing bank borrowings and bank balances at prevailing market interest rates. The Group's interest rate risk relates primarily to its floating rate bank loans subject to negotiations at each renewal date. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

### 4. COMMODITIES RISK

The Group is exposed to fluctuations in the prices of commodities used as raw materials in the manufacturing process, primarily cellulose acetate and potassium gold cyanide. While the Group may be able to partially offset these fluctuations with a flexible pricing policy, the Group bears the risks of fluctuation in the costs of these materials. Accordingly, rising prices for commodities has affected and is expected to continue to affect the Group's cost of goods sold in the form of higher raw materials prices. Other the other hand, decreases in prices for commodities may affect the value of the Group's inventories. The Group currently does not use any derivative contracts to hedge its exposure to commodities risk. However, the management will consider hedging significant commodities risk should the need arise.

### 5. FOREIGN CURRENCY RISK

The Group conducts its business transactions mainly in Hong Kong dollar, Renminbi ("RMB") and United Stated dollar ("USD"). As the Hong Kong dollar is pegged to the USD, 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 RMB prior to August 2015. The Group has entered into a forward currency contract to manage its exchange rate exposures and the contract has been expired in February 2016. The management closely monitors foreign exchange exposure and will further consider hedging significant foreign currency exposure should the need arise.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group believes that in the long run, due performance of environmental responsibility would definitely improve the effectiveness of the utilization of the Group's resources and would raise the economic efficiency to the Group.

The Group abides by all the applicable environmental laws and regulations of the places where the Group has business operations. The Group has established the environmental protection policies that include both emission reduction and energy-saving policies in order to minimize the impacts to the environment.

### Compliance with the relevant laws and regulations that have a significant impact on the company

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact to the Group. The Audit Committee of the Company is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed.

### Key relationships with stakeholders

The Group believes that its success depends on the support from the key stakeholders, which comprise employees, customers, suppliers and shareholders.

*Employees*

The Group respects its employees and endeavors to provide the better working conditions for its employees. The Group has established various policies in relation to the labor practices including the remuneration and dismissal, recruitment and promotion, working hours, holidays, disciplinary practice, equal opportunity, diversity and other benefits and welfare so as to provide fair, healthy and safe working environments for all employees. The Group has also established the policies for remuneration of employees so as to provide the fair and competitive remuneration packages for the employees under the systemic remuneration management. The Group provides equal opportunity for employees in respect of promotion, appraisal, training, development and other aspects in order to build up a sound career platform for employees.

*Customers*

The Group aims at providing its customers with the qualified products and has adopted a system to control strictly the manufacturing processes of its products and the product quality. All products are manufactured according to the specified procedures and are required to undergo a thorough quality inspection process in order to assure the products quality. The Group has maintained a customer service team to handle the enquiries about the products from the customers. The customer service team handles the customers' feedbacks and complaints according to the stated procedures.

*Suppliers*

The Group used to work with the suppliers with the same objectives and develops mutually-successful working relationships with the key suppliers. The Group strictly follows its policy, which is constructed under the Group's corporate culture of integrity, and professional standard in the selection of suppliers and purchasing process. Although the cost of purchasing is a major consideration in selecting suppliers, the Group would also consider the suppliers' corporate social responsibility performances, which include the suppliers' performances on the aspects of legal and regulatory compliance, business ethics, labor practices and environmental protection etc.

*Shareholders*

One of the Group's objectives is to maximize shareholders' value and safeguard the interests of the shareholders. The Group believes that good governance is essential to achieving the aforesaid objective so that it has adopted the standards of corporate governance.

## APPRECIATION

I would like to take this opportunity to express my deepest gratitude to all of our staff and fellow directors for their contributions, support and dedication. I would also like to thank our customers, shareholders, bankers, suppliers and other business partners for their continuous support.

**Hui Leung Wah**
*Chairman*

Hong Kong
28 June 2016

# Profiles of Directors and Senior Management

## EXECUTIVE DIRECTORS

**HUI Leung Wah**, aged 63, is the Chairman and Managing Director of the Company. He is the founder of the Group and has 50 years of experience in the optical frames manufacturing industry. He is responsible for the overall supervision and policy making of the Group's activities. Mr. Hui is a director of certain subsidiaries of the Group. He was awarded the Young Industrialist Awards of Hong Kong in September 1995, given by the Federation of Hong Kong Industries. Mr. Hui has served as a Committee Member of The Hong Kong Optical Manufacturers Association (the "Association") since 1990, and he served as the president and vice president of the Association for various terms from 1998 to 2010. Mr. Hui is the father of Mr. Hui Chun Yuen, Ms. Hui Sze Man, Doris and Ms. Hui Wing Ka, Candy, being the executive director of the Company and the senior managers of the Group. He is also the brother-in-law of Mr. Poon Sui Hong, an Executive Director of the Company and Mr. Cheng Wai Keung, Edmond, a senior manager of the Group.

**HUI Chun Yuen**, aged 27, is an Executive Director of the Company, He was the personal assistant to the Company's Chairman, Mr. Hui Leung Wah, before he was appointed to the Board. He has been in charge of the Design and Product Development Department. He joined the Group in 2012 after graduating from York University in Toronto, Canada, where he obtained a Bachelor of Arts in Sociology. He is the son of the Chairman and the youngest brother of Hui Sze Man, Doris and Hui Wing Ka, Candy, both being senior managers of the Group. Moreover, he is the nephews of Mr. Poon Sui Hong and Mr. Cheng Wai Keung, Edmond, the executive director of the Company and the senior manager of the Group respectively.

**POON Sui Hong**, aged 57, is an Executive Director of the Company and a General Manager of the Group. He joined the Group in 1984 and has over 29 years of experience in the marketing and production of optical frames. He is presently responsible for the strategic planning and supervision of the Group's marketing activities. He is a director of certain subsidiaries of the Group. Mr. Poon is the brother-in-law of Mr. Hui Leung Wah and Mr. Cheng Wai Keung, Edmond. Moreover, he is the uncle of Mr. Hui Chun Yuen, Ms. Hui Sze Man, Doris and Ms. Hui Wing Ka, Candy, being the Company's executive director and the senior managers of the Group.

**LEUNG Shu Sum**, aged 61, served as an Executive Director and one of the founding members of the Group since 1996 until his retirement on 31 August 2015. He was responsible for supervising the production activities at the People's Republic of China (the "PRC") production facilities in the relevant time.

## NON-EXECUTIVE DIRECTORS

**RIZZO Stefano**, aged 48, served the Company as a Non-executive Director on 1 September 2014 and resigned on 20 April 2015. He was the worldwide purchasing director of Safilo Group until 15 June 2015, a worldwide leader in the premium eyewear listed on the Italian Stock Exchange. Prior to joining Safilo Group, he served Bonfiglioli Group, as Corporate Purchasing Director, and other global companies, like Leitner Group, GE and Iveco, starting from technical roles and moving then to purchasing and procurement. He has almost 20 years of experience. Mr. Stefano Rizzo holds an academic degree in Aeronautical Engineering issued by the Politecnico of Milan, an academic degree in Mathematics, issued by the University of Florence and an MBA issued by the University of Bologna.

# Profiles of Directors and Senior Management

**BONINI Carlo**, aged 39, joined the Company as a Non-Executive Director on 1 September, 2014 and resigned on 7 August 2015. Mr. Bonini is the CFO of Asia Pacific business region of Safilo Group, a worldwide leader in the premium eyewear listed on the Italian Stock Exchange.

Prior to becoming the CFO of Asia Pacific business region of Safilo Group, he served the Safilo Group in the Italian headquarters as a head of Global Internal Audit and member of the Supervisory Committee. He has 15 years of international experience in the financial controlling, corporate governance and auditing, the majority of which was accumulated in Pirelli, global leader of premium tire sector, based in Italy and listed on the Milan Stock Exchange. Mr. Bonini holds an Master Degree in Business Administration from Bocconi University and he is a certified member of the Institute of Internal Auditors (IIA).

**GRASSINI Andrea**, aged 45, joined the Company as a Non-Executive Director on 20 April 2015 and resigned on 7 August 2015, he is the Asia Sourcing Director of Safilo Group, a worldwide leader in the premium eyewear listed on the Italian Stock Exchange.

Prior to joining Safilo Group in 2005, he served Deloitte Consulting Italia S.r.l. as a senior consultant, where he held growing responsibilities in leading large performance improvement projects for global clients in industries such as oil and gas, telecommunications and utilities. He has almost 20 years of experience. Mr. Grassini holds an Master degree in the Industrial Engineering with major in Business Administration issued by the Polytechnic University of Milan in Italy (Politecnico di Milano).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**POON Kwok Fai, Ronald**, aged 66, joined the Company as an Independent Non-Executive Director in 1996. Mr. Poon is a solicitor and notary public practicing in Hong Kong and has over 35 years of experience in the legal profession.

**PANG Sung Yuen**, aged 65, joined the Company as an Independent Non-Executive Director on 29 August 2013. Mr. Pang was formerly the Commissioner of Correctional Services in Hong Kong SAR Government. He joined the Correctional Services in 1971. During his service with the government he held senior positions in the last 20 years and had vast experience in human resource management; inspectorate and management services and overall security matters. Mr. Pang holds a diploma in Criminal Justice and attended a one-year programme in Public Administration in University of California at Berkeley and the Strategic Management Programme in Ashridge Business School in London. He was promoted to the rank of Deputy Commissioner in 2000 and Commissioner of Correctional Services in 2003. Mr. Pang retired from the civil service in July 2006. Since retirement, Mr. Pang has worked as a consultant in security and management. Mr. Pang was appointed as Justice of Peace between 1996 and 2007 and awarded the Correctional Service Distinguished Service Medal in 1998 and Silver Bauhinia Star in 2007 by the Hong Kong SAR Government.

# Profiles of Directors and Senior Management

**KWONG Ping Man**, aged 51, joined the Company as an Independent Non-Executive Director on 16 May 2014. Mr. Kwong is a director of O'Park Corporate Services Limited. He has over 15 years of experience in accounting, finance and administration. Mr. Kwong previously worked as accountant, company secretary and chief financial officer at several private and listed companies. Mr. Kwong obtained a Bachelor's degree in Commerce Accounting from Curtin University of Technology in Australia, a Postgraduate diploma in Corporate Administration and an Master's degree in Professional Accounting from The Hong Kong Polytechnic University in 1996 and 2003 respectively. He is a Certified Practising Accountant of CPA Australia, a fellow member of the Hong Kong Institute of Certified Public Accountants, and an associate member of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators. Mr. Kwong is currently an independent non-executive directors of Tang Palace (China) Holdings Limited (Stock Code: 1181), Century Sunshine Group Holdings Limited (Stock Code: 509), Clear Lift Holdings Ltd (Stock Code: 1341) and Group Sense (International) Limited (Stock Code: 601), the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "SEHK").

## SENIOR MANAGEMENT

**TSANG Tak Hung, Donald**, aged 57, is one of the General Managers of the Group and is responsible for the management, strategic planning and corporate development of the Group. Prior to joining the Group in 1994, he has over 12 years of management experience by serving in various financial institutions in Hong Kong and Canada including the SEHK.

**CHENG Wai Keung, Edmond**, aged 56, is an Assistant General Manager supervising the Group's Production Department. He joined the Group in 1988 and has worked in various departments within the Group including the Marketing, Production and Purchasing Departments. Mr. Cheng now oversees the Group's manufacturing operation in the Shenzhen factory. Mr. Cheng is the brother-in-law of Mr. Hui Leung Wah and Mr. Poon Sui Hong. Moreover, he is the uncle of Mr. Hui Chun Yuen, Mrs. Hui Sze Man, Doris and Mrs. Hui Wing Ka, Candy, the company's executive director and the senior managers of the company respectively.

**HUI Sze Man, Doris**, aged 35, joined the Group in 2005 as an Assistant to the Chairman. Ms. Hui is in charge of the Research and Development Department. She is also responsible for overseeing the manufacturing operations of the Group. She holds a Bachelor's degree in Arts from York University in Canada. Ms. Hui served as director of Yan Chai Hospital from 2007 to 2009. She has also been a member of Young Industrialists Council Youth Chapter since 2003. Ms. Candy, Hui is the daughter of Mr. Hui Leung Wah and the elder sister of Ms. Hui Wing Ka, Candy and Mr. Hui Chun Yuen.

**HUI Wing Ka, Candy**, aged 32, is an Assistant General Manager of the Group. She is also a director of one of the Group's subsidiaries. Ms. Hui joined the Group in 2008 is responsible for managing the Group's global sales and marketing operations. She holds a Bachelor's degree in Arts (Honors) from University of Toronto in Canada. Ms. Hui is currently the vice-chairman of Young Industrialists Council Youth Chapter. She is also a member of The Youth Committee of Chinese Manufacturers' Association of Hong Kong. Ms. Candy, Hui is the daughter of Mr. Hui Leung Wah and the youngest sister of Ms. Hui Sze Man, Doris and the elder sister of Mr. Hui Chun Yuen.

**MAK Suk Fan, Sophie**, aged 44, joined the Group in August 2014 as the Financial Controller and Company Secretary. She holds a degree in Accountancy in Australia, a Postgraduate Diploma in Investment Management at The University of Hong Kong and an MBA in Accounting & Finance at Mcgraw University. She is a member of The Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of CPA Australia. She has over 10 years of experience in company management, auditing, financial accounting, taxation as well as corporate finance.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The statement of corporate governance practices set out below and information incorporated by reference constitutes the Corporate Governance Report of the Company.

The Board is committed to applying high standard of corporate governance practices and procedures in fulfilling its responsibilities. It is the belief of the Board that shareholders can maximize their benefits from good corporate governance. The Company has always recognized the importance of transparency and accountability. The Group has adopted the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the SEHK as its own code of corporate governance practices. The directors of the Company (the "Directors") consider that the Company has complied with the Code throughout the year ended 31 March 2016, 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 the Chairman and the 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 assumption of the roles of the Chairman and the managing director of the Company 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 (the "INEDs") a balancing mechanism is in place and operating so that the interests of the shareholders are adequately and fairly represented.

The statement on the "Business Model and Strategy" in the "MANAGEMENT DISCUSSION AND ANALYSIS" of the Chairman's Statement is adopted and incorporated by reference here.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct ("Code of Conduct") regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company has received confirmations from all of them that they have complied with the required standard as set out in the Model Code and the Company's Code of Conduct throughout the year.

## BOARD OF DIRECTORS

### Board Composition

The Board currently comprises a total of six Directors. Three Executive Directors, namely, Mr. Hui Leung Wah (also the chairman of the Board), Mr. Poon Sui Hong and Mr. Hui Chun Yuen and three are INEDs, namely Mr. Poon Kwok Fai, Ronald, Mr. Pang Sung Yuen and Mr. Kwong Ping Man. Mr. Poon Kwok Fai, Ronald and Mr. Kwong Ping Man have appropriate professional qualifications or accounting or related financial management expertise as prescribed by Rule 3.10 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.

# Corporate Governance Report

The composition of the Board will be reviewed regularly to ensure that it has a balance of skills and experience appropriate for the requirements of the business of the Group. The Directors' biographical details and the relationship among members of the Board are set out in the section "Profiles of Director's and Senior Management" of the annual report.

### Appointment and re-election

According to the Bye-Laws of the Company, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation. In addition, every Director shall retire from office no later than the third annual general meeting after he was last elected or re-elected or ceased to be a Director and been re-elected by a general meeting at or since either such annual general meeting.

All the Non-Executive Directors were re-elected for a specific term of not more than three years in previous annual general meetings.

In accordance with the Bye-Laws of the Company, Mr. Hui Chun Yuen and Mr. Poon Kwok Fai, Ronald will retire from office by rotation at the forthcoming Annual General Meeting. Both of them, being eligible, will offer themselves for re-election at the Annual General Meeting.

On 22 September 2015, Safilo Group S.p.A., ("Safilo") sold 23.05% stake, all of their equity interest of the Company, subsequent to that day, "Safilo" was no longer be the substantial shareholder of the company and its nominated Non-Executive Directors, Mr. Bonini Carlo and Mr. Grassini Andrea both resigned on 7 August 2015.

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

### Duties of the Board

The Board formulates the overall policies and strategies, monitors the financial performance, oversees the management, and implements good corporate governance practices of the Group. The Board is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs.

The Directors meet regularly to review the financial and operational performance of the Group by discussing and formulating the Group's development plans. Daily operations and administration are delegated to the Executive Directors and the Group's management. The members of the Board are mostly professionally qualified and widely experienced personnel who bring in valuable contribution provide different professional advice and consultation for the development of the Group. They provide strong support towards the effective discharge of the duties and responsibilities of the Board.

The Chairman of the Board is primarily responsible for leading the Board and ensuring that the Board works effectively to discharge its responsibilities and that all key and appropriate issues are discussed and approved by the Board before execution.

During the reporting year, the Chairman held three meetings with the Non-Executive Directors including the Independent Non-Executive Directors without the presence of the Executive Directors.

### Functions of the Board

During the financial year ended 31 March 2016, seven regular Board meetings were held. The attendance records of each Director at the meetings of the Board, Audit Committee, Nomination Committee, Remuneration Committee and general meeting of the Company during the year ended 31 March 2016 are set out as follows:

| | Number of meetings attended/held | | | | |
|---|---|---|---|---|---|
| Name of directors | Board | Audit Committee | Nomination Committee | Remuneration Committee | General Meeting |
| **Executive Directors** | | | | | |
| Mr. Hui Leung Wah | 7/7 | | | | 1/1 |
| Mr. Poon Sui Hong | 7/7 | | | | 1/1 |
| Mr. Leung Shu Sum *(retired on 31 August 2015)* | 4/4 | | | | 1/1 |
| Mr. Hui Chun Yuen *(appointed on 31 August 2015)* | 3/3 | | | | –/– |
| **Non-Executive Directors** | | | | | |
| Mr. Bonini Carlo* *(resigned on 7 August 2015)* | 2/3 | | | | –/– |
| Mr. Andrea Grassini** *(appointed on 20 April 2015 & resigned on 7 August 2015)* | 1/2 | | | | –/– |
| Mr. Rizzo Stefano*** *(resigned on 20 April 2015)* | –/– | | | | –/– |
| **Independent Non-Executive Directors** | | | | | |
| Mr. Poon Kwok Fai, Ronald | 7/7 | 5/6 | 2/3 | 1/2 | –/1 |
| Mr. Pang Sung Yuen | 6/7 | 6/6 | 3/3 | 2/2 | 1/1 |
| Mr. Kwong Ping Man | 6/7 | 5/6 | 3/3 | 2/2 | 1/1 |

* Three Board meetings but no general meetings were held during the reporting period up to the date of resignation of Mr. Bonini Carlo.

** Two Board meetings but no general meetings were held during the reporting period up to the date of resignation of Mr. Andrea Grassini.

*** No Board meetings and general meetings were held during the reporting period up to the date of resignation of Mr. Rizzo Stefano.

All the Board meetings are scheduled in advance, and at least 14 day's notice is given to all Directors to give them an opportunity to attend. Agendas and accompanying Board papers are normally sent to all Directors at least three days in advance of every Board meeting to enable the Directors to make informed decisions on matters placed at the Board meetings. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. All Directors have been consulted about any matters proposed for inclusion in the agenda. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings, so that Directors receive adequate, complete and reliable information in a timely manner.

# Corporate Governance Report

Detailed minutes of Board meetings are kept by the Company Secretary and are open for inspection by any Director. All Directors have access to independent professional advice whenever deemed necessary by the Directors.

### Directors' continuous professional development

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills for discharging their duties and responsibilities as directors of the Company.

In addition, each newly appointed Director would be provided with an induction package covering the duties and responsibilities of directors under the Listing Rules, the Companies Ordinance and other related regulatory requirements.

The Company implemented a continuous alert program to provide updates and reading materials to keep them informed on a timely basis about the latest major developments of the Listing Rules and other applicable regulatory requirements affecting the Group or their duties and responsibilities as the Directors as well as the macro economics and general business environment in which the Group's major operations are operated. The Company, through such continuous alert program, enhances Directors' awareness and keeps them abreast of the essences and key areas of such updates and information. Such continuous alert program is an efficient and effective way which offers flexibility to the Directors by allowing them to access the information at a time suitable to them. All Directors are required to provide the Company with their training records on an annual basis. They are summarized below:

| Name of directors | Type of trainings activities |
|---|---|
| **Executive Directors** | |
| Mr. Hui Leung Wah | A,B |
| Mr. Poon Sui Hong | A,B |
| Mr. Leung Shu Sum *(retired on 31 August 2015)* | A,B |
| Mr. Hui Chun Yuen *(appointed on 31 August 2015)* | A,B |
| **Non-Executive Directors** | |
| Mr. Bonini Carlo *(resigned on 7 August 2015)* | B |
| Mr. Andrea Grassini *(appointed on 20 April 2015 and resigned on 7 August 2015)* | B |
| Mr. Rizzo Stefano *(resigned on 20 April 2015)* | B |
| **Independent Non-Executive Directors** | |
| Mr. Poon Kwok Fai, Ronald | A,B |
| Mr. Pang Sung Yuen | A,B |
| Mr. Kwong Ping Man | A,B |

A: In-house training and/or seminars.

B: Reading newspapers and journals relating to directors' duties and responsibilities as well as updates on the Listing Rules and other applicable regulatory requirements.

## RESPONSIBILITY OF DIRECTORS AND AUDITORS FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group. The Board is responsible for presenting a balanced, clear and understandable assessment in annual and interim reports and other financial disclosures required by the Listing Rules and other regulatory requirements. Members of the Board are provided with monthly updates, including monthly management accounts and related analysis, which give the Directors a balanced and understandable assessment of the Group's performance, position and prospects. With the assistance of Finance Department, the Directors prepare the financial statements in accordance with statutory requirements and prevailing accounting standards. The Directors are responsible for timely publication of the financial statements of the Group. The Directors have confirmed that, to the best of their knowledge, having made all reasonable enquiries that the Company has the ability to continue as a going concern. Your attention is also drawn to notes 2.1 to the consolidated financial statements on pages 45 to 47 of this annual report.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in Independent Auditors' Report on pages 34 to 35 of the annual report.

## REMUNERATION COMMITTEE

The Remuneration Committee was established in June 2005 and the terms of reference were amended on 29 March 2012. The members of the Remuneration Committee comprise Mr. Poon Kwok Fai, Ronald, Mr. Pang Sung Yuen and Mr. Kwong Ping Man. All members are the INEDs of the Company and Mr. Pang Sung Yuen is the chairman. The Remuneration Committee held two meetings during the reporting year and the attendance of each member is set out in the section headed "Functions of the Board" of this annual report.

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

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

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

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

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

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

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

# Corporate Governance Report

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

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

During the reporting year, the Remuneration Committee has, among others things, reviewed the remuneration packages of all Executive Directors and senior management with reference to market terms, their duties and responsibilities and performance as assessed by the Remuneration Committee, and has made recommendation to the Board accordingly. The Board reviewed and approved the Directors' and senior management's remuneration at the Board meeting held on 28 June 2016.

Pursuant to B.1.5 of the Code, details of the annual remuneration of the members of senior management by band for the year ended 31 March 2016 are as follows:

| | **Number of employees** |
|---|---|
| Nil to HK$1,000,000 | 2 |
| HK$1,000,001 to HK$1,500,000 | 2 |
| Over HK$1,500,000 | 1 |
| Total | 5 |

Details of the emoluments of Directors are set out in Note 8 to the financial statements.

The Company had adopted a specific terms of reference of the Remuneration Committee as of 29 March 2012 in accordance with Rules 3.25 to 3.27 of the Listing Rules and has been posted on the websites of the SEHK and the Company.

## NOMINATION COMMITTEE

The Nomination Committee was established in June 2005 and the terms of reference were amended on 29 March 2012. The Nomination Committee currently comprises three INEDs. Mr. Kwong Ping Man is the chairman of the Nomination Committee. Other members of the Committee are Mr. Poon Kwok Fai, Ronald and Mr. Pang Sung Yuen. The Nomination Committee held three meetings during the reporting year and the attendance of each member is set out in the section headed "Function of the Board" of the annual report:

1. review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. assess the independence of Independent Non-Executive Directors;

4. make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman of the Board and the chief executive of the Company;

5. review the board diversity policy of the Board or this Committee, as appropriate, considering factors including but not limited to gender, age, cultural and educational background and professional experience of Board members, and review the measurable objectives that the Board has set for implementing the board diversity policy, and the progress on achieving the objectives; and

6. conform to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation, where appropriate.

A board diversity policy had been formulated and adopted by the Board in 2014. The Company recognizes the importance and values the benefits of having a diverse Board to enhance the quality of its performance. Appointments to the Board will largely be based on meritocracy with due regard for the benefits of diversity on the Board. Selection of candidates will generally be based on factors considered applicable and adopted by the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Company had adopted a revised specific terms of reference of the Nomination Committee as of 6 September 2013 in compliance with the Code Provision A.5 and it has been posted on the websites of the SEHK and the Company.

## AUDIT COMMITTEE

The Audit Committee was established in 1999 to, among other things, consider the appointment and reappointment of the external auditors and audit fee, to discuss with the external auditors the nature and scope of audit, to review the Group's financial reporting and internal control. Its current members comprise Mr. Poon Kwok Fai, Ronald, Mr. Pang Sung Yuen and Mr. Kwong Ping Man. Mr. Poon Kwok Fai, Ronald is the chairman of the Audit Committee. All members of the Audit Committee are the INEDs. Two INEDs have appropriate professional qualifications or accounting or related financial management expertise as prescribed by the Listing Rules. None of them is employed by or otherwise affiliated with former or existing auditors of the Company. The main duties of the Audit Committee include the review of the relationship with external auditors of the Company, review of financial information of the Group and oversight of the Group's financial reporting system, risk management and internal control systems on an ongoing basis.

The Audit Committee held six meetings during the reporting year. Minutes of the Audit Committee are kept by the duly appointed secretary of the Audit Committee and the copies of the minutes are sent to all members of the committee. The outcomes of the Audit Committee meetings were submitted to the Board for consideration and action where appropriate. The attendance of each member is set out in the section headed "Functions of the Board" of this annual report.

The accounting principles and practices adopted by the Group and the announcement results for the year ended 31 March 2016 have been reviewed by the audit committee.

# Corporate Governance Report

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

1. reviewed the Group's consolidated financial statements for the year ended 31 March 2015 and the annual results announcement with a recommendation to the Board for approval.

2. reviewed the relevant disclosures made in the Directors' Report of the Annual Report.

3. reviewed the Corporate Governance Report, which was included in the Annual Report.

4. met with the external auditor without the presence of the executive directors of the Board.

5. assessed broadly any special risks faced by the Group and reviewed the effectiveness of the internal control system of the Group through the Internal audit section, which was established by the Audit Committee and comprised all the members of the Audit Committee. Based on the assessment and findings from the review conducted by the Internal audit section, it was concluded that the Group operated at a manageable risk level and kept on improving the management system.

6. reviewed the Group's consolidated financial statements for the six months period ended 30 September 2015 and the interim results announcement with a recommendation to the Board for approval.

7. reviewed the Group's policies and practices on corporate governance and made recommendations to the Board.

8. reviewed the training and continuous professional development of directors.

9. reviewed the Group's compliance with the Code.

10. reviewed the annual internal audit plan submitted by the Group's Internal Audit Department.

11. reviewed the findings and recommendations submitted by the Group's Internal Audit Department.

12. reviewed the reports including the 2015 audit planning report and the management letters submitted by the external auditor.

13. considered the 2015 audit fees with a recommendation to the Board for approval.

14. accepted the Board's delegation of the responsibility of overseeing the risk management system of the Group.

15. endorsed the revised terms of reference of the Audit Committee effective from 1 March 2016.

16. considered those topics, which were requested by the Board and reviewed those relevant documents.

The terms of reference of the Audit Committee were amended and took effect by the Board on 23 February 2016 and 1 March 2016 respectively. Such amendments in compliance with the Corporate Governance Code under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited have been posted on the websites of the SEHK and the Company.

During the Audit Committee meeting on 28 June 2016, the Audit Committee reviewed the Group's consolidated financial statements for the year ended 31 March 2016, the disclosure in this corporate governance report and the annual results announcement with a recommendation to the Board for approval.

The Audit Committee recommended the re-appointment of Messrs. Ernst & Young as the external auditor of the Group for 2016/2017 and that the relevant resolution shall be put forth for consideration by the shareholders of the Company and their approval at the 2016 annual general meeting of the Company.

## CORPORATE GOVERNANCE FUNCTION

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

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

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

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

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

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

(f) to oversee the Company's risk management and internal control systems on an ongoing basis; and

(g) to review the internal audit function and disclose any significant areas of concern in the Corporate Governance Report.

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

## AUDITORS' REMUNERATION

For the year ended 31 March 2016, the remuneration paid or payable to the Company's auditors, Messrs. Ernst & Young, is set out as follows:

| Services rendered | Fees paid/payable<br>HK$'000 |
|---|---|
| Audit services | 980 |
| Non-audit services — taxation | 62 |
| Total | 1,042 |

## COMPANY SECRETARY

Ms. Mak Suk Fan, Sophie, is the Company Secretary of the Company. During the reporting year, she undertook over 15 hours of relevant professional training to update her skills and knowledge. All Directors are entitled to have access to the advice and services of the Company Secretary, who is responsible for providing Board papers and related materials to Directors in order to ensure that Board procedures and all applicable law, rules and regulations are followed.

## SHAREHOLDERS' RIGHTS

### (1) Procedures for shareholders to convene a special general meeting

The Board shall, on a requisition in writing by any shareholder made in compliance with the applicable law to the Board or the Secretary of the Company holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, forthwith proceed to convene a special general meeting in accordance with the Bye-Laws of the Company.

If within twenty-one days of such deposit the Board fails to proceed to convene the special general meeting as requisitioned, the requisitionist(s), or any of them representing more than one half of the total voting rights of all of them, may themselves do so but any meeting so convened shall not be held after the expiration of three months from the said date.

### (2) Procedures for putting forward proposals at general meeting

Pursuant to the Company's Bye-Laws, shareholders can submit a written requisition to move a resolution at general meeting. The number of shareholders shall represent not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the general meeting, or shall not be less than one hundred shareholders.

The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the general meeting. It must also be signed by all of the shareholders concerned and be deposited at the principal place of business of the Company in Hong Kong at B2 & B4, 8th Floor, Block B, Mai Hing Industrial Building, 16–18 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong for the attention of the Company Secretary not less than six weeks before the general meeting. In case of a requisition requiring a notice of the resolution, the requisition must serve to the Board not less than one week before the general meeting.

The shareholders concerned must deposit a sum of money reasonably sufficient to meet the Company's expenses in giving the notice of the resolution and circulating the statement submitted by the shareholders concerned under applicable laws and rules.

### (3) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, and Hong Kong. Shareholders and the investment community may during office hours make a request for the Company's information to the extent that such information is publically available. Shareholders may also send their enquiries and concerns to the Board by addressing to the Company Secretary at the principal place of business of the Company or email to investors@elegance-group.com.

The above procedures reflect the current underlying legal basis. Shareholders should be mindful of subsequent legislative changes, if any, take effect after the despatch of this document that might result in material changes to the above procedures.

## CONSTITUTIONAL DOCUMENTS

During the year ended 31 March 2016, there was no significant change in the Company's constitutional documents.

## COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with all shareholders. The Company establishes different communication channels with shareholders and investors: (i) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board; (ii) updated key information of the Group are available on the websites of the SEHK and the Company; and (iii) the Company's website offers communication channel between the Company and its shareholders and investors.

The annual general meeting is a channel for the Chairman of the Board and the sub-committees of the Board to address concern of shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 20 clear business days before the meeting and the said notice is also published on the websites of the SEHK and the Company.

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

## INTERNAL CONTROL

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

The system of internal control aims to enable the Group to achieve its business objectives, safeguard its assets and maintain proper accounting records for the provision of reliable financial information. The design of system is to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

# Corporate Governance Report

The internal audit section is responsible for internal audit function of the Group. It monitors the internal control system and the internal control procedures, its findings and recommendations are reported to the Board regularly. During the year ended 31 March 2016, the Audit Committee and the Board, with the assistance of the internal audit section, evaluated the effectiveness of the existing internal control system, which covered all material control, including financial, operational and compliance control and risk management functions. The adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting function have also been reviewed in the Board meetings.

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

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2016.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and trading of optical frames and sunglasses and property investment.

Further discussion and analysis of the activities as required by schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing by the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 4 to 5 of this annual report. The discussion forms part of this Directors' report.

## RESULTS AND DIVIDEND

The Group's loss for the year ended 31 March 2016 and its financial position and the Group at that date are set out in the financial statements on pages 36 to 105.

The Directors do not recommend the payment of any dividend in respect to the year ended 31 March 2016.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out below. This summary does not form part of the audited financial statements.

### Results

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | | (Restated) | (Restated) | (Restated) |
| REVENUE | **211,518** | 261,682 | 377,200 | 362,232 | 432,012 |
| LOSS FOR THE YEAR | **(90,129)** | (87,686) | (70,978) | (63,163) | (13,916) |
| Attributable to: | | | | | |
| Owners of the Company | **(86,729)** | (84,230) | (68,300) | (59,665) | (11,334) |
| Non-controlling interests | **(3,400)** | (3,456) | (2,678) | (3,498) | (2,582) |
| | **(90,129)** | (87,686) | (70,978) | (63,163) | (13,916) |

# Report of the Directors

### Assets, liabilities and non-controlling interests

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | 2016 HK$'000 | 2015 HK$'000 | 2014 HK$'000 | 2013 HK$'000 | 2012 HK$'000 |
| TOTAL ASSETS | 379,966 | 449,518 | 432,400 | 508,476 | 587,562 |
| TOTAL LIABILITIES | (112,825) | (87,722) | (61,022) | (75,950) | (79,488) |
| NON-CONTROLLING INTERESTS | (4,509) | (9,004) | (8,806) | (11,469) | (14,882) |
| | 262,632 | 352,792 | 362,572 | 421,057 | 493,192 |

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the reporting year are set out in notes 11 and 12 to the financial statements, respectively.

## SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company's authorized or issued share capital during the year. Details of the Company's share capital is set out in note 28 to the financial statements, respectively. In the reporting period, no new share option schemes have been adopted.

## 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 reporting year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity set out on page 40 of this annual report, respectively.

## DISTRIBUTABLE RESERVES

Under the Companies Act 1981 of Bermuda, the reserve of the Company amounting to approximately HK$132,288,000 (2015: HK$144,545,000) is available for distribution or paying dividends to the Company's shareholders subject to the provisions of its Bye-Laws and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

## CHARITABLE CONTRIBUTIONS

During the reporting year, the Group made no charitable contributions (2015: Nil).

# Report of the Directors

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive directors

| | |
|---|---|
| Mr. Hui Leung Wah | *(Chairman and Managing Director)* |
| Mr. Poon Sui Hong | |
| Mr. Hui Chun Yuen | *(appointed on 31 August 2015)* |
| Mr. Leung Shu Sum | *(retired on 31 August 2015)* |

### Non-executive directors

| | |
|---|---|
| Mr. Bonini Carlo | *(resigned on 7 August 2015)* |
| Mr. Grassini Andrea | *(appointed on 20 April 2015 and resigned on 7 August 2015)* |
| Mr. Rizzo Stefano | *(resigned on 20 April 2015)* |

### Independent non-executive directors

Mr. Poon Kwok Fai, Ronald
Mr. Pang Sung Yuen
Mr. Kwong Ping Man

In accordance with the Bye-Laws of the Company, Mr. Hui Chun Yuen appointed by the Board on 31 August 2015 will retire from its office and Mr. Poon Kwok Fai, Ronald will also retire by rotation at the forthcoming Annual General Meeting. All of the abovementioned directors, being eligible, will offer themselves for re-election at the Annual General Meeting.

The Company has received annual confirmations of independence from Mr. Poon Kwok Fai, Ronald, Mr. Pang Sung Yuen and Mr. Kwong Ping Man, 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 10 to 12 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

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

# Report of the Directors

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

At 31 March 2016, the interests and short positions of the directors and chief executive of the Company in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code contained in the Listing Rules, were as follows:

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

| Name of director | Number of shares held, capacity and nature of interest: Beneficial owner | Other interests | Total | Percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Hui Leung Wah (Note) | 12,308,000 | 141,316,000 | 153,624,000 | 47.47 |
| Hui Chun Yuen (Note) | | 141,316,000 | 141,316,000 | 43.66 |
| Poon Sui Hong | 8,000,000 | – | 8,000,000 | 2.47 |
| | 20,308,000 | 141,316,000 | 161,624,000 | 49.94 |

Note: The 141,316,000 shares held as other interests by Mr. Hui Leung Wah 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 a discretionary trust with First Advisory Trust (BVI) Limited as trustee, the beneficiaries of which include the family members of Mr. Hui Leung Wah (Mr. Hui Leung Wah himself is not a beneficiary of the discretionary trust). Mr. Hui Chun Yuen, the Executive Director of the Group is one of the beneficiaries of the trust.

Subsequent to the end of the reporting period, on 12 April 2016, the Company announced that Mr. Hui Leung Wah ("Mr. Hui") (a controlling shareholder, the Chairman and the managing director of the Company and as seller) and a potential purchaser (the "Potential Purchaser") (an independent third party not connected to the Company nor any of its connected persons and as purchaser) entered into a non-legally binding memorandum of understanding (the "MOU") regarding the possible sale of shares representing not less than 51% interest in the issued share capital of the Company on 11 April 2016 (after trading hours).

As at the date of this report, Mr. Hui and his associates beneficially own an aggregate of 153,624,000 shares, representing approximately 47.47% of the issued share capital of the Company. Pursuant to the MOU, Mr. Hui agreed to procure that the sale shares representing not less than 51% interest in the issued share capital of the Company (including the aforesaid 153,624,000 Shares beneficially held by Mr. Hui and his associates) shall be sold to the Potential Purchaser in accordance with the terms and subject to the conditions set out in the MOU (the "Possible Sale"). If the Possible Sale is materialized, the Potential Purchaser and any parties acting in concert with it are obliged to make a mandatory unconditional general offer for all the shares of the Company (other than those already owned or agreed to be acquired by them) under the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code").

On 30 April 2016, the Company announced that (i) the MOU lapsed upon expiry of the exclusivity period thereunder on 30 April 2016 and (ii) the Company was informed by Mr. Hui that he might continue to discuss with any potential investors (including but not limited to the Potential Purchaser) and provide them with information with respect to the Possible Sale.

An update announcement was issued by the Company pursuant to Rule 3.7 of the Takeovers Code on 30 May 2016 in which the Company announced that the discussions in respect of the Possible Sale between Mr. Hui and the potential investors (including but not limited to the Potential Purchaser) were still ongoing.

As at the date of this report, as informed by Mr. Hui, the discussions in respect of the Possible Sale are still in progress but no legally binding agreement for the Possible Sale has been entered into between him and the Potential Purchaser or any other potential investor. As such, the Possible Sale may or may not proceed. For details, please refer to the announcements of the Company dated 12 April 2016, 30 April 2016 and 30 May 2016.

### Long positions in ordinary shares of the subsidiaries:

Mr. Hui Leung Wah is beneficially interested in 200,000 non-voting deferred shares in the capital of Elegance Optical Investments Limited. The rights and restrictions of these non-voting deferred shares are set out in note 1 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 then minimum company membership requirements.

Save as disclosed above, as at 31 March 2016, none of the directors or chief executive of the Company had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for securities transactions by Directors of the Listed Issuers.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company, their respective spouses or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the Related Party Transactions disclosures set out in note 33 to the financial statements, none of the directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the reporting year.

# Report of the Directors

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

At 31 March 2016, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

| Name | Number of issued ordinary shares held | Capacity and nature of interest | Percentage of issued share capital of the Company |
|---|---|---|---|
| Poon Yuk Yee (Notes 1 & 3) | 153,624,000 | Beneficiary of a trust and interest of spouse | 47.47 |
| Hui Sze Man, Doris (Notes 2 & 3) | 141,316,000 | Beneficiary of a trust | 43.66 |
| Hui Wing Ka, Candy (Notes 2 & 3) | 141,316,000 | Beneficiary of a trust | 43.66 |
| First Advisory Trust (BVI) Limited (Notes 2 & 3) | 141,316,000 | Trustee | 43.66 |
| Wahyee (PTC) Limited (Notes 2 & 3) | 141,316,000 | Trustee | 43.66 |
| So Kai Sing | 59,999,123 | Beneficial owner | 18.54 |
| Chan Wai Hang | 59,999,123 | Interest of spouse | 18.54 |

Notes:

1. 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 purpose of Divisions 2 and 3 of Part XV of the SFO.

2. Details are stated in the above section headed "Directors' and chief executive's interests and short positions in shares and underlying shares".

3. Subsequent to the end of the reporting period, on 12 April 2016, the Company announced that Mr. Hui Leung Wah ("Mr. Hui") (a controlling shareholder, the Chairman and the managing director of the Company and as seller) and a potential purchaser (the "Potential Purchaser") (an independent third party not connected to the Company nor any of its connected persons and as purchaser) entered into a non-legally binding memorandum of understanding (the "MOU") regarding the possible sale of shares representing not less than 51% interest in the issued share capital of the Company on 11 April 2016 (after trading hours).

   As at the date of this report, Mr. Hui and his associates beneficially own an aggregate of 153,624,000 shares, representing approximately 47.47% of the issued share capital of the Company. Pursuant to the MOU, Mr. Hui agreed to procure that the sale shares representing not less than 51% interest in the issued share capital of the Company (including the aforesaid 153,624,000 Shares beneficially held by Mr. Hui and his associates) shall be sold to the Potential Purchaser in accordance with the terms and subject to the conditions set out in the MOU (the "Possible Sale"). If the Possible Sale is materialized, the Potential Purchaser and any parties acting in concert with it are obliged to make a mandatory unconditional general offer for all the shares of the Company (other than those already owned or agreed to be acquired by them) under the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code").

   On 30 April 2016, the Company announced that (i) the MOU lapsed upon expiry of the exclusivity period thereunder on 30 April 2016 and (ii) the Company was informed by Mr. Hui that he might continue to discuss with any potential investors (including but not limited to the Potential Purchaser) and provide them with information with respect to the Possible Sale.

   An update announcements was issued by the Company pursuant to Rule 3.7 of the Takeovers Code on 30 May 2016 in which the Company announced that the discussions in respect of the Possible Sale between Mr. Hui and the potential investors (including but not limited to the Potential Purchaser) were still ongoing.

As at the date of this report, as informed by Mr. Hui, the discussions in respect of the Possible Sale are still in progress but no legally binding agreement for the Possible Sale has been entered into between him and the Potential Purchaser or any other potential investor. As such, the Possible Sale may or may not proceed. For details, please refer to the announcements of the Company dated 12 April 2016, 30 April 2016 and 30 May 2016.

Save as disclosed above, as at 31 March 2016, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## 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 year.

## MAJOR CUSTOMERS AND SUPPLIERS

During the reporting year, the Group's largest customer and the Group's five largest customers accounted for 16.4% and 62.5% of the Group's total sales, respectively. One of the Group's largest customers, the group of Safilo Group S.p,A., and ("Safilo") owned 23.05% of the Company's issued share capital till 22 September 2015. Details of the sales to "Safilo" are included in note 33 to the financial statements.

During the reporting year, the Group's largest supplier and the Group's five largest suppliers accounted for 14.81% and 36.12% of the Group's total purchases, respectively.

Save as disclosed above, none of the directors of the Company or any of their associates or any shareholders, which to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in any of the Group's five largest customers or suppliers during the reporting year.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the reporting year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

At the special general meeting held on 22 March 2013, an ordinary resolution (the "Resolution") was passed by the independent shareholders which approved the sales of optical frames, sunglasses and related products (the "Sales") by the Company and its subsidiaries to the group of Safilo Group S.p.A., (a substantial shareholder of the Group till 22 September 2015) for the three years ending 31 March 2016 subject to certain conditions. According to the Resolution, the aggregate values of the sales shall not exceed HK$152 million, HK$184 million and HK$218 million for each of the three years ended 31 March 2014, 2015 and 2016, respectively.

A supplemental agreement to renew the supply agreement which expired on 31 March 2013 for such transactions for the three financial years ended 31 March 2014, 2015 and 2016 was entered into by the Company and Safilo S.p.A on 8 February 2013. Further details were set out in the circular to the Company's shareholders dated 6 March 2013.

On 22 September 2015, Safilo Group S.p.A., sold 23.05% stake, all of their equity interest of the Company, subsequent to that day, "Safilo" was no longer be the substantial shareholder of the company and its nominated Non-Executive Directors, Mr. Bonini Carlo and Mr. Grassini Andrea both resigned on 7 August 2015.

# Report of the Directors

The Directors, including the Independent Non-Executive Directors, confirm that the Sales to the group of Safilo Group S.p.A. were approved by the board of directors and:

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

(b) were conducted on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than the terms available to or from independent third parties as appropriate;

(c) were entered into in accordance with the relevant terms and conditions governing such transactions, which are fair and reasonable so far as the shareholders of the Company were concerned and in the interests of the Group as a whole; and

(d) did not exceed HK$218 million for the reporting year.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 33 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 favorable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the SEHK.

Further details of the sales to the group of Safilo Group S.p.A. are set out in note 33 to the financial statements. In addition to the transactions with the group of Safilo Group S.p.A. set out above, a non-wholly-owned subsidiary of the Group also owed certain of the Group's wholly-owned subsidiaries amounts arising from their ordinary and usual course of business. The amount due is unsecured, bears interest at the same rate charged to the Group by its banks and are repayable in accordance with normal trading terms. The balance with the non-wholly-owned subsidiary is eliminated in the Group's consolidated financial statements. Details of the amount outstanding at the end of the reporting period are set out below:

| | **31 March 2016 HK$'000** | 31 March 2015 HK$'000 |
|---|---|---|
| Gold Strong Industrial Limited | **45,403** | 51,967 |

# Report of the Directors

During the reporting year, a director's quarter was rented by the Group from Mr. Hui Leung Wah, the Chairman and the managing director of the Company, for the use by Mr. Poon Sui Hong as a director's quarter. The annual rental amounting to HK$444,000 for the year (2015: HK$444,000) was mutually agreed by both parties based on market value and has been included in directors' remuneration set out in note 8 to the financial statements.

## PERMITTED INDEMNITY PROVISION

Pursuant to Bye-law 189 of the Company, directors of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which he may incur or sustain by or about the execution of their duty in their offices or in relation thereto.

The Company has arranged appropriate directors' liability insurance coverage for the directors and the officers of the Company throughout the year.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

**Hui Leung Wah**
*Chairman*

Hong Kong
28 June 2016

# Independent Auditors' Report

**Ernst & Young**
22/F CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環添美道1號
中信大廈22樓

電話：+852 2846 9888
傳真：+852 2868 4432
www.ey.com

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

We have audited the consolidated financial statements of Elegance Optical International Holdings Limited (the "Company") and its subsidiaries set out on pages 36 to 105, which comprise the consolidated statement of financial position as at 31 March 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

# Independent Auditors' Report

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 consolidated financial statements give a true and fair view of financial position of the Company and its subsidiaries as at 31 March 2016, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Emphasis of matter

Without qualifying our opinion, we draw attention to note 2.1 to the consolidated financial statements which indicates that the Group incurred a consolidated net loss of HK$90,129,000 and net operating cash outflows of HK$44,485,000 during the year ended 31 March 2016. These conditions, along with other matters as set forth in note 2.1, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. As explained in note 2.1, these consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group's ability to extend its short-term borrowings upon maturity, to source additional debt financing and to improve its operation to generate adequate cash flows to meet the Group's financial obligations as and when they fall due in the foreseeable future.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong
28 June 2016

# Consolidated Statement of Profit or Loss

Year ended 31 March 2016

| | Notes | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| REVENUE | 5 | 211,518 | 261,682 |
| Cost of sales and services | | (221,299) | (272,308) |
| Gross loss | | (9,781) | (10,626) |
| Other income | 5 | 3,874 | 1,912 |
| Selling and distribution expenses | | (6,945) | (5,514) |
| Administrative expenses | | (63,271) | (65,435) |
| Other operating expenses, net | 6 | (15,156) | (8,542) |
| Finance costs | 7 | (1,125) | (215) |
| Share of profits and losses of a joint venture | 14 | (21) | 181 |
| LOSS BEFORE TAX | 6 | (92,425) | (88,239) |
| Income tax credit | 9 | 2,296 | 553 |
| LOSS FOR THE YEAR | | (90,129) | (87,686) |
| Attributable to: | | | |
| Owners of the parent | | (86,729) | (84,230) |
| Non-controlling interests | | (3,400) | (3,456) |
| | | (90,129) | (87,686) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | 10 | HK26.80 cents | HK26.03 cents |

# Consolidated Statement of Comprehensive Income

Year ended 31 March 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| LOSS FOR THE YEAR | | (90,129) | (87,686) |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | | |
| Available-for-sale financial asset: | | | |
| Change in fair value | 16 | 40 | – |
| Reclassification adjustments for impairment losses of an available-for-sale financial asset included in the consolidated statement of profit or loss | 16 | – | 250 |
| | | 40 | 250 |
| Share of other comprehensive loss of a joint venture | 14 | (33) | – |
| Release of exchange fluctuation reserve upon deregistration of an associate | 15 | (616) | – |
| Exchange differences on translation of foreign operations | | (3,917) | 39 |
| Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods | | (4,526) | 289 |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | | |
| Gain on property revaluation | | – | 85,140 |
| Deferred tax effect | 27 | – | (7,325) |
| Net other comprehensive income not to be reclassified to profit or loss in subsequent periods | | – | 77,815 |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX | | (4,526) | 78,104 |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | (94,655) | (9,582) |
| Attributable to: | | | |
| Owners of the parent | | (90,160) | (9,780) |
| Non-controlling interests | | (4,495) | 198 |
| | | (94,655) | (9,582) |

# Consolidated Statement of Financial Position

31 March 2016

| | Notes | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 144,666 | 173,429 |
| Investment properties | 12 | 96,763 | 120,678 |
| Prepaid land lease payments | 13 | 8,327 | 12,865 |
| Investment in a joint venture | 14 | 4,181 | 4,275 |
| Investment in an associate | 15 | – | – |
| Available-for-sale financial asset | 16 | 360 | 320 |
| Prepayment and deposit | 19 | 511 | – |
| Total non-current assets | | 254,808 | 311,567 |
| CURRENT ASSETS | | | |
| Inventories | 17 | 27,987 | 49,076 |
| Loan to a joint venture | 14 | – | 219 |
| Due from a joint venture | 14 | 97 | – |
| Trade receivables | 18 | 36,942 | 42,761 |
| Prepayments, deposits and other receivables | 19 | 4,694 | 4,747 |
| Equity investments at fair value through profit or loss | 20 | 88 | 83 |
| Tax recoverable | | – | 80 |
| Cash and cash equivalents | 21 | 44,965 | 40,985 |
| | | 114,773 | 137,951 |
| Non-current assets classified as held for sale | 22 | 10,385 | – |
| Total current assets | | 125,158 | 137,951 |
| CURRENT LIABILITIES | | | |
| Trade payables | 23 | 13,159 | 18,546 |
| Other payables, accruals and deposits received | 24 | 45,374 | 21,257 |
| Derivative financial instrument | 25 | – | 1,866 |
| Interest-bearing bank borrowings, secured | 26 | 45,265 | 35,880 |
| Tax payable | | 1,232 | 1,711 |
| Total current liabilities | | 105,030 | 79,260 |
| NET CURRENT ASSETS | | 20,128 | 58,691 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 274,936 | 370,258 |

# Consolidated Statement of Financial Position

31 March 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deposit received | 24 | 1,372 | – |
| Deferred tax liabilities | 27 | 6,423 | 8,462 |
| Total non-current liabilities | | 7,795 | 8,462 |
| Net assets | | 267,141 | 361,796 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | 28 | 32,365 | 32,365 |
| Reserves | 29 | 230,267 | 320,427 |
| | | 262,632 | 352,792 |
| Non-controlling interests | | 4,509 | 9,004 |
| Total equity | | 267,141 | 361,796 |

**Hui Leung Wah**
*Director*

**Poon Sui Hong**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 March 2016

| | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 year | – | – | – | – | – | – | – | (84,230) | (84,230) | (3,456) | (87,686) |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | |
| Reclassification adjustment for available-for-sale financial asset revaluation reserve upon impairment of an available-for-sale financial asset | – | – | – | – | 250 | – | – | – | 250 | – | 250 |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | 36 | – | 36 | 3 | 39 |
| Gain on property revaluation | – | – | – | 81,083 | – | – | – | – | 81,083 | 4,057 | 85,140 |
| Deferred tax on gain on property revaluation | – | – | – | (6,919) | – | – | – | – | (6,919) | (406) | (7,325) |
| Total comprehensive income/(loss) for the year | – | – | – | 74,164 | 250 | – | 36 | (84,230) | (9,780) | 198 | (9,582) |
| At 31 March 2015 and 1 April 2015 | 32,365 | 56,831 | 41,925 | 84,074 | – | (152) | 8,166 | 129,583 | 352,792 | 9,004 | 361,796 |
| Loss for the year | – | – | – | – | – | – | – | (86,729) | (86,729) | (3,400) | (90,129) |
| Other comprehensive income/(loss) for the year: | | | | | | | | | | | |
| Change in fair value of an available-for-sale financial asset | – | – | – | – | 40 | – | – | – | 40 | – | 40 |
| Share of other comprehensive loss of a joint venture | – | – | – | – | – | – | (33) | – | (33) | – | (33) |
| Release of exchange fluctuation reserve upon deregistration of an associate | – | – | – | – | – | – | (616) | – | (616) | – | (616) |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | (2,822) | – | (2,822) | (1,095) | (3,917) |
| Total comprehensive income/(loss) for the year | – | – | – | – | 40 | – | (3,471) | (86,729) | (90,160) | (4,495) | (94,655) |
| At 31 March 2016 | 32,365 | 56,831* | 41,925* | 84,074* | 40* | (152)* | 4,695* | 42,854* | 262,632 | 4,509 | 267,141 |

* These reserve accounts comprise the consolidated reserves of HK$230,267,000 (2015: HK$320,427,000) in the consolidated statement of financial position.

\# The asset revaluation reserve arose from a change in use from owner-occupied properties to investment properties carried at fair value.

# Consolidated Statement of Cash Flows

Year ended 31 March 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax | | (92,425) | (88,239) |
| Adjustments for: | | | |
| Finance costs | 7 | 1,125 | 215 |
| Share of profits and losses of a joint venture | 14 | 21 | (181) |
| Bank interest income | 5 | (291) | (456) |
| Dividend income from equity investments at fair value through profit or loss | 5 | (4) | (4) |
| Write-back of other payables | 5 | (2,467) | (771) |
| Loss/(gain) on disposal of items of property, plant and equipment | 6 | (9,272) | 54 |
| Changes in fair values of investment properties | 6 | 23,915 | (1,400) |
| Fair value losses/(gains), net: | | | |
| Equity investments at fair value through profit or loss – held for trading | 6 | (5) | (15) |
| Derivative financial instrument | 6 | 455 | (673) |
| Depreciation | 6 | 19,575 | 24,015 |
| Amortisation of prepaid land lease payments | 6 | 378 | 411 |
| Impairment of trade receivables | 6 | 679 | 10,284 |
| Provision for inventory obsolescence | 6 | 15,296 | 4,899 |
| Impairment loss on an available-for-sale financial asset | 6 | – | 330 |
| Gain on deregistration of an associate | 6 | (616) | – |
| | | (43,636) | (51,531) |
| Decrease in inventories | | 5,793 | 14,255 |
| Decrease in trade receivables | | 5,140 | 22,827 |
| Increase in prepayments, deposits and other receivables | | (139) | (167) |
| Decrease in trade payables | | (5,387) | (9,081) |
| Decrease in other payables, accruals and deposits received | | (2,734) | (5,134) |
| Decrease in a derivative financial instrument | | (2,321) | – |
| Cash used in operations | | (43,284) | (28,831) |
| Interest paid | | (1,059) | (215) |
| Hong Kong profits tax paid | | (30) | (278) |
| Overseas taxes paid | | (112) | (39) |
| Net cash flows used in operating activities | | (44,485) | (29,363) |

# Consolidated Statement of Cash Flows

Year ended 31 March 2016

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | 291 | 456 |
| Dividend received from equity investments at fair value through profit or loss | | 4 | 4 |
| Purchases of items of property, plant and equipment | | (3,699) | (8,948) |
| Acquisition of additional interests in a joint venture | 14 | (24) | – |
| Proceeds from disposal of items of property, plant and equipment | | 12,725 | 120 |
| Advance of loan to a joint venture | | (170) | – |
| Repayment of loan received from a joint venture | | 219 | 450 |
| Deposit received for disposal of a subsidiary | | 30,624 | – |
| Deposit paid for acquisition of items of property, plant and equipment | | (430) | – |
| Net cash flows from/(used in) investing activities | | 39,540 | (7,918) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | 22,226 | 35,880 |
| Repayment of bank loans | | (12,841) | – |
| Net cash flows from financing activities | | 9,385 | 35,880 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 4,440 | (1,401) |
| Cash and cash equivalents at beginning of year | | 40,985 | 42,342 |
| Effect of foreign exchange rate changes, net | | (460) | 44 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 44,965 | 40,985 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 21 | 20,947 | 14,449 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 21 | 24,018 | 26,536 |
| Cash and cash equivalents as stated in the statement of financial position | | 44,965 | 40,985 |

# Notes to Financial Statements

31 March 2016

## 1. CORPORATE AND GROUP 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 year, the Group was engaged in the manufacture and trading of optical frames and sunglasses and property investment.

### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered paid-in capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Elegance Optical Investments Limited | Hong Kong | Ordinary HK$200 Non-voting deferred HK$20,000,000* | – | 100 | Investment holding and property investment |
| Elegance Optical Manufactory Limited | Hong Kong | Ordinary HK$2 | – | 100 | Investment holding and trading of optical frames |
| 東莞創富眼鏡有限公司 (「東莞創富」)** | The People's Republic of China ("PRC")/ Mainland China | HK$43,700,000 | – | 55 | Trading and manufacture of optical frames |
| Gold Strong Industrial Limited | Hong Kong | Ordinary HK$100 | – | 55 | Investment holding and trading of optical frames |
| Grand River Investment Limited | Hong Kong | Ordinary HK$2 | – | 100 | Property investment |
| Glory (Hui's) Trading Limited | Hong Kong | Ordinary HK$200 | – | 100 | Trading of optical frames and bags in Hong Kong and Southeast Asia |

# Notes to Financial Statements

31 March 2016

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and business | Issued ordinary/registered paid-in capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Million Wave Limited | Hong Kong | Ordinary HK$10,000 | – | 100 | Property investment |
| 高雅光學(深圳)有限公司(「高雅深圳」)** | The PRC/ Mainland China | RMB33,000,000 | – | 100 | Trading and manufacture of optical frames |
| 東莞精奇機械科技有限公司(「東莞精奇」)** | The PRC/ Mainland China | HK$17,538,000 | – | 100 | Trading and manufacture of machinery |

* The first HK$1,000,000,000,000 of the profits which the subsidiary may determine to distribute in any financial year must be distributed among the holders of ordinary shares where one half of the balance of the said profits is distributed among the holders of the non-voting deferred shares and the other half of such balance among the holders of ordinary shares. Moreover, the holders of the non-voting deferred shares have no other rights to dividends. The holders of the non-voting deferred shares have no right to attend or vote at general meetings, except for general meetings convened for the purpose of reducing the capital of the Company or altering their class rights. The non-voting deferred shares carry the right to receive one half of the balance of any surplus in a return of capital in a winding-up after the holders of the ordinary shares have received a total return of HK$5,000,000,000.

** Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

*** 東莞創富, 高雅深圳 and 東莞精奇 are registered as wholly-foreign-owned enterprises under PRC law.

During the year, the Group entered into a share transfer agreement with an independent third party to dispose of the entire equity interest in 東莞精奇. Further details are set out in note 22 to the financial statements.

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.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, an available-for-sale financial asset and equity investments at fair value through profit or loss, which have been measured at fair value and non-current assets held for sale, which have been stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

### Going concern basis

The Group recorded a consolidated net loss of HK$90,129,000 (2015: HK$87,686,000) and net cash outflows from operating activities of HK$44,485,000 (2015: HK$29,363,000) for the year.

As at 31 March 2016, the Group had cash and cash equivalents of HK$44,965,000 (2015: HK$40,985,000), and outstanding interest-bearing bank borrowings of HK$45,265,000 (2015: HK$35,880,000) which were due for repayment or renewal within the next twelve months after 31 March 2016.

The directors consider the Group will have sufficient working capital to finance its operations and financial obligations as and when they fall due, and accordingly, are satisfied that it is appropriate to prepare the financial statements on a going concern basis after taking into consideration the following:

(i) the Group had unutilised bank facilities of HK$14,735,000 as at 31 March 2016 expiring within one year from the end of the reporting period which enable the Group to obtain additional borrowings from the bank. The directors of the Company are of the opinion that the bank is willing to renew the facilities upon expiry. Subsequent to the end of the reporting period on 29 April 2016, the bank agreed to renew the Group's existing bank facilities of HK$60 million;

(ii) the Group had interest-bearing bank borrowings of HK$45,265,000 as at 31 March 2016. Although the bank borrowings will expire within one year, the Group will actively negotiate with the bank for the renewal of the Group's bank borrowings when they fall due in order to secure necessary funds to meet the Group's working capital and financial requirements in the foreseeable future. In the opinion of the directors, the Group will be able to roll over or refinance the bank borrowings upon their maturity;

(iii) management has been endeavouring to improve the Group's operating results and cash flows through various tightened cost control measures and seek new investment and business opportunities to improve the Group's profitability and cash flows; and

# Notes to Financial Statements

31 March 2016

## 2.1 BASIS OF PREPARATION (continued)

### Going concern basis (continued)

(iv) the Group had properties including land and buildings situated in Hong Kong and the PRC and investment properties as at 31 March 2016 that are available for the Group as security for further borrowings or to realise an amount of cash sufficient for financing its working capital.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for any further liabilities which might arise. The effect to these adjustments has not been reflected in the consolidated financial statements.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2.1 BASIS OF PREPARATION (continued)

### Basis of consolidation (continued)

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
*Annual Improvements to HKFRSs 2010-2012 Cycle*
*Annual Improvements to HKFRSs 2011-2013 Cycle*

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

# Notes to Financial Statements

31 March 2016

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows: (continued)

- HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

- HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| HKFRS 9 | *Financial Instruments*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5] |
| Amendments to HKFRS 10 HKFRS 12 and HKAS 28 (2011) | *Investment Entities: Applying the Consolidation Exception*[1] |
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations*[1] |
| HKFRS 14 | *Regulatory Deferral Accounts*[4] |
| HKFRS 15 | *Revenue from Contracts with Customers*[2] |
| HKFRS 16 | *Leases*[3] |
| Amendments to HKAS 1 | *Disclosure Initiative*[1] |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation*[1] |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants*[1] |
| Amendments to HKAS 27 (2011) | *Equity Method in Separate Financial Statements*[1] |
| *Annual Improvements 2012-2014 Cycle* | Amendments to a number of HKFRSs[1] |

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
5 No mandatory effective date yet determined but is available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 April 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of the amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA and a mandatory effective date will be determined subsequently.

# Notes to Financial Statements

31 March 2016

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

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 April 2016.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 April 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 April 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 April 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

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

HKFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is yet to assess the full impact of the standard on its financial position and results of operations. The standard is mandatorily effective for annual periods beginning on or after 1 January 2019.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in an associate and a joint venture

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in an associate and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate and a joint venture are included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of the Group's investments in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of an associate or a joint venture is included as part of the Group's investments in an associate or a joint venture.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

# Notes to Financial Statements

31 March 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fair value measurement

The Group measures its investment properties, a derivative financial instrument, an available-for-sale financial asset and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, 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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

### Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

# Notes to Financial Statements

31 March 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties (continued)

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

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

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

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

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

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

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

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

### Property, plant and equipment and depreciation

Property, plant and equipment 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". 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 profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Land and buildings | Shorter of the lease terms and 2% |
| Leasehold improvements | Shorter of the lease terms and the rates of 5% to 10% |
| Plant and machinery | 10% to 20% |
| Furniture, fixtures and office equipment | 10% to 20% |
| Motor vehicles | 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

### Investment properties

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

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer to investment properties from owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above.

# Notes to Financial Statements

31 March 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 sales 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 and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and prepaid land lease payments classified as held for sale are not depreciated or amortised.

### Leases

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 statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

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

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as other operating expenses in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

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

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other operating expenses for loans and receivables.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale financial asset revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the asset is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale financial asset revaluation reserve to the statement of profit or loss in other operating expenses. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

# Notes to Financial Statements

31 March 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

*Subsequent measurement (continued)*

*Available-for-sale financial assets (continued)*

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

### 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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other operating expenses in profit or loss.

*Available-for-sale financial assets*

For available-for-sale financial assets, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial 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 statement of profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

# Notes to Financial Statements

31 March 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

*Available-for-sale financial assets (continued)*

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

### Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, accruals and deposits received, interest-bearing bank borrowings and a derivative financial instrument.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

*Subsequent measurement (continued)*

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Derivative financial instrument

*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

# Notes to Financial Statements

31 March 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivative financial instrument (continued)

*Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

# Notes to Financial Statements

31 March 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

(d) dividend income, when the shareholders' right to receive payment has been established.

### 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.

### Other employee benefits

*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on an annual basis. Under certain circumstances, such leave which remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following financial year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

The functional currencies of certain overseas subsidiaries, the joint venture and the associate are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

# Notes to Financial Statements

31 March 2016

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Operating lease commitments – Group as lessor*

The Group has entered into industrial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

*Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

*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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

*Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

*Provision for obsolete inventories*

Management of the Group reviews the usage of the inventories at the end of each reporting period, and makes provision for obsolete items where events or changes in circumstances show that the balances of inventories may not be realised or certain items are no longer suitable for production use. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether provision is needed to be made in respect of any obsolete inventories identified. The directors of the Company are satisfied that sufficient provision for obsolete inventories has been made in the consolidated financial statements. As at 31 March 2016, the carrying amount of inventories was HK$27,987,000, net of provision for obsolete inventories of HK$52,719,000 (2015: HK$49,076,000, net of provision for obsolete inventories of HK$42,504,000).

*Impairment of trade receivables*

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement at the end of each reporting period whether there is any objective evidence that the trade receivables are impaired. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 March 2016, the carrying value of trade receivables was HK$36,942,000, net of impairment of trade receivables of HK$364,000 (2015: HK$42,761,000, net of impairment of trade receivables of HK$10,828,000).

# Notes to Financial Statements

31 March 2016

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

*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 2016 was approximately HK$86,835,000 (2015: HK$82,317,000). Further details are contained in note 27 to the financial statements.

*Useful lives and residual values of property, plant and equipment*

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

## 4. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the manufacturing and trading segment engaged in manufacture and trading of optical frames and sunglasses; and

(b) the property investment segment engaged in leasing of properties for rental income.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, finance costs, dividend income and unallocated gains as well as corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude tax recoverable, cash and cash equivalents, equity investments at fair value through profit or loss, an available-for-sale financial asset, investments in and balances with a joint venture and other unallocated head office and corporate assets as these assets are managed on a group basis.

## 4. SEGMENT INFORMATION (continued)

Segment liabilities exclude a derivative financial instrument, interest-bearing bank borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

| | Manufacturing and trading HK$'000 | Property investment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 31 March 2016** | | | |
| **Segment revenue:** | | | |
| Revenue from external customers | 206,597 | 4,921 | 211,518 |
| Segment results | (72,450) | (19,291) | (91,741) |
| *Reconciliation:* | | | |
| Bank interest income | | | 291 |
| Dividend income and unallocated gains | | | 626 |
| Corporate and other unallocated expenses | | | (476) |
| Finance costs | | | (1,125) |
| Loss before tax | | | (92,425) |
| **Segment assets** | 234,003 | 96,763 | 330,766 |
| *Reconciliation:* | | | |
| Corporate and other unallocated assets | | | 49,200 |
| Total assets | | | 379,966 |
| **Segment liabilities** | 59,393 | 512 | 59,905 |
| *Reconciliation:* | | | |
| Corporate and other unallocated liabilities | | | 52,920 |
| Total liabilities | | | 112,825 |
| **Other segment information:** | | | |
| Share of profits and losses of a joint venture | (21) | – | (21) |
| Depreciation and amortisation | (19,953) | – | (19,953) |
| Provision for inventory obsolescence | (15,296) | – | (15,296) |
| Impairment of trade receivables | (679) | – | (679) |
| Investment in a joint venture | 4,181 | – | 4,181 |
| Additions to items of property, plant and equipment | 3,699 | – | 3,699 |

# Notes to Financial Statements

31 March 2016

## 4. SEGMENT INFORMATION (continued)

| | Manufacturing and trading HK$'000 | Property investment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 31 March 2015** | | | |
| **Segment revenue:** | | | |
| Revenue from external customers | 259,848 | 1,834 | 261,682 |
| **Segment results** | (91,765) | 2,923 | (88,842) |
| *Reconciliation:* | | | |
| Bank interest income | | | 456 |
| Dividend income and unallocated gains | | | 692 |
| Corporate and other unallocated expenses | | | (330) |
| Finance costs | | | (215) |
| Loss before tax | | | (88,239) |
| **Segment assets** | 282,878 | 120,678 | 403,556 |
| *Reconciliation:* | | | |
| Corporate and other unallocated assets | | | 45,962 |
| Total assets | | | 449,518 |
| **Segment liabilities** | 39,421 | 382 | 39,803 |
| *Reconciliation:* | | | |
| Corporate and other unallocated liabilities | | | 47,919 |
| Total liabilities | | | 87,722 |
| **Other segment information:** | | | |
| Share of profits and losses of a joint venture | 181 | – | 181 |
| Depreciation and amortisation | (24,426) | – | (24,426) |
| Provision for inventory obsolescence | (4,899) | – | (4,899) |
| Impairment of trade receivables | (10,284) | – | (10,284) |
| Unallocated impairment of an available-for-sale financial asset | – | – | (330) |
| Investment in a joint venture | 4,275 | – | 4,275 |
| Additions to items of property, plant and equipment | 9,078 | – | 9,078 |

## 4. SEGMENT INFORMATION (continued)

### Geographical information

*(a) Revenue from external customers*

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Europe | 105,477 | 131,524 |
| America (note) | 79,889 | 98,140 |
| The PRC (including Hong Kong) | 17,999 | 21,245 |
| Other Asian countries | 7,522 | 6,868 |
| Others | 631 | 3,905 |
| | 211,518 | 261,682 |

The revenue information above is based on the locations of the customers. The PRC (including Hong Kong) segment mainly represents rental income from leasees located in the PRC (including Hong Kong) and the sales of eyewear products to agents located in Hong Kong including sales made to local retailers. The directors believe that the agents in Hong Kong export the Group's products mainly to Europe and America.

Note:

During the year, management of the Group decided to evaluate the Group's revenue from customers located in North America and South America as a whole.

*(b) Non-current assets*

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

### Information about major customers attributable to manufacturing and trading

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Customer A | 34,790 | 29,364 |
| Customer B | 33,691 | N/A[1] |
| Customer C | 32,825 | 52,143 |
| | 101,306 | 81,507 |

[1] The revenue derived from this customer amounted to less than 10% of the Group's revenue during the year ended 31 March 2015.

# Notes to Financial Statements

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## 5. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income.

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

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| **Revenue:** | | |
| Sale of goods | 206,597 | 259,848 |
| Rental income | 4,921 | 1,834 |
| | 211,518 | 261,682 |
| **Other income:** | | |
| Sale of scrap materials | 94 | 192 |
| Bank interest income | 291 | 456 |
| Dividend income from equity investments at fair value through profit or loss | 4 | 4 |
| Government grants | 92 | 132 |
| Write-back of other payables | 2,467 | 771 |
| Others | 926 | 357 |
| | 3,874 | 1,912 |

## 6. LOSS BEFORE TAX

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

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Cost of inventories sold* | | 205,706 | 267,098 |
| Depreciation | 11 | 19,575 | 24,015 |
| Amortisation of prepaid land lease payments | 13 | 378 | 411 |
| Auditors' remuneration | | 980 | 950 |
| Minimum lease payments under operating leases in respect of land and buildings | | 2,238 | 1,824 |
| Employee benefit expense (excluding directors' and chief executive's remuneration, as set out in note 8): | | | |
| Wages and salaries | | 111,852 | 134,681 |
| Pension scheme contributions** | | 1,346 | 1,514 |
| | | 113,198 | 136,195 |
| Gross rental income | | (4,921) | (1,834) |
| Less: Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties* | | 297 | 311 |
| Net rental income | | (4,624) | (1,523) |
| Provision for inventory obsolescence* | | 15,296 | 4,899 |
| Foreign exchange differences, net | | 1,543 | 4,367 |
| Other operating expenses, net: | | | |
| Impairment of trade receivables | 18 | 679 | 10,284 |
| Loss/(gain) on disposal of items of property, plant and equipment | | (9,272) | 54 |
| Fair value losses/(gains), net: | | | |
| Equity investments at fair value through profit or loss – held for trading | | (5) | (15) |
| Derivative financial instrument | 25 | 455 | (673) |
| Changes in fair value of investment properties | 12 | 23,915 | (1,400) |
| Impairment loss on an available-for-sale financial asset | 16 | – | 330 |
| Gain on deregistration of an associate | 15 | (616) | – |
| Others | | – | (38) |
| | | 15,156 | 8,542 |

* Included in "cost of sales and services" on the face of the consolidated statement of profit or loss

** At the end of the reporting period, the Group had no forfeited pension scheme contributions available to reduce its contributions to the pension schemes in future years (2015: Nil).

# Notes to Financial Statements

31 March 2016

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Interest on bank loans | 1,125 | 215 |

## 8. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

### Directors' and chief executive's remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Fees | 360 | 345 |
| Other emoluments: | | |
| Basic salaries and bonuses | 2,596 | 2,550 |
| Housing benefit | 1,412 | 1,506 |
| Pension scheme contributions | 51 | 54 |
| | 4,059 | 4,110 |
| | 4,419 | 4,455 |

Three (2015: 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$1,412,000 (2015: HK$1,506,000) for the year ended 31 March 2016, which has been included in the amounts detailed above.

## 8. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (continued)

### Directors' and chief executive's remuneration (continued)

(a) *Independent non-executive directors*

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

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Poon Kwok Fai, Ronald | 120 | 120 |
| Pang Sung Yuen | 120 | 120 |
| Kwong Ping Man | 120 | 105 |
| | 360 | 345 |

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

(b) *Executive directors, non-executive directors and the chief executive*

| | Basic salaries and bonuses HK$'000 | Housing benefit HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|
| **2016** | | | | |
| Executive directors: | | | | |
| Hui Leung Wah | 1,200 | 900 | – | 2,100 |
| Poon Sui Hong | 826 | 444 | 31 | 1,301 |
| Leung Shu Sum | 230 | 68 | 10 | 308 |
| Hui Chun Yuen | 340 | – | 10 | 350 |
| | 2,596 | 1,412 | 51 | 4,059 |
| 2015 | | | | |
| Executive directors: | | | | |
| Hui Leung Wah | 1,200 | 900 | – | 2,100 |
| Poon Sui Hong | 818 | 444 | 31 | 1,293 |
| Leung Shu Sum | 532 | 162 | 23 | 717 |
| | 2,550 | 1,506 | 54 | 4,110 |

There were no fees and other emoluments payable to the independent non-executive directors and chief executive during the year (2015: Nil).

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

# Notes to Financial Statements

31 March 2016

## 8. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (continued)

### Five highest paid employees' emoluments

The five highest paid individuals during the year included two (2015: three) directors, details of whose remuneration are disclosed above. Details of the remuneration of the three (2015: two) non-director, highest paid individuals for the year are set out below:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Basic salaries and bonuses | 2,229 | 1,680 |
| Housing benefit | 252 | 252 |
| Pension scheme contributions | 84 | 68 |
| | 2,565 | 2,000 |

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 | |
|---|---|---|
| | 2016 | 2015 |
| Nil to HK$1,000,000 | 2 | 1 |
| HK$1,000,001 to HK$1,500,000 | 1 | 1 |
| | 3 | 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 to him was HK$252,000 (2015: HK$252,000) for the year ended 31 March 2016, which has been included in the amounts detailed above.

## 9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current – Hong Kong | | |
| Charge for the year | 92 | – |
| Underprovision in prior years | 44 | 52 |
| Current – Elsewhere | | |
| Charge for the year | – | 135 |
| Overprovision in prior years | (733) | (897) |
| Deferred (note 27) | (2,039) | 157 |
| Withholding tax | 340 | – |
| Total tax credit for the year | (2,296) | (553) |

A reconciliation of the tax credit applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax credit at the effective tax rates is as follows:

| | Hong Kong<br>HK$'000 | Mainland China<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| **2016** | | | |
| Loss before tax | (24,545) | (67,880) | (92,425) |
| Tax at the statutory tax rate | (4,050) | (16,970) | (21,020) |
| Adjustments in respect of current tax of previous periods | 44 | (733) | (689) |
| Effect of withholding tax at 10% on rental income derived from the PRC | 340 | – | 340 |
| Profits and losses attributable to a joint venture | 3 | – | 3 |
| Income not subject to tax | (2,063) | (574) | (2,637) |
| Effect of different tax rates in other jurisdiction | 1,487 | 69 | 1,556 |
| Expenses not deductible for tax | 1,976 | 17,430 | 19,406 |
| Estimated tax losses not recognised | 745 | – | 745 |
| Tax credit at the Group's effective rate | (1,518) | (778) | (2,296) |

# Notes to Financial Statements

31 March 2016

## 9. INCOME TAX (continued)

| | Hong Kong HK$'000 | Mainland China HK$'000 | Total HK$'000 |
|---|---|---|---|
| 2015 | | | |
| Loss before tax | (22,577) | (65,662) | (88,239) |
| Tax at the statutory tax rate | (3,725) | (16,416) | (20,141) |
| Adjustments in respect of current tax of previous periods | 52 | (897) | (845) |
| Profits and losses attributable to a joint venture | – | (45) | (45) |
| Income not subject to tax | (261) | (237) | (498) |
| Expenses not deductible for tax | 2,881 | 16,881 | 19,762 |
| Estimated tax losses not recognised | 1,269 | – | 1,269 |
| Others | (7) | (48) | (55) |
| Tax expense/(credit) at the Group's effective rate | 209 | (762) | (553) |

## 10. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 323,649,123 (2015: 323,649,123) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2016 and 2015.

The calculations of basic and diluted earnings per share are based on:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| **Earnings** | | |
| Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation | (86,729) | (84,230) |

| | Number of shares | |
|---|---|---|
| | 2016 | 2015 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation | 323,649,123 | 323,649,123 |

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK$'000 | Leasehold improve-ments HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **31 March 2016** | | | | | | |
| At 31 March 2015 and at 1 April 2015: | | | | | | |
| Cost | 164,342 | 61,313 | 146,808 | 22,277 | 12,426 | 407,166 |
| Accumulated depreciation and impairment | (41,472) | (44,643) | (119,161) | (17,960) | (10,501) | (233,737) |
| Net carrying amount | 122,870 | 16,670 | 27,647 | 4,317 | 1,925 | 173,429 |
| At 1 April 2015, net of accumulated depreciation and impairment | 122,870 | 16,670 | 27,647 | 4,317 | 1,925 | 173,429 |
| Additions | – | 447 | 2,920 | 293 | 39 | 3,699 |
| Disposals | (2,705) | (342) | (274) | (132) | – | (3,453) |
| Depreciation provided during the year | (3,767) | (2,978) | (11,024) | (1,043) | (763) | (19,575) |
| Transfer to non-current assets held for sale (note 22) | (6,326) | (158) | – | – | – | (6,484) |
| Exchange realignment | (1,746) | (407) | (684) | (79) | (34) | (2,950) |
| At 31 March 2016, net of accumulated depreciation and impairment | 108,326 | 13,232 | 18,585 | 3,356 | 1,167 | 144,666 |
| At 31 March 2016: | | | | | | |
| Cost | 150,408 | 59,497 | 143,477 | 21,844 | 10,904 | 386,130 |
| Accumulated depreciation and impairment | (42,082) | (46,265) | (124,892) | (18,488) | (9,737) | (241,464) |
| Net carrying amount | 108,326 | 13,232 | 18,585 | 3,356 | 1,167 | 144,666 |

# Notes to Financial Statements

31 March 2016

## 11. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Land and buildings HK$'000 | Leasehold improve-ments HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| 31 March 2015 | | | | | | |
| At 1 April 2014: | | | | | | |
| Cost | 184,165 | 60,621 | 139,545 | 22,093 | 13,084 | 419,508 |
| Accumulated depreciation and impairment | (43,597) | (40,741) | (105,500) | (16,935) | (10,737) | (217,510) |
| Net carrying amount | 140,568 | 19,880 | 34,045 | 5,158 | 2,347 | 201,998 |
| At 1 April 2014, net of accumulated depreciation and impairment | 140,568 | 19,880 | 34,045 | 5,158 | 2,347 | 201,998 |
| Additions | – | 803 | 7,389 | 331 | 555 | 9,078 |
| Disposals | – | (52) | (36) | (86) | – | (174) |
| Depreciation provided during the year | (4,241) | (3,960) | (13,751) | (1,086) | (977) | (24,015) |
| Gain on revaluation | 79,502 | – | – | – | – | 79,502 |
| Transfer to investment properties (note 12) | (92,954) | – | – | – | – | (92,954) |
| Exchange realignment | (5) | (1) | – | – | – | (6) |
| At 31 March 2015, net of accumulated depreciation and impairment | 122,870 | 16,670 | 27,647 | 4,317 | 1,925 | 173,429 |
| At 31 March 2015: | | | | | | |
| Cost | 164,342 | 61,313 | 146,808 | 22,277 | 12,426 | 407,166 |
| Accumulated depreciation and impairment | (41,472) | (44,643) | (119,161) | (17,960) | (10,501) | (233,737) |
| Net carrying amount | 122,870 | 16,670 | 27,647 | 4,317 | 1,925 | 173,429 |

In the prior year, certain of the Group's land and buildings were transferred to investment properties. Upon the transfer, their net carrying amount of HK$13,452,000 was revalued by Roma Appraisals Limited, an independent professionally qualified valuer, at HK$92,954,000 on an open market and existing use basis. A revaluation gain of HK$79,502,000 resulting from the above valuation had been credited to other comprehensive income.

At 31 March 2016, certain of the Group's land and buildings with a net carrying amount of approximately HK$18,163,000 (2015: HK$18,749,000) were pledged to secure general banking facilities granted to the Group (note 26).

## 12. INVESTMENT PROPERTIES

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Carrying amount at beginning of year | | **120,678** | 19,600 |
| Net gain/(loss) from a fair value adjustment | 6 | **(23,915)** | 1,400 |
| Transfer from an owner-occupied property | 11 | **–** | 92,954 |
| Transfer from prepaid land lease payments | 13 | **–** | 6,724 |
| Carrying amount at end of year | | **96,763** | 120,678 |

The Group's investment properties consist of two (2015: two) industrial properties in Hong Kong and four (2015: four) industrial properties in the PRC. The directors of the Company determined that the investment properties consist of one class of asset, i.e., industrial, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 March 2016 based on valuations performed by Roma Appraisals Limited, independent professionally qualified valuers, at HK$96,763,000. Each year, the Group's financial controller decides, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's financial controller has discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(a) to the financial statements.

Further particulars of the Group's investment properties are included on page 106.

# Notes to Financial Statements

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## 12. INVESTMENT PROPERTIES (continued)

### Fair value hierarchy

All the Group's investment properties were classified under Level 3 in the fair value measurement hierarchy.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| | **Industrial properties** HK$'000 |
|---|---|
| Carrying amount at 1 April 2014 | 19,600 |
| Net gain from a fair value adjustment recognised in other operating expenses, net in profit or loss | 1,400 |
| Transfer from an owner-occupied property (note 11) | 92,954 |
| Transfer from prepaid land lease payments (note 13) | 6,724 |
| Carrying amount at 31 March 2015 and 1 April 2015 | 120,678 |
| Net loss from a fair value adjustment recognised in other operating expenses, net in profit or loss | (23,915) |
| Carrying amount at 31 March 2016 | 96,763 |

Below is a summary of the significant inputs to the valuation of investment properties:

| | **Valuation techniques** | **Significant unobservable inputs** | **Weighted average** 2016 | **Weighted average** 2015 |
|---|---|---|---|---|
| Industrial properties in Hong Kong | Market comparison approach | Price per square foot | **HK$4,043** | HK$4,490 |
| Industrial properties in the PRC | Market comparison approach | Price per square metre | **HK$2,551** | HK$3,266 |

Under market comparison approach, the properties are valued on the market basis assuming sales in their existing state with the benefit of vacant possession and by reference to comparable sales evidence as available in the relevant markets. Comparison is based on prices realised in actual transactions or asking prices of comparable properties. Appropriate adjustments are then made to account for the differences between such properties in terms of age, time, location, floor level and other relevant factors.

A significant increase/(decrease) in price per square foot and price per square metre would result in a significant increase/(decrease) in the fair value of the investment properties.

## 13. PREPAID LAND LEASE PAYMENTS

| | Notes | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| Carrying amount at beginning of year | | 13,249 | 14,746 |
| Recognised during the year | 6 | (378) | (411) |
| Gain on revaluation | | – | 5,638 |
| Transfer to investment properties | 12 | – | (6,724) |
| Transfer to non-current assets held for sale | 22 | (3,901) | – |
| Exchange realignment | | (370) | – |
| Carrying amount at end of year | | 8,600 | 13,249 |
| Current portion included in prepayments, deposits and other receivables | | (273) | (384) |
| Non-current portion | | 8,327 | 12,865 |

In the prior year, certain of the Group's leasehold land in Mainland China was transferred to investment properties. Upon the transfer, its net carrying amount of HK$1,086,000 was revalued by Roma Appraisals Limited, independent professionally qualified valuers, at HK$6,724,000 on an open market and existing use basis. A revaluation gain of HK$5,638,000 resulting from the above valuation was credited to other comprehensive income.

## 14. INVESTMENT IN A JOINT VENTURE

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Share of net assets | 608 | 735 |
| Loan to a joint venture | 3,573 | 3,540 |
| | 4,181 | 4,275 |

The loan to a joint venture of HK$3,573,000 (2015: HK$3,540,000) included in the Group's non-current assets is unsecured, interest-free and is not repayable within one year from the end of the reporting period. In the opinion of the directors, the loan is considered as part of the Group's net investment in the joint venture.

In the prior year, the loan to a joint venture of HK$219,000 as at 31 March 2015 included in the Group's current assets was unsecured, interest-bearing at 9% per annum and was repayable within one year.

The amount due from a joint venture of HK$97,000 (2015: Nil) included in the Group's current assets is unsecured, interest-free and is repayable on demand.

The Group's trade receivable balance due from a joint venture is disclosed in note 18 to the financial statements.

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## 14. INVESTMENT IN A JOINT VENTURE (continued)

Particulars of the Group's joint venture are as follows:

| Name | Particulars of issued shares held | Place of registration and business | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| 廣州佳視美光學眼鏡有限公司（「佳視美」） | Registered capital of RMB1,000,000 | The PRC/ Mainland China | 27 (2015: 25) | 27 (2015: 25) | 27 (2015: 25) | Trading of optical frames |

The financial statements of the above joint venture were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network and the above joint venture has a financial year end date of 31 December. The consolidated financial statements are adjusted for the material transactions of the above joint venture between 1 January and 31 March. The above joint venture uses 31 December as its financial year end date to comply with relevant regulations in the PRC.

The above joint venture has been accounted for using the equity method in these financial statements.

The above joint venture was registered as a Sino-foreign joint venture under the PRC law and is held through a wholly-owned subsidiary of the Company.

During the year, the Group acquired an additional equity interest of 2% in 佳視美 from one of the investors at a cash consideration of RMB20,000 (equivalent to HK$24,000).

In the prior year, the Group sold goods to the joint venture amounting to HK$30,000. These sales were carried out at prices mutually agreed between the parties.

The following table illustrates the financial information of the Group's joint venture:

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Share of the joint venture's profit/(loss) for the year | (21) | 181 |
| Share of the joint venture's other comprehensive loss | (33) | – |
| Share of the joint venture's total comprehensive income | (54) | 181 |
| Aggregate carrying amount of the Group's investment in the joint venture | 4,181 | 4,275 |

## 15. INVESTMENT IN AN ASSOCIATE

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Share of net assets | – | – |

Particulars of the Group's associate are as follows:

| Name | Particulars of issued shares held | Place of incorporation and business | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Optics 2000 & Optics Café Pte., Ltd. | 245,000 ordinary shares of SG$1 each | Singapore | –<br>(2015: 43.75) | Dormant |

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

The above associate has been accounted for using the equity method in these financial statements. The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company.

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

The Group has discontinued the recognition of its share of losses of the associate because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year before deregistration as detailed below and cumulatively were both HK$3,000 (2015: HK$3,000).

During the year, the Group's associate was deregistered on 10 December 2015. At the same time, the share of the associate's exchange differences of HK$616,000 previously recorded in the statement of comprehensive income was released from the exchange fluctuation reserve.

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## 16. AVAILABLE-FOR-SALE FINANCIAL ASSET

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Unlisted debt investment, at fair value | 360 | 320 |

The above investment was designated as an available-for-sale financial asset. The fair value of the club debenture is based on the recent market transaction price. During the year, the gross fair value gain in respect of the Group's available-for-sale financial asset recognised in other comprehensive income amounted to HK$40,000 (2015: Nil).

In the prior year, there was a significant decline in the market value of unlisted debt investment. The directors considered that such a decline indicated that the debt investment was impaired and an impairment loss of HK$330,000, which included a reclassification from other comprehensive income of HK$250,000, was recognised in profit or loss for the prior year.

## 17. INVENTORIES

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Raw materials | 8,740 | 16,671 |
| Work in progress | 12,350 | 23,864 |
| Finished goods | 6,897 | 8,541 |
| | 27,987 | 49,076 |

## 18. TRADE RECEIVABLES

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Trade receivables | 37,306 | 53,589 |
| Impairment | (364) | (10,828) |
| | 36,942 | 42,761 |

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally ranging from 45 to 120 days (2015: 45 to 120 days). Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

## 18. TRADE RECEIVABLES (continued)

An aged analysis of the trade receivables as at the end of each reporting period, based on the invoice date and net of provisions, is as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current to 90 days | 36,935 | 41,814 |
| 91 to 180 days | 7 | 178 |
| 181 to 360 days | – | 769 |
| | 36,942 | 42,761 |

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

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| At beginning of year | 10,828 | 2,764 |
| Impairment losses recognised (note 6) | 679 | 10,284 |
| Amount written off as uncollectible | (11,143) | (2,220) |
| At end of year | 364 | 10,828 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$364,000 (2015: HK$10,828,000) with a carrying amount before provision of HK$364,000 (2015: HK$10,828,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Neither past due nor impaired | 29,724 | 37,989 |
| Less than one month past due | 6,180 | 3,692 |
| One to three months past due | 1,031 | 133 |
| Over three months past due | 7 | 947 |
| | 36,942 | 42,761 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

# Notes to Financial Statements

31 March 2016

## 18. TRADE RECEIVABLES (continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the Group's trade receivables is an amount due from the Group's joint venture of HK$2,000 (2015: HK$2,000) as at 31 March 2016, which is repayable on similar credit terms to those offered to the major customers of the Group.

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Prepayments | 1,954 | 1,736 |
| Deposits and other receivables | 3,251 | 3,011 |
| | 5,205 | 4,747 |
| Less: Non-current portion | (511) | – |
| | 4,694 | 4,747 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Listed equity investments in Hong Kong, at market value | 88 | 83 |

The above equity investments at 31 March 2016 and 2015 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit and loss.

## 21. CASH AND CASH EQUIVALENTS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Cash and bank balances | **20,947** | 14,449 |
| Time deposits | **24,018** | 26,536 |
| Cash and cash equivalents | **44,965** | 40,985 |

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$39,244,000 (2015: HK$26,965,000). 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. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

## 22. NON-CURRENT ASSETS HELD FOR SALE

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Property, plant and equipment | **6,484** | – |
| Prepaid land lease payments | **3,901** | – |
| | **10,385** | – |

Pursuant to the Company's announcement dated 18 January 2016, the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party to dispose of its entire equity interest in a wholly-owned subsidiary (the "Subsidiary"). The Agreement further set out that the Group shall retain all assets and liabilities of the Subsidiary other than leasehold land and buildings and certain items of plant and machinery situated in the PRC. Accordingly, the Subsidiary's leasehold land and buildings and certain items of plant and machinery were classified as non-current assets held for sale as their carrying amounts will be recovered principally through sale.

The transaction has not been completed as at 31 March 2016. A deposit of RMB26,000,000 (approximately HK$30,624,000) was received at the end of the reporting period. The change in ownership of the Subsidiary has been subsequently approved by the State Administration for Industry & Commerce of the PRC on 23 May 2016 (note 37).

# Notes to Financial Statements

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## 23. TRADE PAYABLES

An aged analysis of the trade payables as at the end of each reporting period, based on the payment due date, is as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current to 90 days | 11,577 | 17,669 |
| 91 to 180 days | 1,168 | 570 |
| 181 to 360 days | 71 | 86 |
| Over 360 days | 343 | 221 |
| | 13,159 | 18,546 |

Trade payables are non-interest-bearing and are normally settled on 90-day (2015: 90-day) terms.

## 24. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Other payables | 355 | 5,002 |
| Accruals | 13,114 | 16,255 |
| Deposits received | 33,277 | – |
| | 46,746 | 21,257 |
| Less: Non-current portion | (1,372) | – |
| | 45,374 | 21,257 |

Other than the non-current portion of deposits received which is non-interest-bearing and not repayable within one year, the remaining balances are non-interest-bearing and repayable on demand.

## 25. DERIVATIVE FINANCIAL INSTRUMENT

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Forward currency contract | – | 1,866 |

In the prior year, the Group entered into a forward currency contract to manage its exchange rate exposures. This forward currency contract was not designated for hedge purposes and was measured at fair value through profit or loss. Fair value loss of a non-hedging currency derivative amounting to HK$455,000 was charged to profit or loss during the year (2015: gain of HK$673,000).

The total notional principal amount of the outstanding forward currency contract as at 31 March 2016 was nil (2015: HK$42,900,000).

## 26. INTEREST-BEARING BANK BORROWINGS

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | HK$'000 | Effective interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Bank loans – secured | 2.65-2.92 | 2016 | 45,265 | 2.40-2.42 | 2015 | 35,880 |

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable within one year | 45,265 | 35,880 |

Notes:

(a) The Group's banking facilities amounting to HK$60,000,000 (2015: HK$74,052,000), of which HK$45,265,000 (2015: HK$35,880,000) had been utilised as at the end of the reporting period, are secured by the pledge of certain of the Group's land and buildings located in Hong Kong with a net carrying amount of HK$18,163,000 (2015: HK$18,749,000).

(b) All of the Group's bank borrowings were denominated in United States dollars.

## 27. DEFERRED TAX

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

| | Depreciation allowance in excess of related depreciation HK$'000 | Property revaluation HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 April 2014 | 980 | – | 980 |
| Deferred tax charged to the statement of profit or loss during the year (note 9) | 157 | – | 157 |
| Deferred tax charged to the statement of comprehensive income during the year | – | 7,325 | 7,325 |
| Net deferred tax liabilities at 31 March 2015 and 1 April 2015 | 1,137 | 7,325 | 8,462 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year (note 9) | 43 | (2,082) | (2,039) |
| Net deferred tax liabilities at 31 March 2016 | 1,180 | 5,243 | 6,423 |

# Notes to Financial Statements

31 March 2016

## 27. DEFERRED TAX (continued)

At the end of the reporting period, the Group had estimated tax losses arising in Hong Kong of HK$86,835,000 (2015: HK$82,317,000) 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.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries and joint ventures established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 March 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and joint venture established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and joint venture will distribute such earnings in the foreseeable future. There were no temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised at 31 March 2016 (2015: Nil).

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

## 28. SHARE CAPITAL

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Authorised: | | |
| 1,000,000,000 shares of HK$0.10 each | 100,000 | 100,000 |
| Issued and fully paid: | | |
| 323,649,123 shares of HK$0.10 each | 32,365 | 32,365 |

## 29. RESERVES

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 40 of the annual report.

The capital reserve of the Group represents (i) the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 8 February 1996, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the premium arising on the subscription of shares of Elegance Group Limited ("EGL"), the then holding company of the Group's subsidiaries existing at that time, at an aggregate premium of HK$22,000,000 which was credited to the capital reserve. The Group reorganisation has resulted in EGL becoming a wholly-owned subsidiary of the Company.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against consolidated reserves.

## 30. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

| | 2016 | 2015 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests: | | |
| Gold Strong Industrial Limited and its subsidiaries | 45% | 45% |

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Loss for the year allocated to non-controlling interests: | | |
| Gold Strong Industrial Limited and its subsidiaries | (3,404) | (3,456) |
| Accumulated balance of non-controlling interests at the reporting dates: | | |
| Gold Strong Industrial Limited and its subsidiaries | 4,509 | 9,008 |

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

Gold Strong Industrial Limited and its subsidiaries

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Revenue | 50,692 | 60,967 |
| Total expenses | (60,352) | (69,614) |
| Loss for the year | (7,565) | (7,680) |
| Total comprehensive income/(loss) for the year | (10,000) | 440 |
| Current assets | 18,284 | 17,267 |
| Non-current assets | 60,836 | 67,919 |
| Current liabilities | (65,887) | (64,266) |
| Non-current liabilities | (3,215) | (902) |
| Net cash flows from/(used in) operating activities | 909 | (1,421) |
| Net cash flows used in investing activities | (967) | (1,505) |
| Net decrease in cash and cash equivalents | (58) | (2,926) |

# Notes to Financial Statements

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## 31. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 12 to the financial statements) under operating lease arrangements, with the leases negotiated for terms ranging from two to three years. The terms of the leases also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Within one year | | |
| In the second to fifth years, inclusive | 7,016 | 4,383 |
| | 4,660 | 7,082 |
| | 11,676 | 11,465 |

### (b) As lessee

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

At 31 March 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Within one year | 834 | 1,921 |
| In the second to fifth years, inclusive | 3,326 | 4,816 |
| After five years | 28,993 | 48,899 |
| | 33,153 | 55,636 |

## 32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the end of the reporting period:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Equipment and machinery | 93 | 5 |

## 33. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

### (a) Transactions with Safilo Group S.p.A. and its subsidiaries (collectively "Safilo")

As further detailed in the Company's announcement dated 29 July 2015, Safilo Group S.p.A., a former substantial shareholder of the Company, entered into a share purchase agreement with two independent third parties for the transfer of 74,599,123 shares, representing a 23.05% equity interest of the Company (the "Transfer"). The Transfer was completed on 22 September 2015. Upon completion of the Transfer, Safilo Group S.p.A. ceased to be a substantial shareholder of the Group. Safilo S.p.A., a former subsidiary of Safilo Group S.p.A. incorporated in Italy, had entered into the following commercial agreement with the Company since 1997 and constituted related party transaction up to the Transfer:

*Supply agreement*

The Group had committed to supply and Safilo had committed to purchase, for an initial period of three years, minimum quantities (subject to adjustment) of optical frames, sunglasses and related products. Subsequent to the initial three-year period, the Supply Agreement would continue subject to termination by either party by a notice period of six months.

The terms of sales offered to Safilo are similar to the terms that the Group offers to other major customers.

During the year up to the date of Transfer, the Group sold goods to Safilo with an aggregate sales value amounting to HK$17,886,000 (2015: HK$52,143,000).

The aggregate trade receivable balance due from Safilo at 31 March 2015 in respect of these sales amounted to HK$15,996,000.

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## 33. RELATED PARTY TRANSACTIONS (continued)

### (b) Transaction with a director of the Company

During the year, director's quarters were 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 director's quarters. The annual rental amounting to HK$444,000 for the year (2015: HK$444,000) was mutually agreed by both parties based on market value and has been included in directors' remuneration in note 8 to the financial statements.

### (c) Transactions with a joint venture

Details of the sales to a joint venture during the year are included in note 14 to the financial statements.

### (d) Outstanding balances with a joint venture

(i) Details of the loan to a joint venture granted by the Group as at the end of the reporting period are included in note 14 to the financial statements.

(ii) Details of the Group's trade receivables with its joint venture as at the end of the reporting period are disclosed in note 18 to the financial statements.

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

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Short term employee benefits | 6,489 | 5,988 |
| Post-employment benefits | 135 | 122 |
| Total compensation paid to key management personnel | 6,624 | 6,110 |

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.

## 34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2016**

*Financial assets*

| | Financial assets at fair value through profit or loss – held for trading HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Loan to a joint venture | – | 3,573 | – | 3,573 |
| Due from a joint venture | – | 97 | – | 97 |
| Available-for-sale financial asset | – | – | 360 | 360 |
| Trade receivables | – | 36,942 | – | 36,942 |
| Financial assets included in prepayments, deposits and other receivables | – | 2,795 | – | 2,795 |
| Equity investments at fair value through profit or loss | 88 | – | – | 88 |
| Cash and cash equivalents | – | 44,965 | – | 44,965 |
| | 88 | 88,372 | 360 | 88,820 |

*Financial liabilities*

| | Financial liabilities at amortised cost HK$'000 |
|---|---|
| Trade payables | 13,159 |
| Financial liabilities included in other payables, accruals and deposits received | 36,056 |
| Interest-bearing bank borrowings | 45,265 |
| | 94,480 |

# Notes to Financial Statements

31 March 2016

## 34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2015

*Financial assets*

| | Financial assets at fair value through profit or loss – held for trading HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Loan to a joint venture | – | 3,759 | – | 3,759 |
| Available-for-sale financial asset | – | – | 320 | 320 |
| Trade receivables | – | 42,761 | – | 42,761 |
| Financial assets included in prepayments, deposits and other receivables | – | 3,011 | – | 3,011 |
| Equity investments at fair value through profit or loss | 83 | – | – | 83 |
| Cash and cash equivalents | – | 40,985 | – | 40,985 |
| | 83 | 90,516 | 320 | 90,919 |

*Financial liabilities*

| | Financial liabilities at fair value through profit or loss HK$'000 | Financial liabilities at amortised cost HK$'000 | Total HK$'000 |
|---|---|---|---|
| Trade payables | – | 18,546 | 18,546 |
| Financial liabilities included in other payables and accruals | – | 15,355 | 15,355 |
| Interest-bearing bank borrowings | – | 35,880 | 35,880 |
| Derivative financial instrument | 1,866 | – | 1,866 |
| | 1,866 | 69,781 | 71,647 |

## 35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, current portion of a loan to/an amount due from a joint venture, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, interest-bearing bank borrowings and current portion of financial liabilities included in other payables, accruals and deposits received approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance team headed by the financial controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance team reports directly to the financial controller. At each reporting date, the finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the financial controller. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of a loan to a joint venture and the non-current portion of a deposit received have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group's own non-performance risk for interest-bearing bank borrowings as at 31 March 2016 was assessed to be insignificant.

The fair values of listed equity investments and an unlisted available-for-sale financial asset are based on quoted market prices.

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

*Assets measured at fair value:*

***As at 31 March 2016***

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Available-for-sale financial asset: | | | | |
| Debt investment | 360 | – | – | 360 |
| Equity investments at fair value through profit or loss | 88 | – | – | 88 |
| | 448 | – | – | 448 |

# Notes to Financial Statements

31 March 2016

## 35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy (continued)

*As at 31 March 2015*

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Available-for-sale financial asset: | | | | |
| Debt investment | 320 | – | – | 320 |
| Equity investments at fair value through profit or loss | 83 | – | – | 83 |
| | 403 | – | – | 403 |

*Liabilities measured at fair value:*

*As at 31 March 2015*

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Derivative financial instrument | – | 1,866 | – | 1,866 |

The Group did not have any financial liabilities measured at fair value as at 31 March 2016.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015: Nil).

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade 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.

## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

### Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Most of the Group's sales were denominated in United States dollars while expenditures incurred in the operations of manufacturing plants and capital expenditures were denominated in RMB. The Group currently does not have a foreign currency hedging policy. The Group will enter into a forward currency contract to manage its exchange rate exposures if needed. Management closely monitors foreign exchange exposure and will further consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rate, with all other variables held constant, of the Group's loss before tax and the Group's equity (due to changes in the fair value of monetary assets and liabilities).

| | Increase/ (decrease) in RMB rate % | Increase/ (decrease) in loss before tax HK$'000 | Increase/ (decrease) in equity* HK$'000 |
|---|---|---|---|
| **2016** | | | |
| If Hong Kong dollar weakens against RMB | **5** | **(178)** | **(903)** |
| If Hong Kong dollar strengthens against RMB | **(5)** | **178** | **903** |
| 2015 | | | |
| If Hong Kong dollar weakens against RMB | 5 | (683) | (777) |
| If Hong Kong dollar strengthens against RMB | (5) | 683 | 777 |

* Excluding retained profits

### Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, an available-for-sale financial asset, a loan to a joint venture and financial assets included in prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

# Notes to Financial Statements

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## 36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk (continued)

Since the Group trades only with recognised and creditworthy third parties and related parties, there is no requirement for collateral. At the end of the reporting period, the Group had certain concentrations of credit risk as 27% (2015: 37%) and 73% (2015: 72%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, within the Europe, America and the PRC (including Hong Kong) regions.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 18 to the financial statements.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | On demand or less than 12 months HK$'000 | Over 1 year HK$'000 | Total HK$'000 | On demand or less than 12 months HK$'000 | Over 1 year HK$'000 | Total HK$'000 |
| Trade payables | 13,159 | – | 13,159 | 18,546 | – | 18,546 |
| Financial liabilities included in other payables, accruals and deposits received | 34,684 | 1,372 | 36,056 | 15,355 | – | 15,355 |
| Interest-bearing bank borrowings | 45,323 | – | 45,323 | 35,905 | – | 35,905 |
| Derivative financial instrument | – | – | – | 1,866 | – | 1,866 |
| | 93,166 | 1,372 | 94,538 | 71,672 | – | 71,672 |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is subject to certain externally imposed capital requirements on its net cash, external gearing ratio and net assets which the Group had complied with during the years ended 31 March 2016 and 2015. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2016 and 2015.

## 37. EVENTS AFTER THE REPORTING PERIOD

(a) On 23 May 2016, the disposal of a wholly-owned subsidiary as further detailed in note 22 to the financial statements was subsequently approved by the State Administration for Industry & Commerce of the PRC. An estimated gain on disposal of a subsidiary of HK$20,239,000, which will be accounted for in the Group's consolidated financial statements for the year ending 31 March 2017, would be resulted should the transaction be completed.

(b) On 12 April 2016, the Company announced that Mr. Hui Leung Wah ("Mr. Hui"), a controlling shareholder, the Chairman and Managing Director of the Company and as seller and an independent third party potential purchaser (the "Potential Purchaser"), entered into a non-legally binding memorandum of understanding (the "MOU") regarding the possible sale of shares representing not less than 51% interest in the issued share capital of the Company on 11 April 2016 after trading hours.

As at the date of this report, Mr. Hui and his associates beneficially own an aggregate of 153,624,000 shares, representing approximately 47.47% of the issued share capital of the Company. Pursuant to the MOU, Mr. Hui agreed to procure that the sale shares representing not less than 51% interest in the issued share capital of the Company including the aforesaid 153,624,000 shares beneficially held by Mr. Hui and his associates shall be sold to the Potential Purchaser in accordance with the terms and subject to the conditions set out in the MOU (the "Possible Sale"). If the Possible Sale is materialised, the Potential Purchaser and any parties acting in concert with it are obliged to make a mandatory unconditional general offer for all the shares of the Company (other than those already owned or agreed to be acquired by them) under the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code").

On 30 April 2016, the Company announced that (i) the MOU lapsed upon expiry of the exclusivity period thereunder on 30 April 2016 and (ii) the Company was informed by Mr. Hui that he might continue to discuss with any potential investors, including but not limited to the Potential Purchaser, and provide them with information with respect to the Possible Sale.

An update announcement was issued by the Company pursuant to Rule 3.7 of the Takeovers Code on 30 May 2016 in which the Company announced that the discussions in respect of the Possible Sale between Mr. Hui and the potential investors, including but not limited to the Potential Purchaser, were still ongoing.

As at the date of this report, as informed by Mr. Hui, the discussions in respect of the Possible Sale were still in progress but no legally binding agreement for the Possible Sale has been entered into between him and the Potential Purchaser or any other potential investor. As such, the Possible Sale may or may not proceed.

# Notes to Financial Statements

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## 38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | 507,229 | 507,024 |
| CURRENT ASSETS | | |
| Prepayments | 170 | 170 |
| Cash and bank balances | 55 | 55 |
| Total current assets | 225 | 225 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | 112 | 115 |
| NET CURRENT ASSETS | 113 | 110 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 507,342 | 507,134 |
| NON-CURRENT LIABILITIES | | |
| Loan from a subsidiary | 282,629 | 273,393 |
| Due to subsidiaries | 3,229 | – |
| Total non-current liabilities | 285,858 | 273,393 |
| Net assets | 221,484 | 233,741 |
| EQUITY | | |
| Issued capital | 32,365 | 32,365 |
| Reserves | 189,119 | 201,376 |
| Total equity | 221,484 | 233,741 |

## 38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserve is as follows:

| | Share premium account HK$'000 | Contributed surplus HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2014 | 56,831 | 146,973 | (1,429) | 202,375 |
| Loss for the year and total comprehensive loss for the year | – | – | (999) | (999) |
| At 31 March 2015 and 1 April 2015 | 56,831 | 146,973 | (2,428) | 201,376 |
| Loss for the year and total comprehensive loss for the year | – | – | (12,257) | (12,257) |
| At 31 March 2016 | 56,831 | 146,973 | (14,685) | 189,119 |

The Company's contributed surplus represents the difference between the consolidated net asset value of EGL on 8 February 1996, the day on which its entire issued share capital was acquired by the Company pursuant to the Group reorganisation referred to in note 29, 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.

## 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 June 2016.

# Particulars of Properties

31 March 2016

## INVESTMENT PROPERTIES

| Location | Use | Tenture | Applicable interest of the Group |
|---|---|---|---|
| B7, 3rd Floor, Block B, Mai Hing Industrial Building, 16-18 Hing Yip Street, Kwun Tong, Kowloon Hong Kong | Industrial | Medium | 100% |
| B1&B2, 6th Floor, Block B, Mai Hing Industrial Building, 16-18 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong | Industrial | Medium | 100% |
| Zone A Factory, No.1 Jin Quan San Road, Liu Yue Community, Henggang Town, Longgang District, Shenzhen City, Guangdong Province, the PRC | Industrial | Medium | 100% |
| Building A, Zone A Dormitory, No.1 Jin Quan San Road, Liu Yue Community, Henggang Town, Longgang District, Shenzhen City, Guangdong Province, the PRC | Industrial | Medium | 100% |
| Building B, Zone A Dormitory, No.1 Jin Quan San Road, Liu Yue Community, Henggang Town, Longgang District, Shenzhen City, Guangdong Province, the PRC | Industrial | Medium | 100% |
| A factory located at Lan Ma Jiao, Tang Wen Qian, Xiejiang Town, Dongguan City, Guangdong Province, the PRC | Industrial | Medium | 55% |