# 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)**

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

### INTERIM RESULTS

The board of directors (the "Board") of Elegance Optical International Holdings Limited (the "Company") would like to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2016 together with the comparative figures for the corresponding period in last year.

### UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | | For the six months ended 30 September | |
|---|---|---|---|
| | | **2016** | 2015 |
| | | **(Unaudited)** | (Unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| REVENUE | *4* | **88,701** | 111,632 |
| Cost of sales | | **(80,615)** | (112,429) |
| Gross profit/(loss) | | **8,086** | (797) |
| Other income | *4* | **2,154** | 850 |
| Selling and distribution expenses | | **(2,668)** | (3,091) |
| Administrative expenses | | **(41,463)** | (34,950) |
| Other operating income/(expense), net | *6* | **20,447** | 757 |
| Finance costs | *5* | **(609)** | (451) |
| Share of profits and losses of a joint venture | | **(173)** | (82) |

| | Notes | For the six months ended 30 September **2016** **(Unaudited)** ***HK$'000*** | 2015 (Unaudited) *HK$'000* |
|---|---|---|---|
| LOSS BEFORE TAX | *6* | **(14,226)** | (37,764) |
| Income tax expense | *7* | **(323)** | (11) |
| LOSS FOR THE PERIOD | | **(14,549)** | (37,775) |
| Attributable to: | | | |
| Owners of the parent | | **(14,958)** | (36,621) |
| Non-controlling interests | | **409** | (1,154) |
| | | **(14,549)** | (37,775) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | *9* | **(4.62) HK cents** | (11.32) HK cents |

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the six months ended 30 September | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| LOSS FOR THE PERIOD | **(14,549)** | (37,775) |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | |
| Share of exchange differences on translation of a joint venture | **(20)** | (16) |
| Exchange differences on translation of foreign operations | **(2,035)** | 2,625 |
| Release of exchange fluctuation reserve upon disposal of a subsidiary | **(3,048)** | – |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX | **(5,103)** | 2,609 |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX | **(19,652)** | (35,166) |
| Attributable to: | | |
| Owners of the parent | **(19,357)** | (34,023) |
| Non-controlling interests | **(295)** | (1,143) |
| | **(19,652)** | (35,166) |

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 30 September 2016 (Unaudited) HK$'000 | 31 March 2016 (Audited) HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **134,720** | 144,666 |
| Investment properties | | **96,763** | 96,763 |
| Prepaid land lease payments | | **8,053** | 8,327 |
| Investment in a joint venture | | **3,989** | 4,181 |
| Available-for-sale financial asset | | **360** | 360 |
| Prepayment and deposit | | **–** | 511 |
| Total non-current assets | | **243,885** | 254,808 |
| CURRENT ASSETS | | | |
| Inventories | | **21,314** | 27,987 |
| Due from a joint venture | | **–** | 97 |
| Trade receivables | *10* | **34,439** | 36,942 |
| Prepayments, deposits and other receivables | | **34,388** | 4,694 |
| Equity investments at fair value through profit or loss | | **84** | 88 |
| Cash and cash equivalents | | **19,038** | 44,965 |
| | | **109,263** | 114,773 |
| Non-current asset classified as held for sale | | **–** | 10,385 |
| Total current assets | | **109,263** | 125,158 |
| CURRENT LIABILITIES | | | |
| Trade payables | *11* | **12,307** | 13,159 |
| Other payables, accruals and deposits received | *12* | **48,343** | 45,374 |
| Interest-bearing bank borrowings, secured | *13* | **35,729** | 45,265 |
| Tax payable | | **1,507** | 1,232 |
| Total current liabilities | | **97,886** | 105,030 |
| NET CURRENT ASSETS | | **11,377** | 20,128 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **255,262** | 274,936 |

| | Notes | **30 September 2016 (Unaudited)** ***HK$'000*** | 31 March 2016 (Audited) *HK$'000* |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deposit received | *12* | **1,350** | 1,372 |
| Deferred tax liabilities | | **6,423** | 6,423 |
| Total non-current liabilities | | **7,773** | 7,795 |
| Net assets | | **247,489** | 267,141 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | | **32,365** | 32,365 |
| Reserves | | **210,910** | 230,267 |
| | | **243,275** | 262,632 |
| **Non-controlling interests** | | **4,214** | 4,509 |
| Total equity | | **247,489** | 267,141 |

# NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATION INFORMATION

The unaudited interim condensed consolidated financial statements of Elegance Optical International Holdings Limited and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2016 were authorised for issue in accordance with a resolution of the directors on 23 November 2016.

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

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

## 2.1 ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2016 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial statements are same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2016, except for the adoption of certain revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) for the first time in the current period as described in note 2.2 below.

**Basis of preparation**

The financial statements have been prepared under the historical cost convention, except for the 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. 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$14,549,000 and net cash outflows from operating activities of HK$15,870,000 for the period. As at 30 September 2016, the Group had cash and cash equivalents of HK$19,038,000, and outstanding interest-bearing bank borrowings of HK$35,729,000 which were due for repayment or renewal within the next twelve months after 30 September 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$24,271,000 as at 30 September 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. Up to the reporting date, the bank agreed to provide the Group's existing bank facilities of HK$60 million;

(ii) the Group had interest-bearing bank borrowings of HK$35,729,000 as at 30 September 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 endeavoring 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

(iv) the Group had properties including land and buildings situated in Hong Kong and the PRC and investment properties as at 30 September 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.

## 2.2 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the unaudited interim condensed consolidated financial statements of the current period.

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | *Investment Entities: Applying the Consolidation Exception* |
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations* |
| HKFRS 14 | *Regulatory Deferral Accounts* |
| Amendments to HKAS 1 | *Presentation of financial statements: Disclosure initiative* |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation* |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants* |
| Amendments to HKAS 27 (2011) | *Equity Method in Separate Financial Statements* |
| *Annual Improvements 2012–2014 Cycle* | Amendments to a number of HKFRSs |

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

## 3. 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 profit/(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 from an available-for-sale financial asset, gain on disposal of a subsidiary, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents, equity investments at fair value through profit or loss, 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.

Segment liabilities exclude 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* |
|---|---|---|---|
| **Six months ended 30 September 2016 (unaudited)** | | | |
| **Segment revenue:** | | | |
| Revenue from external customers | **85,377** | **3,324** | **88,701** |
| Segment results | **(37,943)** | **3,041** | **(34,902)** |
| Bank interest income | | | **256** |
| Dividend income | | | **3** |
| Unallocated gains | | | **21,030** |
| Corporate and other unallocated expenses | | | **(4)** |
| Finance costs | | | **(609)** |
| Loss before tax | | | **(14,226)** |
| **At 30 September 2016 (unaudited)** | | | |
| **Segment assets** | **232,914** | **96,763** | **329,677** |
| Corporate and other unallocated assets | | | **23,471** |
| Total assets | | | **353,148** |
| **Segment liabilities** | **58,643** | **3,357** | **62,000** |
| Corporate and other unallocated liabilities | | | **43,659** |
| Total liabilities | | | **105,659** |

| | Manufacturing and trading *HK$'000* | Property investment *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Six months ended 30 September 2015 (unaudited)** | | | |
| **Segment revenue:** | | | |
| Revenue from external customers | 109,452 | 2,180 | 111,632 |
| Segment results | (40,470) | 2,115 | (38,355) |
| Bank interest income | | | 210 |
| Dividend income | | | 2 |
| Unallocated gains | | | 843 |
| Corporate and other unallocated expenses | | | (13) |
| Finance costs | | | (451) |
| Loss before tax | | | (37,764) |
| **At 31 March 2016 (audited)** | | | |
| **Segment assets** | 234,003 | 96,763 | 330,766 |
| Corporate and other unallocated assets | | | 49,200 |
| Total assets | | | 379,966 |
| **Segment liabilities** | 59,393 | 512 | 59,905 |
| Corporate and other unallocated liabilities | | | 52,920 |
| Total liabilities | | | 112,825 |

**Geographical information**

**(a)** ***Revenue from external customers***

| | For the six months ended 30 September | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Europe | **41,389** | 57,582 |
| America *(note)* | **38,799** | 42,183 |
| The People's Republic of China (the "PRC") (including Hong Kong) | **5,592** | 8,017 |
| Other Asian countries | **2,921** | 3,218 |
| Others | **–** | 632 |
| | **88,701** | 111,632 |

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

*Note:* For the year ended 31 March 2016, the management of the Group decided to evaluate the Group's revenue from customers located in North America and South America as a whole. As such, the comparative figures in the period ended 30 September 2015 have been reclassified for the sake of consistency.

**(b)** ***Non-current assets***

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

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

| | For the six months ended 30 September | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Customer A | **15,924** | 10,653 |
| Customer B | **15,894** | 20,760 |
| Customer C* | **11,142** | 17,953 |
| Total | **42,960** | 49,366 |

* Prior to 22 September 2015, Safilo Group S.p.A., was a former substantial shareholder of the Company.

## 4. REVENUE AND OTHER INCOME

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

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

| | For the six months ended 30 September | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Sales of goods | **85,377** | 109,452 |
| Rental income | **3,324** | 2,180 |
| | **88,701** | 111,632 |
| **Other income** | | |
| Sales of scrap materials | **979** | 185 |
| Bank interest income | **256** | 210 |
| Dividend income from equity investments at fair value through profit or loss | **3** | 2 |
| Others | **916** | 453 |
| | **2,154** | 850 |

## 5. FINANCE COSTS

| | For the six months ended 30 September | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans | **609** | 451 |

## 6. LOSS BEFORE TAX

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

| | For the six months ended 30 September | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Cost of inventories sold* | **78,428** | 112,180 |
| Depreciation | **8,336** | 9,255 |
| Amortisation of prepaid land lease payments | **135** | 191 |
| Minimum lease payments under operating leases in respect of land and buildings | **873** | 1,329 |
| Employee benefits expense (including directors' remunerations): | | |
| Wages and salaries | **46,863** | 62,259 |
| Pension scheme contributions** | **705** | 633 |
| | **47,568** | 62,892 |
| Gross rental income | **(3,324)** | (2,180) |
| Less: direct operating expenses (including repairs and maintenance arising from rental-earning investment properties)* | **283** | 65 |
| Net rental income | **(3,041)** | (2,115) |
| Provision for inventory obsolescence* | **1,904** | 249 |
| Foreign exchange differences, net | **1,541** | 5,987 |
| Other operating expenses/(income), net: | | |
| Loss on disposal of items of property, plant and equipment | **548** | – |
| Gain on disposal of a subsidiary | **(21,030)** | – |
| Impairment of trade receivables | **31** | 73 |
| Fair value losses/(gains), net: | | |
| Equity investments at fair value through profit or loss – held for trading | **4** | 13 |
| Derivative financial instruments | **–** | (843) |
| | **(20,447)** | (757) |

* Included in "cost of sales" on the face of the unaudited interim condensed 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 (six months ended 30 September 2015: Nil).

## 7. INCOME TAX

| | For the six months ended 30 September | |
|---|---|---|
| | **2016** | 2015 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Current – Hong Kong – Underprovision in prior years | **43** | – |
| Current – Elsewhere – Charge for the period | **280** | 11 |
| Total tax charge for the year | **323** | 11 |

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits in Hong Kong during the period (six months ended 30 September 2015: Nil). Taxes on assessable profits elsewhere have been provided and calculated at the tax rates prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

## 8. INTERIM DIVIDEND

The board of directors (the "Board") does not recommend payment of any interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: Nil).

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

The calculation of basic loss per share is based on the loss for the period attributable to ordinary equity holders of the Parent of HK$14,958,000 (six months ended 30 September 2015: HK$36,621,000) and 323,649,123 (six months ended 30 September 2015: 323,649,123) shares in issue during the period.

No adjustment has been made to the basic loss per share attributable to ordinary equity holders of the parent presented for the six months ended 30 September 2016 and 2015 in respect of a dilution as there were no dilutive potential ordinary shares in issue during those periods.

## 10. TRADE RECEIVABLES

| | **30 September 2016** | 31 March 2016 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **34,761** | 37,306 |
| Impairment | **(322)** | (364) |
| | **34,439** | 36,942 |

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 (31 March 2016: 45 to 120 days). Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimize 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.

An aged analysis of trade receivables as at 30 September 2016 and 31 March 2016, based on the invoice date and net of impairment of trade receivables, is as follows:

| | **30 September 2016 (Unaudited)** *HK$'000* | 31 March 2016 (Audited) *HK$'000* |
|---|---|---|
| Current to 90 days | **34,438** | 36,935 |
| 91 – 180 days | **1** | 7 |
| | **34,439** | 36,942 |

## 11. TRADE PAYABLES

The following is an aged analysis of the trade payables as at 30 September 2016 and 31 March 2016:

| | **30 September 2016 (Unaudited)** *HK$'000* | 31 March 2016 (Audited) *HK$'000* |
|---|---|---|
| Current to 90 days | **11,730** | 11,577 |
| 91 – 180 days | **301** | 1,168 |
| 181 – 360 days | **16** | 71 |
| Over 360 days | **260** | 343 |
| Total | **12,307** | 13,159 |

## 12. OTHER PAYABLES, ACCRUALS AND DEPOSIT RECEIVED

| | **30 September 2016 (Unaudited)** *HK$'000* | 31 March 2016 (Audited) *HK$'000* |
|---|---|---|
| Other payables | **942** | 355 |
| Accruals | **16,752** | 13,114 |
| Deposit received | **31,999** | 33,277 |
| | **49,693** | 46,746 |
| Less: Non-current portion | **(1,350)** | (1,372) |
| | **48,343** | 45,374 |

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 Jet Kingdom Machinery Technology Company Limited, a wholly-owned subsidiary (the "Subsidiary"). To secure the transaction, the purchaser paid a deposit of RMB26 million (the "Deposit") which equals to the full amount of the consideration. The procedure for remitting the net proceeds out of the PRC takes time and is still being arranged. As and when the procedure is completed, the purchaser needs to remit the fund to the Group's bank account in Hong Kong and the Group has to return the Deposit to the purchaser. The management is working to make it happen as soon as practicable.

## 13. INTEREST-BEARING BANK BORROWINGS

| | **At 30 September 2016** | | | At 31 March 2016 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate** *(%)* | **Maturity** | ***HK\$'000*** **(Unaudited)** | Effective interest rate *(%)* | Maturity | *HK\$'000* (Audited) |
| **Current** | | | | | | |
| Bank loans – secured | **2.68–3.1** | **2016** | **35,729** | 2.65–2.92 | 2016 | 45,265 |
| Analysed into: | | | | | | |
| Bank borrowings repayable within one year or on demand | | | **35,729** | | | 45,265 |

The Group's banking facilities amounting to HK\$60,000,000 (31 March 2016: HK\$60,000,000), of which HK\$35,729,000 (31 March 2016: HK\$45,265,000) 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 carrying amount and market value of approximately HK\$17,870,000 and approximately HK\$75,100,000 respectively (31 March 2016: HK\$18,163,100 and HK\$75,100,000) and a corporate guarantee given by the Company in favour of banks. The Group's bank borrowings as at 30 September 2016 and 31 March 2016 were denominated in United States dollars and Hong Kong dollars.

During the six months ended 30 September 2016, the Group raised new borrowings of HK\$3,319,000 (six months ended 30 September 2015: HK\$10,774,000).

## 14. EVENT AFTER THE REPORTING PERIOD

**Disposal of an entire issued share capital and loans due from Million Wave Limited, a wholly owned subsidiary of the Company**

On 14 October 2016 (after trading hours), Tycoon New Investments Limited, hereinafter referred to as the "Disposal Purchaser" and Elegance Optical Investments Limited, hereafter referred to as the "Disposal Vendor" entered into the Disposal Agreement to dispose of the entire issued share capital of Million Wave Limited, hereinafter referred to as the "Disposal Company" and all outstanding amounts, hereinafter refer to the "Disposal Loans" owing by the Disposal Company to the Disposal Vendor, for a total consideration of HK\$187,000,000, which comprises the sum of HK\$141,416,000 for the Disposal Shares and the sum of HK\$45,584,000 for the Disposal Loan.

As a condition of the Disposal Completion, Elegance Optical Manufactory Limited, hereinafter referred to as the "Lessee" and the Disposal Company will enter into a 2-year Leaseback Agreement, under which the Disposal Company as the Lessor will lease certain properties owned by the Disposal Company, namely a portion of both the factory and dormitory in each of Zones B and C to the Lessee for a monthly rent of HK\$372,000.

The Disposal Completion is subject to the fulfillment or waiver of the conditions described in the announcement dated 14 October 2016. Upon the Disposal Completion, the Disposal Company will be wholly-owned by the Disposal Purchaser and cease to be a subsidiary of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30 September 2016, the Group recorded a loss after tax of HK$14.5 million as compared with a loss of HK$37.8 million for the same period last year. Within this period, a profit of HK$21.0 million was booked as a result of the disposal of Jet Kingdom Machinery Technology Company Limited, a then wholly-owned subsidiary of the Company. If this item had not been booked, the loss for the Group would amount to HK$35.6 million, representing a decrease of approximately 5.82% when compared to the loss recorded by the Group in the same period last year.

The sales of the Group for the period was HK$88.7 million which is HK$22.9 million fewer than the sales of HK$111.6 million recorded in the same period last year. The sales reduction is around 20.5%.

By geographical breakdown, Europe contributes the largest share of the total sales, being 46.7%. American market comes second and contributes 43.7% of the sales of the Group. Compared to the same period of last year, we saw sales to all geographical regions declined but by various degrees. In Europe, the sales was lowered by 28.1%. In America, the sales declined by 8.0%. The most disturbing factor is that the poor buying appetite of our customers continues, both in Europe and in America. We believe this phenomenon correlates to the poor economies of various regions in the world and the predominant need of the customers to buy at lower costs.

During the period, the Group has focused on cutting costs and raising production efficiency through work reorganization. The gross profit was improved though we still need to work harder to give it a greater push. As the Group has to rationalize the labour force set up, the spending on the one-off redundancy payment in the period was high.

In order to make better use of the fund locked up in the investment made in the past, on 14 October 2016, the Group has conditionally agreed to sell to a company wholly-owned by Mr. Hui Leung Wah (the Chairman of the Board, an executive director and a substantial shareholder of the Company) the entire issued share capital in Million Wave Limited (an indirect wholly-owned subsidiary of the Company) and the intra-group accounts payable due and owing from Million Wave Limited to the Group. On the same day, as a condition precedent to the completion of the disposal of Million Wave Limited, the Group entered into a conditional leaseback arrangement in relation to certain properties owned by Million Wave Limited to ensure that there will be no disruption to the Group's production operations after the disposal of Million Wave Limited. For details of the aforesaid possible disposal and leaseback arrangement, please refer to the announcement of the Company dated 14 October 2016. Amongst other things, the aforesaid transactions will be subject to the approval of the independent shareholders of the Company at a special general meeting to be held. A circular containing further details of the transactions as well as the notice of the special general meeting will be despatched to the shareholders of the Company in due course.

**Prospect**

Being part of the fashion accessories, the market demand of optical frames and sunglasses products are highly affected by the strength of an economy. The dimmed state of the European and Chinese economies, the Brexit event, the possible U.S. interest rate upward movement, the development after the U.S. presidential election and the competition within the industry are all working together to raise the uncertainty in the market. Looming over these elements, the management cannot be optimistic on the near future market demand of our products.

Every cloud has a silver lining. With the redundancy clean up exercise took place within our system, the manufacturing organization of the Group becomes leaner and healthier. The strong United States dollar ("USD") and the weakened Renminbi ("RMB") give a greater breathing space to a set up like Elegance who earns only the USD but has to pay most of the manufacturing costs in RMB.

Streamlining the production facilities further is one of the current priorities of the Group, on top of our effort to boost sales. It will help rebuilding our competitiveness as well as saving some of our costs. The market is looking for responsive suppliers and with a leaner organization, the more efficient Group should be able to answer better to the call of the market.

If the aforesaid disposal of Million Wave Limited and the leaseback arrangement are to happen, the management anticipates that there will be no major change to the Group's principal business activities except that the rental income segment will be substantially shrunk. The industrial properties in Shenzhen which are the subjects of the sale and leaseback arrangement have been used by the Group as one of the production bases which accounts for 58% of the Group's output. The other production base operated by the Group is located in Dongguan which accounts for the remaining 42% of the Group's output. With the leaseback arrangement for some of these Shenzhen properties in place, the Group's production operations will not be interrupted and business will be carried out as usual. However, the leaseback arrangement will increase the monthly cash flow need of the Group since the current rental income arising from these Shenzhen properties will be gone and the Group has to pay for the monthly rental to use the subject properties. But the financial strength of the Group will be much stronger as the previous investment can be realized at today's market value and the management can then concentrate on growing the business without worrying about the financing.

In the immediate time to come, the Group will remain concentrating on manufacturing and trading of optical frames and sunglasses as well as the retailing and internet sales of products bearing our own brand which are designed and produced by the Group.

Preliminary results of our effort spent on strengthening our operation in the last few months have been seen. The Group has resumed achieving positive gross profit. The management will continue with the objective of regaining profitability and will work further to bring in the desirable financial results for the good of the Company as well as its shareholders.

## Charges on the Group's Assets

As at 30 September 2016, the Group's banking facilities amounted to HK$60,000,000 (31 March 2016: HK$60,000,000), of which HK$35,729,000 (31 March 2016: HK$45,265,000) 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 carrying amount and market value of approximately HK$17,870,000 and approximately HK$75,100,000 respectively (31 March 2016: HK$18,163,100 and HK$75,100,000) and a corporate guarantee given by the Company in favour of banks. The Group's bank borrowings as at 30 September 2016 and 31 March 2016 were denominated in USD and HKD.

As at 30 September 2016, the Group had secured bank term loans of HK$34,320,000 (31 March 2016: HK$42,120,000) denominated in USD and secured import loans of HK$1,409,000 (31 March 2016: HK$3,145,000) denominated HKD. They were drawn at average interest rates 2.83% and 2.82% respectively.

## Liquidity and Financial Resources

The Group continued to maintain a balance of cash and cash equivalents of HK$19.0 million (31 March 2016: HK$45.0 million). The debt-to-equity ratio (expressed as a percentage of total non-current liabilities over equity attributable to the owners of the Company) is approximately 3.2% as at 30 September 2016 (31 March 2016: 3.0%). The Group's equity attributable to owners of the Company as at 30 September 2016 amounted to HK$243.3 million (31 March 2016: HK$262.6 million).

## Foreign Currency Risk

The Group conducts its business transactions mainly in HKD, RMB and USD. As HKD is pegged to USD, the Group does not foresee any material exchange risk in this respect. However, the Group is subject to certain foreign exchange impact caused by the exchange rate fluctuation of RMB. The management will closely monitor foreign exchange exposure and will consider further hedging significant foreign currency exposure should the need arise.

## Capital Commitments and Contingent Liabilities

At 30 September 2016, the Group had no capital commitment, which was contracted but not provided for, in respect of acquisition of property, plant and equipment (30 September 2015: Nil). As at 30 September 2016, the Company had a contingent liability of HK$49.5 million (31 March 2016: HK$53.4 million) in respect of corporate guarantees given to banks in connection with the general banking facilities granted to one of its subsidiaries.

## Employees and Remuneration Policy

As at 30 September 2016, the Group employed approximately 1,205 (30 September 2015: 1,775) full time employees in China and Hong Kong. Salaries, bonuses and benefits are determined with reference to market terms and performance, qualifications and experience of each individual employee, and are subject to review from time to time. The employee benefits include insurance and medical coverage, training programmes as well as provident fund schemes.

## CORPORATE GOVERNANCE

During the six months ended 30 September 2016, the Company has adopted and complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules, except for the following deviation:

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

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established in June 2005 and its terms of reference were amended on 29 March 2012. The Committee currently comprises three independent non-executive directors, Mr. Poon Kwok Fai, Ronald, Mr. Pang Sung Yuen and Mr. Kwong Ping Man. The major duties and functions of the Remuneration Committee include but not limited to making recommendations to the Board on the remuneration packages of individual directors and senior management of the Company. It is also mandated to review and approve compensation payable to the directors and senior management for any loss or termination of office to ensure that it is consistent with the contractual terms and is otherwise fair and not excessive.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in 1999 and its terms of reference were amended by the Board and became effective on 23 February 2016 and 1 March 2016, respectively. The Audit Committee currently consists of three Independent non-executive directors, namely, Mr. Poon Kwok Fai, Ronald, Mr. Pang Sung Yuen and Mr. Kwong Ping Man. The main duties and functions of the Audit Committee include but not limited to review of the relationship between the Company and its external auditors, review of the Group's financial information, oversight of the Group's financial reporting system, internal control procedures and performance of the corporate governance functions delegated by the Board, assessment on any potential special risks to be encouraged by the Company and review of the effectiveness of the internal control system.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 September 2016.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct (the "Code of Conduct") regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all directors of the Company, the Company has received confirmations from all of them that they have complied with the required standard set out in the Model Code and the Code of Conduct throughout the period under review.

## REVIEW OF UNAUDITED INTERIM RESULTS

The unaudited interim condensed consolidated financial information for the six months ended 30 September 2016 has been reviewed by the Audit Committee. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group.

## APPRECIATION

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

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

Hong Kong, 23 November 2016

*As at the date of this announcement, the executive directors of the Company are Mr. Hui Leung Wah, Mr. Poon Sui Hong, and Mr. Hui Chun Yuen and the independent non-executive directors are Mr. Poon Kwok Fai, Ronald, Mr. Pang Sung Yuen and Mr. Kwong Ping Man.*