

Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present the 2000/2001 annual report of Elegance International Holdings Limited (the "Company" or "Elegance") and its subsidiaries (collectively, the "Group").

DIVIDEND

The Board of Directors have resolved to recommend the payment of a final dividend of HK 7.5 cents per share (2000: HK 6.5 cents) for the year ended 31 March 2001 at the forthcoming Annual General Meeting. The final dividend together with the interim dividend of HK 4.0 cents per ordinary share, will make a total dividend for the year of HK 11.5 cents per ordinary share. The final dividend, if approved by shareholders, is expected to be payable on 21 September 2001 to those shareholders whose names appear on the Register of the Members on 7 September 2001.

CLOSURE OF THE REGISTER

The Register of Members will be closed from 1 September 2001 to 7 September 2001 both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Tengis Limited, at 4/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on 31 August 2001.



BUSINESS REVIEW

During the year under review, the Group continued to engage in the manufacture and sale of optical frames, sunglasses and related products.

Satisfactory Financial Performance

I am pleased to announce another remarkable year for the Group in terms of growth in turnover and net profit. In retrospect, the financial year ended 31 March 2001 was characterised by uncertain business environment in the developed countries. The world economy dramatically slipped off in the fourth quarter of year 2000 and the trend continued in the beginning of 2001 with a steady loss of economic momentum which spread gradually from the United States to the other developed countries. Against this uncertainty in economic climate, the Group achieved another record year in our financial performance. Aided by the favourable market conditions in the early part of the year and a healthy increase in the original design manufacturing ("ODM") orders, the consolidated turnover of the Group for the year ended 31 March 2001 increased to HK\$427,338,000, up 19.72% from 2000. Net profit attributable to shareholders amounted to HK\$89,041,000, up 32.27% from last year. Basic earnings per share increased to HK 27.51 cents, up 31.38% from last year.

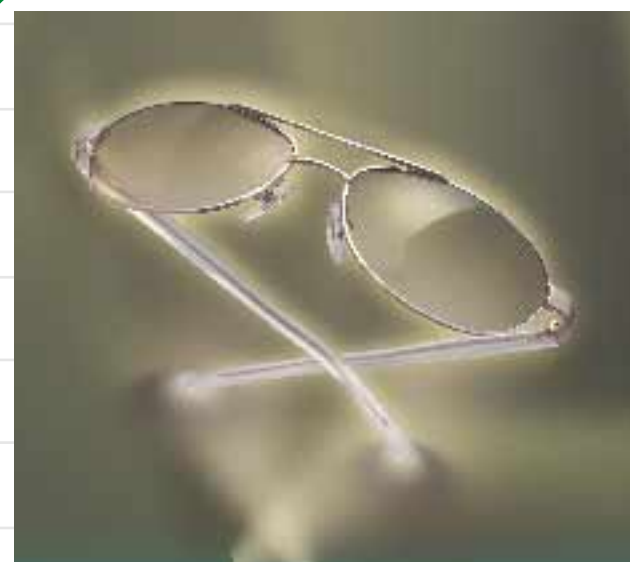
Chairman's Statement (continued)

The satisfactory results were achieved as a result of the following factors:

1. The management has focused its effort on enhancing greater operational efficiency, promoting better cost control, putting in place more advanced machinery and computer-aided software in recent years to achieve higher capacity utilisation to control our production costs so that we can maintain attractive pricing policy in view of keen competition.
2. The investment we made during the recent years on product design and new product development has begun to pay off. Our product development and design know how, strong technical and manufacturing capabilities enabled us to serve our customers in full and focused our efforts on specific market segments and targeted markets. We manage to provide value-added services to our customers by delivering products with creative design to help our customers to fit into their image at good profit margins to them.
3. An improved economy of scale was realised because greater business volume was attained.

Relationship with Safilo S.p.A.

During the year, the Group sold goods to Safilo S.p.A. group of companies with a sales value amounting to HK\$164,011,000, which exceeded the cap limit of 35% as stated in the conditional waiver from compliance with connected transaction requirements as set out in the relevant sections of the Listing Rules, which granted by The Stock Exchange of Hong Kong Limited ("SEHK"). Accordingly, the Company has applied to the SEHK for a new waiver, the details of which have been set out in an announcement published in iMail and Hong Kong Economic Times respectively dated 28 June 2001 and in a circular to the Company's shareholder dated 18 July 2001. A special general meeting is scheduled to be held on 10 August 2001 for the purpose of seeking the approval of the independent shareholders as regards (i) the sales to Safilo S.p.A. group of companies during the year ended 31 March 2001; and (ii) the new waiver.



Chairman's Statement *(continued)*

MANAGEMENT DISCUSSION AND REVIEW

Production

During the financial year 2000/2001, the Group has commenced the expansion project at the existing Jin Quan plant in Shenzhen of the People's Republic of China ("PRC"). The new production plant, adjacent to the existing plant at Jin Quan at Shenzhen, the PRC, together with the existing factory plant will become into a new, state of the art factory complex. A factory and office building with 24,500 square meters of production floor and office space to house additional production lines and ancillary facilities such as electroplating work floors, mould development department and product development department and two blocks of staff quarters are under construction. It is anticipated that the project will be completed by the first half of 2002. The total projected production capacity of the Group will reach over 1 million pairs of frames per month when the new factory complex is running at its optimum level. To satisfy international standards on production environment and environmental protection, whereby our customers concern not only on price and quality of product but also on working environment and the welfare of the staff of their business partner's employees, the new factory complex will demonstrate the Group's efforts to establish sound working environment to enhance labour productivity and labour safety. The management believes that the new factory complex will be the Group's production hub.

Management Information System

6 Coping with the Group's commitment to deliver total quality products and services to our customers, the Group has entered into an agreement with SAP, a leading German software provider of enterprise resources planning system ("ERP") to start to implement an ERP system in the financial year under review. This ERP system will facilitate the smoother grasp of management information, leading to a greater operational efficiency, enhanced production capacity and lower production costs. The Group also hopes to make use of ERP system to place more emphasis on smoother production run and better quality control on every element in the procurement of raw materials, product design, mould development, production control, logistics run, delivery service and after-sale service.

The Group is dedicated to achieve good customer relationship and attain higher customer loyalty. The ERP system will enable the Group to add value to our customers by delivering quality optical frame products on time demanded by our customers and by encouraging a better communication between the Group and its customers. It is in line with the Group's strategy in considering needs of customers in every aspect of their business.

Design and Product Development

To meet the changing customer's needs and to establish competitive edge amongst its competitors, the Group has made significant investments in its product design and development tools and production know-how to keep abreast of latest development in optical industry. The Group employs advanced design tools with assistance of sophisticated ancillary computer software and experienced designers to provide various popular design samples for our customers to select to fit into the market trend.

Chairman's Statement *(continued)*

Liquidity and Financial Position

At the year end date, the Group had cash and bank balances of HK\$98,386,000 (2000: HK\$73,700,000). Most of the cash and bank balances were placed in HKD and USD short term deposits with banks in Hong Kong. The Group generated net cash inflow from operating activities of approximately HK\$110,875,000 during the year under review. The Group had banking facilities amounting to HK\$114,500,000, of which approximately HK\$12,861,000 (2000: HK\$17,282,000) had been utilised as bank loan and overdrafts. The facilities utilised were denominated in Hong Kong dollars and were subject to floating interest rate. The Group maintained a low gearing ratio of 3.41% (2000: 5.31%) on the basis of total borrowings over shareholder's funds. The current ratio of the Group as at 31 March 2001 was 3.54 to 1 (2000: 3.12:1). Net asset value per share was HK\$1.17 (2000: HK\$1.01). The Group had current assets of approximately HK\$271,241,000 and current liabilities of approximately HK\$76,540,000.

As the Group has a strong liquid position, it mainly utilises its financial resources to meet its funding requirement. The Group also believes that the Group's healthy financial ratio and strong cash flow generated will enable it to obtain banking facilities on more favourable terms.

As at 31 March 2001, the Company had capital commitment of HK\$25,910,000 (2000: HK\$2,674,000) in respect of the construction of new factory complex, the acquisition of plant and equipment and the implementation of ERP system, which are financed by internal resources.

The management is confident that the Group manages to retain sufficient working capital generated from operational cash inflow and existing banking facilities to finance its normal production run and future expansion.

Foreign Currency Fluctuation

Since the Group mainly uses US dollars, Hong Kong dollars and Reminbi to carry out sale and purchase transactions of the Group's business and to pay the finance expenses of the Group, the Group believes that the foreign exchange risk is minimal when both Hong Kong dollars and Reminbi are linked with US dollars. No foreign exchange forward contract was outstanding as at 31 March 2001.

Staff

The total number of employees of the Group as at 31 March 2001 was around 3,600. Total staff costs of the Group, excluding director's remuneration, for the year under review amounted to HK\$60,422,000.

Chairman's Statement *(continued)*

PROSPECT

The industry itself is due for healthy consolidation in view of softening economies of the United States and Europe. Despite the economic slowdown in the world economies, the Group remains confident of sustaining its profitability in coming year mainly due to the following reasons:

1. The high cost of production and rigid labour structure in the United States and Europe will foster our customers to look for suppliers in East Asia who are able to offer quality products with reasonable prices to lower their procurement costs of optical products so that they can best suit the changing needs of retail customers who value good quality, fashionable and affordable optical products.
2. The construction of new factory complex, the implementation of ERP system and the continual deployment of resources into product design and use of advanced production technology will contribute towards the future potential of the Group in building its price and quality leadership to capture the orders from the US and European customers. Since what makes an optical manufacturer successful is its ability to produce quality products at reasonable cost structure, the Group have to distinguish herself by attaining excellence in quality, design, delivery on time, competitive pricing policy, good customer services and relationships to secure ODM orders from various brands in optical industry. The management will continue to improve the production and operational efficiency through various cost controlling measures and advanced production technology to streamline the manufacturing operations to ensure the readiness of the Group to outshine the competition.

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AUDIT COMMITTEE

To comply with the revised Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company set up an Audit Committee (the "Committee") with written terms of reference for the purpose of reviewing the financial reporting process and the internal control procedures. Mr. Fok Kwan Wing and Mr. Poon Kwok Fai, Ronald, the independent non-executive directors of the Company, have been appointed as the members of the Committee. Two meetings have been held in the year ended 31 March 2001 to review the control and supervision of the Group's financial reporting process.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange for the year ended 31 March 2001 and up to 19 July 2001. Independent non-executive directors of the Company are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the provisions of the Company's bye-laws.

Chairman's Statement *(continued)*

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude to the employees of the Group for their contribution and to thank all our customers, suppliers, shareholders and business associates for their sincere support. Without their patronage, the Group could not have attained a remarkable performance in the past.

By Order of the Board
Hui Leung Wah
Chairman

Hong Kong, 19 July 2001