Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present the 2002/2003 annual report of Elegance International Holdings Limited (the "Company" or "Elegance") and its subsidiaries (collectively, the "Group").

FINAL DIVIDEND

The Board of Directors have resolved to recommend the payment of a final dividend of HK 7.5 cents per ordinary share (31 March 2002: HK 7.5 cents) for the year ended 31 March 2003 at the forthcoming Annual General Meeting to be held on 22 August 2003. 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 (31 March 2002: HK 11.5 cents) per ordinary share. The final dividend, if approved by shareholders, is expected to be payable on 11 September 2003 to those shareholders whose names appear on the Register of the Members on 22 August 2003.

CLOSURE OF THE REGISTER

The Register of Members will be closed from 16 August 2003 to 22 August 2003 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 G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 15 August 2003.

BUSINESS REVIEW

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

Performance Highlight

During the year under review, the turnover of the Group for the year ended 31 March 2003 was approximately HK$383,984,000 (31 March 2002: HK$370,389,000). Total income of the Group during the year, which included principally the income from the manufacturing and sales of optical frames and sunglasses, has recorded a slight growth. North America and Europe accounted for 46.86% and 35.35% (31 March 2002: 39.74% and 32.77%) of the Group's turnover, respectively.

Net profit attributable to shareholders for the current year was HK$55,721,000, compared to a reported profit of HK$79,335,000 in the year 2001/2002, while basic earnings per share were HK17.22 cents (31 March 2002: HK 24.51 cents). The net asset value per share was HK$1.43 (31 March 2002: HK$1.37). The decrease in net profit attributable to shareholders for the year 2002/2003 was mainly due to the various special charges made against the operating profit. Should the special charges be excluded, the Group's financial performance would have been better and was comparable to the financial results for the year 2001/2002. These special charges included the impairment in value of properties in Hong Kong of HK$1,800,000, the deficit on revaluation of investment properties of HK$716,000 and the impairment of goodwill in relation to subsidiaries of HK$1,687,000. Our profitability would have been higher if the additional tax provision of HK$4,810,000 resulting from the settlement of disputes regarding the Hong Kong profits tax with the Inland Revenue Department was excluded. The additional tax provision made the current provision of Hong Kong profits tax for the year 2002/2003 sufficient to cover the tax liabilities in prior years.

Chairman's Statement *(continued)*

BUSINESS REVIEW *(continued)*

Performance Highlight *(continued)*

Added to the mentioned special charges was the lowering of the gross profit margin. During the year, the gross profit margin also decreased to approximately 37.90% (31 March 2002: 41.12%). There was keen competition in market and our product prices were under pressure. With increased cost of raw materials due to depreciation of US dollars, higher labour costs and other factory overheads, together with the fact that the sales in the year under review did not go up as predicted, the profitability of the Group was negatively affected.

The sales and marketing team has stepped up their sales effort by participating in more trade shows and exhibitions and by visiting the customers more frequently. These efforts accounted partly for the sharp rise in selling and distribution expenses in current financial year. In the period, business promotional expenses and travelling expenses increased by 24.42% and 30.12%, respectively.

The increase in administrative expenses was partly due to the exchange losses of HK$2,012,000 resulting from the depreciation of US dollars in the current financial year. The general provision for bad and doubtful debts of HK$2,071,000 explained the increase of other operating expenses for the year 2002/2003, a provision that the management contends to be justified in view of uncertain economic conditions for the current financial year.

The Group also adopted a prudent accounting policy to accrue the deferred tax liability in the financial statements due to the tax effect of timing difference arising as a result of the excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements. A provision for deferred tax of HK$2,400,000 (2002: HK$5,000,000) was made accordingly to recognise the deferred tax liability in the current year.

Analysis of Operations

Even though the slowdown of the global economy in 2002 and in the first half of 2003 struck a blow to the optical industry, the turnover of the Group remained stable over the past year in view of our efforts and a solid customer base. This demonstrated that optical products of Elegance were generally well accepted by our customers and our sales and marketing strategy was effective in retaining existing customers.

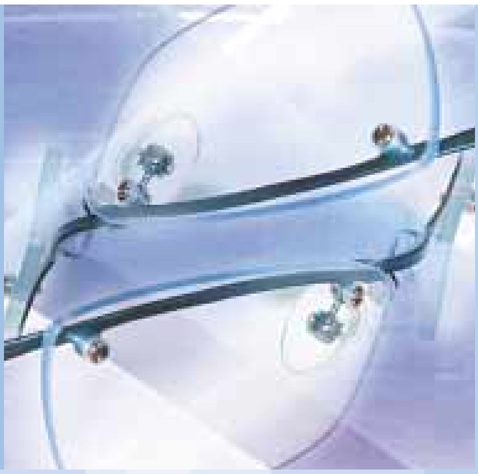
Chairman's Statement *(continued)*

BUSINESS REVIEW *(continued)*

Analysis of Operations *(continued)*

With a view to provide more fashionable, reliable and competitive products to the market, we have concentrated our effort in improving our internal organization. In the year under review, we have strengthened our product design and development ability by adding more human resources as well as advanced machineries. We have also set up new infrastructure to improve on the quality assurance program so as to ensure that products of high quality would be delivered in a timely manner. We have also worked on organizing ourselves to provide better services to customers at all stages of the sales process. We strongly believe that these efforts will add competitive edges to the Group and will reinforce the Group as a major and leading player in the market.

With the full implementation of enterprise resource planning system, the management is gradually equipped with better management information tools. In this ever-changing business environment, the enhanced use of information technology will simplify and streamline the management processes, thus enabling a smoother operation and faster response to customer needs. By this way, we hope to be able to keep pace with changing customer demand and the market trend so that we are able to better serve the customers.



Construction work of the new factory in Jin Quan, Shengzhen, the PRC, which is located right next to the main factory of the Group, will be completed during the year 2003/2004. It is expected that the new premise will become operational in late 2003. The new factory will consolidate some of the existing production facilities of the Group in the vicinity. With better utilization of the Group's facilities under one roof, we hope to achieve a greater operational efficiency and better economic return.

PROSPECT

The magnitude of the adverse impact on global economies brought by the Iraqi War, downturn in the economies of Europe and North America, the weakening of the U.S. currency and the catastrophic SARS outbreak is difficult to predict but stagnant market conditions will probably create cautious business sentiment. There will also be more intensive competition in the optical industry as the market conditions and outlook in Europe and North America are still uncertain. Business environment ahead is expected to be difficult. The Group has already heightened our emphasis on developing and energising our marketing team to expand the customer base in Europe and North America to overcome the challenges ahead, and the management is hopeful that such and the following measures taken will increase our competitiveness. We will also explore new market opportunities through establishing our distinctive and unique market position and by adopting a flexible market strategy, like providing more trendy and innovative designs to better satisfy our existing customers and in seeking new customers.

Chairman's Statement *(continued)*

PROSPECT *(continued)*

To help our customers to succeed in their increasingly competitive markets, the Group will continuously upgrade our support to our customers. It is a challenge that we are meeting effectively and that we will continue to excel by maintaining the closest and most proactive working relationship with them.

In addition to the focused and strengthened marketing strategies, enhancing our operational efficiency, product quality, design variety and timely delivery will also be important elements to withstand the uncertain market situation and maintain the market share. The Group will continue to improve on the manufacturing and logistics process to attain higher productivity to bring up our profit margin. We will also adopt more modern production and information technology to cater for the present and potential needs of our established as well as potential customers.

Besides the manufacturing business, the Group will maintain its alertness in seeking suitable opportunities in diversifying its business so that its income base can be widened.

LIQUIDITY AND FINANCIAL RESOURCE

During the year under review, the Group adopted a prudent treasury management policy in managing current assets and liabilities. The Group's balance sheet remained healthy. The cash and bank balance were reported at HK$188,211,000 (2002: HK$173,849,000) at the end of the current financial year with the continual support of cash flow from operating activities, notwithstanding that the capital expenditure led to a cash outflow of HK$41,065,000 (2002: HK$25,611,000). The substantial part of capital expenditures was the payments for the construction of the new factory complex of HK$19,342,000 (2002: HK$13,726,000). The working capital, defined as current assets less current liabilities, of HK$275,808,000 (2002: HK$269,193,000) was maintained as at 31 March 2003. Gearing, representing total bank borrowings over shareholder's funds, was maintained at relatively sound level of below 4.13% (2002: 2.26%) while bills payables surged to HK$11,142,000 (2002: HK$1,976,000) as at 31 March 2003 to cater mainly for capital investments in production facilities. Current ratio was also maintained at a healthy level of 5.48:1 (2002: 7.15:1).

The Group had banking facilities amounted to HK$65,500,000 (31 March 2002: HK$79,000,000), of which approximately HK$19,142,000 (31 March 2002: HK$10,026,000) were utilised. All outstanding bank borrowings were for purpose of trade-finance and working capital and short to medium term in nature.

As at 31 March 2003, the Group's capital commitment was of HK$49,034,000 (31 March 2002: HK$21,024,000), in which HK$18,799,000 (2002: HK$20,959,000) was related to the capital investments in the new factory facilities and machineries. The remaining portion is future contributions of capital to subsidiaries in the PRC.

Chairman's Statement *(continued)*

FOREIGN CURRENCY RISK

Since major transactions of the Group were primarily denominated in US dollars, Hong Kong dollars and Renminbi and the Group's treasury policy was of maintaining our liquid assets in these currencies, the exposure to foreign exchange risk was not material. There was no outstanding forward contract outstanding as at 31 March 2003.

PLEDGE OF ASSETS

At 31 March 2003, the Group has pledged its leasehold and investment properties with an aggregate carrying value of approximately HK$17,432,000 (31 March 2002: HK$18,972,000) as security for bank loan and general banking facilities granted to the Group. Except the above, there are no other charges on the Group's assets.

CONTINGENT LIABILITIES

At 31 March 2003, the Group had contingent liabilities of HK$65,500,000 (31 March 2002: HK$79,000,000). The contingent liabilities comprised of guarantees given to banks in connection with facilities granted to its fellow subsidiaries.

EMPLOYEES

The total number of employees of the Group as of 31 March 2003 has increased to approximately 4,200 (2002: 3,900). Most of them were stationed in the Mainland China while the rest were in Hong Kong. Employee costs (excluding director's emoluments) amounting to approximately HK$72,023,000 (31 March 2002: HK$62,832,000). In addition to competitive remuneration packages, discretionary bonuses are awarded to eligible staff based on the Group's performance, individual experience and performance. Various fringe benefits ranging from Mandatory Provident Fund and medical insurance are provided. Employee's remuneration is consistent with the prevailing industry practice in the respective countries where the Group operates.

APPRECIATION

Last but certainly not least, on behalf of the Board, I would like to take this opportunity to extend my sincere thanks to the Group's dedicated directors and staffs for their continuous improvement. I also wish to thank all our customers, suppliers, banks and shareholders for their long-time co-operation and support to the Group during the year.

By Order of the Board
Hui Leung Wah
Chairman

Hong Kong, 26 June 2003