On behalf of the Board of Directors (the "Board"), I am pleased to present the 2003/2004 annual report of Elegance International Holdings Limited (the "Company" or "Elegance") and its subsidiaries (collectively, the "Group").

FINAL DIVIDENDS

The Board of Directors have resolved to recommend the payment of a final dividend of HK7 cents per ordinary share (2003: HK7.5 cents) for the year ended 31 March 2004 at the forthcoming Annual General Meeting to be held on 19 August 2004. The final dividend together with the interim dividend of HK4.0 cents per share, will make a total dividend for the year of HK11 cents per share (2003: HK11.5 cents). The final dividend, if approved by shareholders, is expected to be payable on 16 September 2004 to those shareholders whose names appear on the Register of the Members on 19 August 2004.

CLOSURE OF REGISTRAR

The Register of Members will be closed from 13 August 2004 to 19 August 2004 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 12 August 2004.

BUSINESS REVIEW

Performance Highlight

The turnover of the Group for the year ended 31 March 2004 was approximately HK$327,733,000 (2003: HK$383,984,000). Net profit attributable to shareholders was HK$18,951,000, compared to a reported profit of HK$55,721,000 for the financial year 2002/2003.

Basic earnings per share for the year ended 31 March 2004 amounted to HK5.86 cents (2003: HK17.22 cents) per share.

Review and Analysis

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

The financial performance of the Group fell short of expectations for the year 2003/2004. The outbreak of SARS in Hong Kong and Mainland China and the Iraqi War in the early period of the financial year 2003/2004 dealt a severe blow to optical industry and the Group was no exception. Due to SARS epidemic, marketing and sale activities of the Group were adversely affected. Number of customers from Europe and the United States postponed their schedule of plant visit and product inspections in Hong Kong and China and it affected confirmation of new orders. The delivery of sample and order placement was also delayed and number of orders obtained decreased since March 2003 and the sale of the Group were ultimately affected until the end of 2003.

The depreciation of US dollars, increase in prices of major commodities and raw materials since early 2003 and rising operational costs in China are also posing great challenges to us. Due to keen market competition, the Group has faced with pressures from both customers demanding for quality products with bargain price and competitors with new product and changing design, better customer services and attractive pricing policy. As a result, we have to encounter these pressures by continual investing in the development of products with new valued added features in design and materials for the customers. We believe our commitment to product development will bring encouraging results. But, these investments will increase our production costs and lower our gross profit margin in the short run. Together with the decrease of orders due to SARS epidemic and uncertain in economy prospect caused by Iraqi War in the first half of 2003, the production output decreased to a certain extent in the financial year 2003/2004. Therefore, it was difficult for our production plants to attain sound economies of scale as in previous financial years and it explained the reduction of profit margin for the financial year under review.

BUSINESS REVIEW *(continued)*

Review and Analysis *(continued)*

Despite the fact that the total sales of the Group failed to meet our expectations, sales to Europe increased by 11.06% to HK$150,744,000 (2003: HK$135,726,000) and it accounts for 46.00% (2003: 35.35%) of the total turnover of the Group. The appreciation of Euro stimulated demand in Europe and created favourable environment for the Group to seek larger market share. After relentless efforts made in recent years, we have succeeded in attracting satisfactory number of orders from new and existing customers in Western Europe. We believe that the demand from European buyers will grow further. We anticipate that sales to Europe will continue to be our major sources of sales income in medium term. Sales to North America reduced to HK$121,769,000 (2003: HK$179,939,000) and it accounted for approximately 37.15% (31 March 2003: 46.86%) of the Group's turnover. The market in the United States underwent consolidation in 2003. Thus, the decrease in sales to North America resulted in a drop of turnover of the Group. With the economic recovery in the U.S. lately, we are working harder to recoup the lost sales.

The challenges did not slow us down. In order to cope with the increasing market demand for precise and high quality optical products, we continued our commitment in expansion of our production capacity, enhancement of our product development team and refurbishing the set up at our existing production facilities in Shenzhen, China during the year under review.

The new factory complex located at Jin Quan, Shenzhen, China, adjacent to existing factory site opened and commenced operation by phases since April 2004. Following an opening ceremony of new factory complex in March 2004, we manage to expand our production capacity, design capabilities and equip more advanced machines and better facilities in product development to launch new design and product in a spacious and stimulating environment. The Group wholeheartedly invested in our human resources and new machines and factory set-up in the new factory complex to enhance our operational efficiency. We are working to lower our production costs and to increase the utilisation rate of facilities in the factory complex in the medium to long run. We expect to achieve reduction of operational costs when the new factory complex is fully occupied and utilised as a result of consolidating all production facilities at the new factory sites. Coupled with better scale of economies, higher utilisation rates and improved operational efficiency in new factory complex, the Group expects to achieve an ultimate increase in profit margin of our optical products.

In the financial year 2003/2004, we have intensified our aggressive marketing initiatives to broaden our customer's bases both in Europe and North America. The strategic combination of expanding the customer base, enhancement of sample production with creative design element and better customer service are starting to bear fruit. We expect this combination will further contribute to the business growth of the Group in coming years.

PROSPECT

The Group foresees that the economy of Europe and the United States will continue to grow steadily in year 2004. Encouraging sign was already reported that our order placements since the commencement of year 2004 have already exceeded the figures of corresponding period of 2003.

In order to maintain our growth in turnover and profitability and to lessen the pressure of increasing operational costs, we will strengthen our strategy of developing quality products with fashionable design to meet demand of our customers, implementation of cost control measures targeting improvement of overall operational efficiency. We are optimistic that it will bring us fruitful results by increase in our turnover and enlargement of our market share.

The success of the Group lies in our continual emphasis on new design capabilities, new product development, strengthening expertise in production know-how and improving marketing activities and good customer services. As a result, the Group will further invest in our product design and product development capabilities. We will further invest in new machineries, both through purchases and by self-development, to strengthen our competitiveness in costs and production technique. With the new factory complex to be equipped with advanced machines and enhanced facilities for sample production, the Group has set up a good foundation to establish a platform for our future expansion and growth. With our ample marketing experience and production know-how in optical industry and ongoing economic recovery in Europe and the United States, which will stimulate consumption and demand, we expect that the performance of the Group will reflect these positive business conditions in the coming financial year.

LIQUIDITY AND FINANCIAL RESOURCES

The management of the Group adopts a prudent policy in managing financial resources of the Group. The core operation and major capital investments of the Group are mostly financed by our internally generated cashflows and partially banking facilities.

During the year under review, the Group maintained a solid financial position. The cash and bank balance of the Group were reported at HK$124,055,000 (2003: HK$188,211,000) at the end of the financial year 2003/2004. Major capital expenditures included the payments for the construction of the new factory complex of HK$28,813,000 (2003: HK$19,342,000). The working capital, defined as current assets less current liabilities, of HK$222,989,000 (2003: HK$275,808,000) was maintained as at 31 March 2004. Gearing, representing total bank borrowings over shareholder's funds, was maintained at relatively sound level of below 3.69% (2003: 4.13%). Current ratio was also maintained at sound level of 4.17:1 (2003: 5.48:1).

The Group had banking facilities amounted to HK$50,500,000 (31 March 2003: HK$65,500,000), of which approximately HK$16,457,000 (31 March 2003: HK$19,142,000) were utilised. All outstanding bank borrowings were for purposes of trade-finance and working capital and short to medium term in nature.

As at 31 March 2004, the Group's capital commitment was HK$46,324,000 (31 March 2003: HK$49,034,000).

FOREIGN CURRENCY RISK

Since the income and expenditures of the Group were substantially 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 as at 31 March 2004 and 2003.

PLEDGE OF ASSETS

At 31 March 2004, the Group has pledged its leasehold and investment properties with an aggregate carrying value of approximately HK$16,284,000 (31 March 2003: HK$17,432,000) 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 2004, the Group had contingent liabilities of HK$50,500,000 (31 March 2003: HK$65,500,000), 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 2004 has increased to approximately 4,725 (2003: 4,200). 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$76,551,000 (31 March 2003: HK$72,023,000). 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

The management would like to take this opportunity to thank our shareholders for their support and our staff for their dedication and hard work. 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, 30 June 2004