CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the 2004/2005 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 HK5 cents per share (2004: HK7 cents) for the year ended 31 March 2005 at the forthcoming Annual General Meeting to be held on 19 August 2005. The final dividend together with the interim dividend of HK3 cents per share, will make a total dividend for the year of HK8 cents per share. The final dividend, if approved by shareholders, is expected to be payable on 16 September 2005 to those shareholders whose names appear on the Register of Members on 19 August 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 13 August 2005 to 19 August 2005 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 2005.

BUSINESS REVIEW

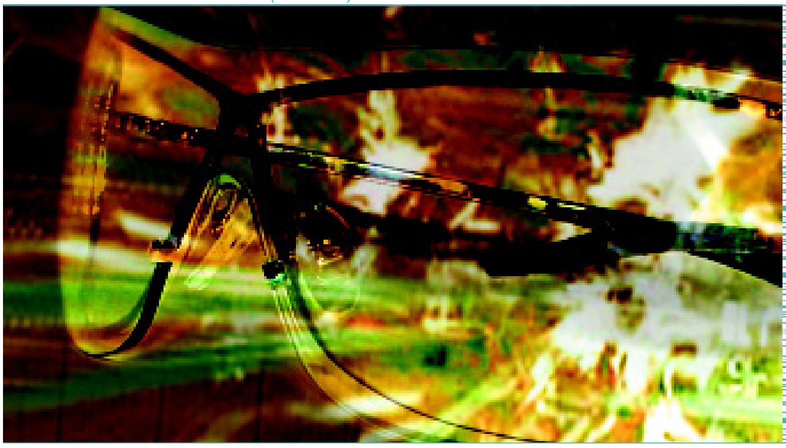
Performance Highlight

The Group achieved a satisfactory performance for the year ended 31 March 2005 compared to the prior year. The overall recovery of the optical industry continued its momentum throughout the year under review. The Group recorded a 23.72% growth in turnover to HK$405,477,000 (31 March 2004: HK$327,733,000) for the year. Net profit attributable to shareholders increased by 94.19% to HK$36,800,000, compared to a reported profit of HK$18,951,000 for the financial year 2003/04 with improved net profit margins of 9.08% (2004: 5.78%). Return on shareholders' funds increased to 8.14% (2004: 4.25%). Basic earnings per share for the year ended 31 March 2005 amounted to HK11.37 cents (2004: HK5.86 cents) per share.

The Group also recorded a net cash inflow from operating activities of HK$52,177,000 (2004: HK$21,518,000), representing an increase of 142.48%, which is a substantial improvement as compared to year 2003/04.

The margins of operating activities continued to improve, increasing from 7.18% to 10.21% though gross profit margins decreased to 25% from 27.11% of previous year due to rise in materials costs during the year concerned. The Group plans to widen gross profit margins by continual introduction of products with new design and new production techniques, leveraging sale volume and economies of scale as well as tightening the operating overheads.

Benefiting from the Group's products' design and quality, we have been able to secure more sale orders to capture the growing economies in Europe and North America. During the year under review, Europe was still the single largest market of the Group, contributing 49.37% (2004: 46.00%) of the Group's total turnover. Sales to Europe increased by more than 32.80% to HK$200,194,000 (2004: HK$150,744,000). The improving demand for optical products in Europe throughout 2004 and appreciation of Euro stimulated market demand for our optical products. The increasing outsourcing of manufacturing activities of



BUSINESS REVIEW *(continued)*

Performance Highlight *(continued)*

traditional European optical distributors has also helped the Group to secure sale orders from European customers whom brought satisfactory returns to us. The Group's sales to North America increased by 25.26% to HK$152,528,000 (2004: HK$121,769,000) and it accounted for approximately 37.62% (31 March 2004: 37.15%) of the Group's turnover. The rebound of sale performance in North America was due to favourable consumer sentiment.

Total selling and general and administrative expenses decreased to HK$62,773,000 (2004: HK$68,672,000) for the year 2004/05. It reflected the Group's commitment to achieve overall operating efficiencies and maintain reasonable cost structure.

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 year ended 31 March 2005 was a fruitful year for the Group. The Group continued to grow despite increases in raw material prices that put pressure on our margins. Continued investment in production capabilities made in previous years started to be rewarding and laid down a new foundation for prospects of further growth. With our vertically-integrated manufacturing platform, the Group had been able to capitalize on the recovery of optical industry and to maintain market share with support of production facilities at its new factory complex at Jin Quan, Shenzhen, the People's Republic of China ("PRC"). The new facilities commenced operation since April 2004 helped to foster operating synergies and savings in procurement costs.

The Group's factory in Dongguan, PRC also entered into a new stage as it started to move into a new plant since May 2005. The plan of the Group is to make the Dongguan factories a specialized facility in meeting the demand of mid-end optical products for the PRC and Asian market.

Though the optical market generally recovered in the financial year ended 31 March 2005, it is not a totally smooth year. As mentioned in our annual report for 2003/04, the Group had to encounter challenging operating environment due to increasing cost of raw materials and factory overheads and appreciation of Euro and Japanese Yen. The same trend continued to affect our gross profit margins throughout the financial year 2004/05. The price of certain raw materials continued to soar to a high level in the first quarter of 2005. Besides, the continuous appreciation of Euro and Japanese Yen also impacted our cost structure as major portion of our raw materials, components, machinery were imported from Europe and Japan. Rising overheads costs like wages, electricity and fuel charges in PRC also added further pressure to the production costs to the Group. Faced with a challenging operating environment with cost pressure and keen competition, the Group reacted to these challenges by focusing its core strategies of controlling overheads, improving production efficiency and logistics management. Inventory turnover was improved from 102 days for year 2003/04 to 79 days for current year. The Group was able to diversify our sourcing risk via increasing our portion of purchase from PRC and secured long-term stable price from suppliers. Largely because of increase in turnover, effect of economies of scale and our continuous effort to monitor general and administrative expenses, net profit margin increased to 9.08% as compared to 5.78% for 2003/04.

PROSPECT

For the coming financial year 2005/06, it is anticipated that raw material costs may show sign of stabilization but they still remains at high level and continue to constrain the operating performance of the Group. The Group remains confident that, through effective control on costs and overheads and improvements in inventory management, impacts from high production costs could be contained and gross profit can be maintained at a stable level. Looking forward, the Group will continue to invest further in production facilities, recruitment of skilled technicians and engineers and bring in more new advanced machineries to cater for customer's demand for quality and quick delivery.

The Group continues to strengthen our original design manufacturing ("ODM") business. The partnership with major optical brand-name customers contributes a healthy growth driven by our commitment to deliver quality products at attractive prices. Additional ODM opportunities have been developed with several customers during the year 2004/2005, which will have potential for further growth in turnover and profitability in the coming years. To optimize the profitability of the ODM business, the Group is making effort to securing orders with satisfactory gross profit margins while strengthening its relationship with major and long-established customers. In addition to striving for growth in its major markets, i.e., Europe and North America, the Group will also actively expand other potential overseas markets such as Japan, India and Eastern Europe.

Having considered the mentioned factors, both positive and negative, as one of the major manufacturers of optical frames for more than 30 years, the Group maintains the belief of steady growth of demand for optical products in the long run. The Group will continue to confront the challenges and move towards the goal of higher profitability.

APPRECIATION

The Board would like to convey its sincere gratitude towards all our customers, suppliers and shareholders for their long-term support. More importantly, we would like to thank all the employees of the Group for their efforts and passion, which is the foundation for future success of the Group.

The Board would like to take this opportunity to express our warmest welcome to Mr. Massimiliano Tabacchi, Mr. Tam Hok Lam, Tommy and Mr. Wong Chung Mat, Ben for joining the Group as the directors of the Company.

The Board also expresses its sincere thanks to the late Mr. Fok Kwan Wing, Phileas, deceased independent non-executive director, for his valuable guidance offered to the Group in the previous years.

LIQUIDITY AND FINANCIAL RESOURCES

Total shareholder's funds amounted to HK$451,847,000 as at 31 March 2005, representing an increase of 1.42% from HK$445,533,000 as reported last year.

It is the Group's policy to consistently maintain a healthy financial position and liquidity to meet funding requirement of the Group's operations. The Group adopted a prudent approach and attitude in treasury management. Funds were normally placed in HK dollar and US dollar short to medium term deposit to generate return without exposure to high risk. The cash and bank balances were reported at HK$134,374,000 (2004: HK$124,055,000) at the end of this financial year. The Group maintained strong working capital defined as current assets less current liabilities, of HK$206,981,000 (2004: HK$222,989,000) as at 31 March 2005. Current ratio was also maintained at a level of 2.75:1 (2004: 4.17:1).

Gearing, representing total bank borrowings over shareholder's funds, was maintained at a healthy level of 11.27% (2004: 3.69%). The increase in gearing was due to drawing banking facilities to finance the capital expenditures on the new production facilities at Shenzhen and Dongguan, PRC respectively. The Group had banking facilities amounted to HK$122,000,000 (31 March 2004: HK$50,500,000), of which approximately HK$50,907,000 (31 March 2004: HK$16,457,000) were utilised. All outstanding bank borrowings were for purposes of trade-finance and working capital and short to medium term in nature.

LIQUIDITY AND FINANCIAL RESOURCES *(continued)*

The Group has adopted a prudent strategy to contain the inventory level, which decreased by 4.53% to HK$64,614,000, despite an increase in turnover of 23.72%. Stock turnover days improved to 79 days as compared to 102 days in 2003/04.

As at 31 March 2005, the Group's capital commitment was HK$48,892,000 (31 March 2004: HK$46,324,000).

FOREIGN CURRENCY RISK

There is no material foreign exchange risk exposure to the Group. All of the bank borrowings are denominated in Hong Kong dollars. The revenue of the Group, being mostly denominated in US dollars, was fairly matched with the currency requirements of operating expenses.

PLEDGE OF ASSETS

At 31 March 2005, the Group has pledged its leasehold and investment properties with an aggregate carrying value of approximately HK$17,203,000 (31 March 2004: HK$16,284,000) 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 2005, the Company had contingent liabilities of HK$122,000,000 (31 March 2004: HK$50,500,000), comprised of guarantees given to banks in connection with facilities granted to its fellow subsidiaries.

EMPLOYEES

As at 31 March 2005, the Group employed a total of 4,846 employees. Most of them were stationed in the Mainland China while the rest were in Hong Kong and overseas. Employee costs (excluding directors' emoluments) amounting to approximately HK$78,732,000 (31 March 2004: HK$75,300,000). 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. Employees' remuneration is consistent with the prevailing industry practice in the respective countries where the Group operates.

By Order of the Board

Hui Leung Wah

Chairman

Hong Kong
29 June 2005