Chairman's Statement

I am pleased to present the annual report of China Elegance International Fashion Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 March 2003.

RESULTS

During the year ended 31 March 2003, the Group's turnover decreased by 18% to HK$140.2 million (2002: HK$170.5 million) as compared to that of last year. The decrease in turnover was largely due to (i) the drop of the "DENNY" brand in marketing leather garments during the year owing to the saturation of the leather garments market in PRC; (ii) revenue generated from sale of remaining units of the properties located in Tianjin, PRC was minimal for current year as most of the units have already been sold last year; and (iii) the decrease in leather materials business owing to unstable supply and volatility of raw leather materials price in PRC. With the acquisition of the iron ores and steel trading business during the year, the decrease in turnover of existing businesses was partially compensated by the consolidation of the results of this new business.

Gross profit for the year ended 31 March 2003 decreased by 33% to HK$25.1 million (2002: HK$37.5 million) as compared to that of last year. The decrease in gross profit was attributable to the decrease in turnover as well as the comparatively lower gross profit margin with the new business of iron ores and steel trading acquired during the year. However, total selling and distribution cost, administrative expenses and other operating expenses for the year ended 31 March 2003 continued to decrease as compared to that of last year as a result of management's shift of focus from retailing to wholesaling and distribution for the consumer products business.

As a result, the net loss attributable to shareholders decreased by 61% to HK$14.5 million (2002: HK$37.6 million). Basic loss per share for the year decreased by 62% to HK0.08 cent per share (2002: HK0.21 cent per share).

DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year.

BUSINESS REVIEW

Consumer products business

The Group's consumer products business comprises mainly wholesaling and distribution of garments, shoes and leatherware products.

The Group's leather garments were mostly marketed through its mid-end "DENNY" brand in PRC. With the saturation of the leather garments market collided with the vigorous competition within its business segment, the business of "DENNY" brand continued to shrink in recent years and the directors decided to drop this brand during the year.

Chairman's Statement

It was also a difficult year for the Group's business development of the high-end "GIOVANNI VALENTINO (Italy)" brand (the "GV") in PRC. The consumer products market in PRC was saturated with confusingly similar brand names and counterfeit products and thus the business of this brand continued to decrease athough the Group expanded the product categories of "GV" brand into shoes and leatherware products during the year.

Despite lots of resources and management time were spent to maintain, protect and defend this "GV" brand, the efforts had not generated expected results and therefore subsequent to the balance sheet date, the directors decided to get out of this brand and the licence to use the "GV" trademark was terminated in May 2003 with the trademark owner.

Nevertheless, in view of the rapid economic growth in PRC, demand for high quality and prestigious brands in PRC remains brisk. The Group is now in the process of negotiating with some overseas and local brand owners for new trademark licence for the PRC market and other parts of the world. At present the Group will continue its business in the manufacture, trading and distribution of leatherware and other accessories products for both local and export markets.

Properties trading

The Group continued to market and sell the remaining units of the properties located in Tianjin, PRC during the year and generated a revenue of approximately HK$0.9 million.

Leather materials

The leather materials business was involved in the trading and processing of raw leather materials. Due to unstable supply and volatility of raw leather materials price, the turnover decreased during the year.

Iron ores and steel trading

During the year, the Group acquired the entire issued share capital of Cheuk Yiu Investment Limited ("Cheuk Yiu") for a total consideration of HK$36 million. Cheuk Yiu's subsidiary, Chang Yuang Resources Limited ("Chang Yuang"), was involved in the sourcing of iron ores and steel from overseas and importing these materials into PRC. This newly acquired business has made a commendable contribution to the revenue of the Group and helped compensating the decrease in turnover and contribution of the Group's existing businesses.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, there is no significant change in the capital and loan structure of the Group.

As mentioned above, the Group acquired the entire issued share capital of Cheuk Yiu for a total consideration of HK$36 million. The funds required for the acquisition was sourced from internal financial resources of the Group.

Chairman's Statement

The Group generally financed its operations with internally generated cashflows during the year under review. However, the subsidiary Chang Yang has from time to time discounted its bills receivable with banks to finance its iron ores and steel trading business.

The Group's gearing ratio as at 31 March 2003 was 0.2% (2002: Nil) based on the total bank borrowing of HK$0.2 million (2002: Nil) and the shareholders' fund of HK$98.1 million (2002: HK$112.6 million). Interest on bank borrowing is charged at commercial lending rates to the Group.

As at 31 March 2003, the Group had cash and bank balances of approximately HK$12.1 million (2002: HK$15.8 million) of which bank deposit of HK$1 million (2002: Nil) was pledged to a bank for general banking facilities granted to the Group.

The operating cash flows of the Group is mainly denominated in HK$, RMB and US$, the directors consider these currencies relatively stable and therefore the Group's exposure to fluctuations in exchange rates is minimal.

CONTIGENT LIABILITIES

At 31 March 2003, there were contingent liabilities in respect of bills discounted with a bank amounting to HK$10,441,000 (2002: Nil) for the Group.

PROSPECTS

The directors believe that the consumer products market in PRC still provides enormous opportunities for the Group, in particular with Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) to become effective in the foreseeable future. With its stronghold and connection established in the PRC market over the years, the directors will continue to negotiate for the licensing of internationally well known brand names in fashion and other consumer products in the PRC.

All the remaining units of the properties located in Tianjin, PRC are expected to be sold in the forthcoming year. As there are signs of over-supply in the property market in PRC, the directors have opted to adopt a prudent approach in evaluating new property projects should opportunities arise.

Both the supply and pricing of raw leather materials are expected to continue to fluctuate in the near future. The directors will conduct the business with caution and will evaluate the market conditions from time to time to minimize the risks in this business.

With the prosperity of the construction sector and car industry in PRC, the demand for iron ores and steel materials will continue to increase. The directors consider that the acquisition of Cheuk Yiu during the year represents a good opportunity for the Group to acquire a well established business in an iron ores and steel trading business and allows the Group to diversify its business and to broaden the earnings base of the Group.

Chairman's Statement

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2003, the Group employed approximately 220 full time managerial and skilled staff, principally in Hong Kong and the PRC.

The Group remunerates and provides benefits for its employees based on current industry practice. In the PRC, the Group provides staff welfare and bonuses for its employees in accordance with prevailing labour legislation. In Hong Kong, it provides staff benefits including medical schemes and performance related bonuses. In addition, share options may be granted to eligible employees in accordance to the terms of the Company's share option scheme.

CONCLUSION

On behalf of the Board, I would like to thank shareholders for their continued support and I would also wish to take this opportunity to express my appreciation to my colleagues in the Board and all employees of the Group for their dedication and efforts in the past year.

By order of the Board
Cheung Ngan
Chairman

Hong Kong
25 July 2003