

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2004.

## CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the special general meeting on 5 January 2004, the name of the Company was changed from China Elegance International Fashion Limited to China Elegance (Holdings) Limited.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consisted of investment holding, properties trading, metals and minerals trading, and the manufacture, trading and distribution of consumer products including leather and non-leather garments and leatherware products.

The trading of leather materials business was temporarily suspended by the Group during the year.

## SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 16 to 54.

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

## SUMMARY FINANCIAL INFORMATION

The following is a summary of the results of the Group for the last five financial reporting years and of its assets and liabilities at the respective financial reporting year end dates, as extracted from the published audited financial statements of the Group.

**RESULTS**

	<b>Year ended 31 March</b>				
	<b>2004</b>	2003	2002	2001	2000
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>TURNOVER</b>	<b>163,077</b>	140,245	170,517	143,575	118,703
<b>LOSS AFTER FINANCE COSTS</b>	<b>(67,582)</b>	(10,850)	(33,594)	(41,634)	(66,438)
Share of profits less losses of associates	<b>921</b>	(1,001)	(1,090)	(204)	–
<b>LOSS BEFORE TAX</b>	<b>(66,661)</b>	(11,851)	(34,684)	(41,838)	(66,438)
Tax	<b>–</b>	(197)	(262)	–	2
<b>LOSS BEFORE MINORITY INTERESTS</b>	<b>(66,661)</b>	(12,048)	(34,946)	(41,838)	(66,436)
Minority interests	<b>(849)</b>	(2,431)	(2,658)	7	–
<b>NET LOSS ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>(67,510)</b>	(14,479)	(37,604)	(41,831)	(66,436)

**ASSETS AND LIABILITIES**

	<b>As at 31 March</b>				
	<b>2004</b>	2003	2002	2001	2000
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>	<b>7,126</b>	64,420	36,130	65,297	23,503
<b>CURRENT ASSETS</b>	<b>65,981</b>	67,647	138,724	145,892	111,277
<b>TOTAL ASSETS</b>	<b>73,107</b>	132,067	174,854	211,189	134,780
<b>CURRENT LIABILITIES</b>	<b>(21,656)</b>	(21,905)	(54,136)	(58,004)	(41,634)
<b>NON-CURRENT LIABILITY</b>	<b>–</b>	–	–	(3,005)	(3,193)
<b>TOTAL LIABILITIES</b>	<b>(21,656)</b>	(21,905)	(54,136)	(61,009)	(44,827)
<b>MINORITY INTERESTS</b>	<b>(12,914)</b>	(12,065)	(8,142)	–	–
<b>NET ASSETS</b>	<b>38,537</b>	98,097	112,576	150,180	89,953

## **FIXED ASSETS**

Details of movements in the fixed assets of the Company and of the Group are set out in note 11 to the financial statements.

## **SUBSIDIARIES AND ASSOCIATES**

Particulars of the Company's principal subsidiaries and associates are set out in notes 12 and 14 to the financial statements, respectively.

## **BORROWINGS**

As at 31 March 2004, the Group had no outstanding bank and other borrowings (2003: short term bank loan of HK\$192,000).

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 19 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## **RESERVES**

Details of movements in the reserves of the Company during the year are set out in note 20 to the financial statements. Detail of movements in the reserves of the Group during the year are presented in the consolidated statement of changes in equity on page 18 of the financial statements.

## **DISTRIBUTABLE RESERVES**

At the balance sheet date, the Company had no retained profits available for distribution. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company in the amount of HK\$87,109,000 as at 31 March 2004 (2003: HK\$172,576,000) is distributable to shareholders in certain circumstances, prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

**MAJOR CUSTOMERS AND SUPPLIERS**

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	<b>Percentage of the Group's total</b>
<b>Sales</b>	
– the largest customer	20%
– five largest customers combined	65%
<b>Purchases</b>	
– the largest supplier	24%
– five largest suppliers combined	55%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

**DIRECTORS**

The directors of the Company during the year were:

**Executive directors**

Mr. Cheung Ngan

Mr. Chan Chung Chun, Arnold

**Independent non-executive directors**

Mr. Li Chao De

Mr. Zhao Hong

In accordance with bye-law 111 of the Company's bye-laws, Mr. Zhao Hong will retire by rotation, and being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Independent non-executive directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's bye-laws.

## **REMUNERATION OF DIRECTORS AND OF THE FIVE HIGHEST PAID INDIVIDUALS**

Details of the directors' remuneration and that of the five highest paid individuals in the Group are set out in notes 5 and 6 to the financial statements, respectively.

## **DIRECTORS' SERVICE CONTRACTS**

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

## **SHARE OPTION SCHEME**

The Company's share option scheme which was adopted in 1996 (the "Old Scheme") was terminated and replaced by a new share option scheme (the "New Scheme") by an ordinary resolution of the shareholders at the special general meeting of the Company on 5 January 2004. The New Scheme constitutes a share option scheme governed by Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the New Scheme, the board of directors is empowered, at its discretion, to invite any full-time employees of the Company or any of its subsidiaries or associates, including any executive directors and non-executive directors of the Company or any of its subsidiaries or associates, to take up options to subscribe for shares in the Company. Details of the share option scheme are set out in note 19 to the financial statements.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

There were no new share options granted to directors under the Old Scheme and the New Scheme during the year. None of the share options granted to a director in prior years were exercised during the year. All outstanding share options previously granted to a director were surrendered on 13 November 2003 and there were no outstanding share options granted to the directors at the balance sheet date.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At the balance sheet date, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity/ Nature of interest	Number of shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Cheung Ngan	Personal	311,232,469	–	35.2%

Save as disclosed above, as at the balance sheet date, none of the directors of the Company have interest or short positions in the shares and underlying shares or other securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the year.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2004, no person, other than Mr. Cheung Ngan's interests which are disclosed in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of 5% or more of the issued share capital of the Company in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

## BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Name	Age	Position held	Number of years of service	Business experience
Mr. Cheung Ngan	47	Chairman, Director	6	Joined the Group in March 1998 and is responsible for the development of corporate strategies, corporate planning, marketing and management functions of the Group. He has over twenty years' working experience in corporate management and knowledge of PRC investments.
Mr. Chan Chung Chun, Arnold	44	Deputy Chairman, Director	9	Joined the Group in April 1995 and is responsible for general corporate investment and the financial advisory functions of the Group. He has extensive working experience in accountancy and commercial fields, particularly in the manufacturing, marketing and retailing of consumer products in Hong Kong and PRC.
Mr. Li Chao De	43	Non-Executive Director	5	Is a Professor in the Arts Faculty of Suzhou University. He holds a Bachelor's degree in Arts from Suzhou University of Technology. He has over nineteen years' experience in Arts & Design.
Mr. Zhao Hong	44	Non-Executive Director	4	Is presently the Deputy Chief Executive of CITIC Industrial Bank, Tianjin Branch. He graduated from Tianjin Financial and Economic College and has nearly twenty two years' experience in the banking industry.

**PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

**COMPLIANCE WITH THE 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 throughout the year covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the provision of the Company's bye-laws.

**AUDIT COMMITTEE**

The Company has established an audit committee (the "Audit Committee") in compliance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The Audit Committee, which comprises two independent non-executive directors of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters that covered the full financial year ended 31 March 2004.

**AUDITORS**

Johnny Chan & Co. Limited retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Cheung Ngan**

*Chairman*

Hong Kong  
23 July 2004