ELEGANCE INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
website: http://www.elegance-group.com
Stock Code: 907

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

FINANCIAL HIGHLIGHTS

Turnover	:	**HK$199,058,000**
Net Profit Attributable to Shareholders	:	**HK$16,048,000**
Earnings per Share	:	**HK$5.0 cents**
Dividend per Share	:	**HK$2.5 cents**
Total Shareholders Funds	:	**HK$451,713,000**

FINANCIAL RESULTS

The Board of Directors of Elegance International Holdings Limited (the "Company" or "Elegance") have pleasure to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2005. These interim results have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 September 2005 (Unaudited) HK$'000	2004 (Unaudited) HK$'000
TURNOVER	2	199,058	211,169
Cost of sales		(149,292)	(152,245)
Gross profit		49,766	58,924
Other revenue and gains		2,508	2,624
Selling and distribution expenses		(5,549)	(9,460)
General and administrative expenses		(28,832)	(27,692)
PROFIT FROM OPERATING ACTIVITIES	3	17,893	24,396
Finance costs		(1,061)	(33)
Share of losses of associates		(1,131)	(22)
PROFIT BEFORE TAX		15,701	24,341
Tax	4	(2,639)	(2,721)
PROFIT FOR THE PERIOD		13,062	21,620
ATTRIBUTABLE TO:			
Equity holders of the parent		16,048	21,492
Minority interests		(2,986)	128
	2	13,062	21,620
EARNINGS PER SHARE			
Basic	5	HK5.0 cents	HK6.6 cents
DIVIDEND PER SHARE	6	HK2.5 cents	HK3.0 cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 September 2005

	30 September 2005 (Unaudited) HK$'000	31 March 2005 (Audited) (Restated) HK$'000
NON-CURRENT ASSETS		
Fixed assets		
Property, plant and equipment	252,675	248,431
Investment properties	10,947	10,947
Prepaid land premiums/land lease payments	12,337	12,437
Interests in associates	4,434	5,023
Deposit paid for a land use right	3,671	2,838
Club debenture	650	650
Total non-current assets	284,714	280,326
CURRENT ASSETS		
Inventories	87,541	64,614
Prepaid land premiums/land lease payments	353	391
Trade and bills receivables	114,464	117,464
Prepayments, deposits and other receivables	4,340	8,443
Trading securities	482	401
Tax recoverable	–	42
Cash and cash equivalents	130,042	134,374
Total current assets	337,222	325,729
CURRENT LIABILITIES		
Trade payables	45,974	41,611
Bills payable	2,044	1,907
Other payables and accrued liabilities	27,491	29,435
Tax payable	7,913	5,070
Current portion of finance lease payables	218	–
Interest-bearing bank loan, secured	55,932	40,334
Total current liabilities	139,572	118,357
NET CURRENT ASSETS	197,650	207,372
TOTAL ASSETS LESS CURRENT LIABILITIES	482,364	487,698
NON-CURRENT LIABILITIES		
Finance lease payables	255	–
Interest-bearing bank loans, secured	5,997	8,666
Deferred tax	7,381	7,181
Total non-current liabilities	13,633	15,847
	468,731	471,851
CAPITAL AND RESERVES		
Equity attributable to equity holders of the Company		
Issued capital	32,365	32,365
Reserves	411,257	403,300
Proposed dividend	8,091	16,182
	451,713	451,847
Minority interests	17,018	20,004
	468,731	471,851

Notes:

1. **Accounting Policies**

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 28, 33, 36, 37, HKFRS 2, HKFRS 3 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

(a) *HKAS 17 – Leases*

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums or land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipments.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained profits. The comparatives on the condensed consolidated balance sheet as at 31 March 2005 have been restated to reflect the reclassification of leasehold land. Balance amortisable within one year from the balance sheet date of HK$353,000 (31 March 2005: HK$391,000) was classified as current asset with the remaining portion of HK$12,337,000 (31 March 2005: HK$12,437,000) classified as non-current asset.

(b) *HKAS 32 and HKAS 39 – Financial Instruments*

In prior periods, the Group classified its club debenture as long term investments which were held for non-trading purposes and were stated at cost less any impairment losses.

Upon the adoption of HKASs 32 and 39, the club debenture is classified as available-for-sale investments. Available-for-sale investments are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and option pricing models.

When the fair value of available-for-sale investments cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the loss recognised in the income statement shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale investment previously recognised in the income statement.

This change in accounting policy has had no significant effect on the condensed consolidated income statement and retained profits.

(c) *HKAS 40 – Investment Property*

In prior periods, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained profits rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the condensed consolidated financial statements.

The adoption of HKAS 40 has had the effect to increase the Group's retained profits and decrease the Group's investment property revaluation reserve as at 1 April 2005 by HK$1,879,000.

2. Segment Information

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and trading of optical frames, sunglasses and optical cases. No business segment analysis is presented as management considers that the Group has operated in one single business segment.

An analysis of the Group's turnover and contribution to profit from operating activities by geographical area of market for the six months ended 30 September 2005 and 2004 is as follows:

	For the six months ended 30 September			
	2005		**2004**	
	Turnover (Unaudited) *HK$'000*	**Profit for the period (Unaudited)** *HK$'000*	**Turnover (Unaudited)** *HK$'000*	**Profit for the period (Unaudited)** *HK$'000*
By geographical area:				
Europe	116,137	10,144	105,110	11,552
North America	66,000	5,765	80,737	8,874
The People's Republic of China (including Hong Kong)*	10,739	938	15,396	1,692
Other Asian countries	5,566	486	6,473	711
Others	616	54	3,453	380
	199,058	17,387	211,169	23,209
Interest income		1,193		2,319
Unallocated corporate expenses		(687)		(1,132)
Finance costs		(1,061)		(33)
Share of losses of associate		(1,131)		(22)
Tax		(2,639)		(2,721)
Profit for the period		13,062		21,620

* Sales were primarily made to agents in Hong Kong, but were also made to local retailers. The directors believed that the agents exported most of the Group's products to Europe and North America.

3. Profit from Operating Activities

Profit from operating activities is stated after charging depreciation amounting to HK$15,344,000 (six months ended 30 September 2004: HK$15,375,000 (restated)).

4. Tax

	For the six months ended 30 September	
	2005 (Unaudited) *HK$'000*	**2004 (Unaudited)** *HK$'000*
Current – Hong Kong profits tax	2,439	2,401
Deferred	200	320
Total tax charge for the period	2,639	2,721

The Group companies provide for tax on the basis of their income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Hong Kong profits tax for the Company and subsidiaries in Hong Kong has been provided at a rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. The subsidiaries operating in Mainland China (the "PRC") were not subject to the PRC income tax in the current or prior period as it did not generate any taxable income in the PRC.

No recognition of the potential deferred tax assets relating to tax losses of certain subsidiaries has been made as the recoverability of the potential deferred tax assets is uncertain.

5. Earnings per share

The calculation of basic earnings per share for the period is based on the net profit attributable to shareholders for the period of HK$16,048,000 (six months ended 30 September 2004: HK$21,492,000) and 323,649,123 (2004: 323,649,123) shares in issue.

Diluted earning per share has not been calculated for the current and prior period as no diluting events existed throughout the period.

6. Dividend

	For the six months ended 30 September	
	2005 *HK$'000*	**2004** *HK$'000*
Interim dividend of HK2.5 cents (2004: HK3.0 cents) per share	8,091	9,709

INTERIM DIVIDEND

At a meeting of board of directors held on 14 December 2005, the directors resolved to pay an interim dividend of HK2.5 cents (2004: HK3.0 cents) to shareholders whose name appear on the Register of Members of the Company on 19 January 2006. The interim dividend will be paid on or before 26 January 2006.

CLOSURE OF THE REGISTER

The Register of Members will be closed from 13 January 2006 to 19 January 2006 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 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 12 January 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2005, the Group's turnover decreased by 5.74% from the six months period ended 30 September 2004 to HK$199,058,000 (2004: HK$211,169,000). The profit attributable to the shareholders for the period was HK$16,048,000 (2004: HK$21,492,000). Earnings per share for the period was HK5.0 cents as compared to HK 6.6 cents for the six months ended 30 September 2004. The Board recommends the payment of interim dividend of HK2.5 cents per share for the period as compared to interim dividend of HK 3.0 cents per share for the six months ended 30 September 2004.

The decrease in turnover of the Group in the first half of this financial year was mainly due to the sluggish demand from customers in North America. The turnover from North America declined by 18.25% to HK$66,000,000 (2004: HK$80,737,000), accounting for 33.16% (2004: 38.23%) of the total turnover of the Group. Contrary to the sales performance of the North American market, the Group continued to achieve a sale growth in the European market. Turnover from Europe rose by 10.49% over the same period in 2004 to HK$116,137,000 (2004: HK$105,110,000), representing 58.34% of the total turnover of the Group, compared to that of 49.78% in the corresponding period in 2004. The turnover from China and Hong Kong and other Asian countries accounted for 5.39% (2004: 7.29%) and 2.80% (2004: 3.07%) respectively of the Group's turnover for the period concerned.

The gross profit margin was maintained at 25.00%, which was comparable to the gross profit margin of 25.00% for the previous financial year ended 31 March 2005. Despite the management's effort on cost control and streamlining the operation, the savings achieved had been outweighted by the reduction in economy of scale caused by the slower than expected sales in the North America, high labour costs triggered by the labour shortage in China and the continual increase in utility expenses. The new factory in Dongguan that commenced operation in June 2005 had also contributed to an increased head-count and greater factory overhead.

The period under review witnessed the continuous strong demand for acetate-based products. However, the Group could not benefit much from the trend as we did not have a great capacity for this kind of products.

PROSPECT

The first half of financial year 2005/2006 experiences a slow start. It works to lower the economy of scale of our operation. Thus the profitability of the Group retreats when compared to the corresponding period last year. However, at the end of the period under review, the business momentum speeds up and it is a positive sign for the business prospect of the second half of the financial year.

The management will focus further on streamlining the production operation as well as strengthening the sales effort. We shall further align our production capacities in Shenzhen and Dongguan to achieve better efficiency internally.

The strength of the U.S. dollars in recent months and in particular the weakness of Japanese Yen will help easing the rising pressure on our material costs. We are hopeful that the upward trend in the material costs has been stabilised and that may help releasing the pressure which squeezes on our profit margin. That said, the long expected appreciation of Reminbi, if and when happens, will work against the advantages offered by the strong U.S. dollars as a good part of the operational expenses of the Group is Reminbi-based. A Reminbi appreciation against the U.S. dollar and other currencies will increase our cost of operation since our sales are predominantly U.S. dollar based.

In general and based on currently available information, the management is cautiously optimistic about achieving better results for the rest of the year. Although there are mixed views on the trend of the world economy, the management is satisfied that demand for the optical products worldwide remains healthy. With our devotion and dedication to the manufacturing excellence and the solid fundamentals already invested upon, the Group is ready to capitalise on growing the business.

LIQUIDITY AND CAPITAL RESOURCES

The Group continued to maintain a stable liquidity position throughout the period under review. Total cash and banking balances of the Group as at 30 September 2005 amounted to HK$130,042,000 (31 March 2005: HK$134,374,000), denominated in HK dollars, U.S. dollars and Reminbi. The Group had available aggregate banking facilities of HK$150,316,000 of which about HK$63,973,000 were utilised (31 March 2005: HK$50,907,000). The Group utilised additional banking facilities of HK$13,066,000 during the period under review to finance the installation of new production facilities at Jin Quan, Shenzhen as well as the addition of factory premises at Dongguan in China. All of the bank loans were denominated in HK dollars and of floating rate structures. The Group's gearing ratio was 14.16% (31 March 2005: 11.27%) at 30 September 2005, defined as the total bank borrowings over shareholder's funds. A current ratio of 2.42:1 (31 March 2005: 2.75:1) and the quick acid ratio of 1.79:1 (31 March 2005: 2.21:1) were maintained as at the end of the period under review.

Capital expenditure for the period under review on additions of new machinery and addition of factory premises at Dongguan in China amounted to HK$26,921,000 (2004: HK$30,741,000) and it was mostly funded by internal generated working capital and banking facilities.

The Group contracts business transactions mainly in Hong Kong dollars, Reminbi and U.S. dollars and, whereas bank deposits are maintained in Hong Kong dollars and U.S. dollars. As Hong Kong dollars is pegged to U.S. dollars and there has not been any major fluctuation in the exchange rate between Reminbi and Hong Kong dollars, the Group does not foresee any material exchange risk in this respect. There is no outstanding foreign exchange contract as at 30 September 2005.

THE PLEDGE OF ASSETS

The Group's leasehold land and buildings situated in Hong Kong and elsewhere with an aggregate net book value of HK$12,433,000 (31 March 2005: HK$12,374,000) and the investment property situated in Hong Kong with an aggregate valuation of HK$4,829,000 (31 March 2005: HK$4,829,000) were pledged to secure the general bank facilities granted to the Group. The banking facilities were also secured by corporate guarantees from the Company.

EMPLOYEES

As at 30 September 2005, the Group employed approximately 4,954 full time staff in China and in Hong Kong. Total staff costs of the Group for the period under review amounted to HK$48,383,000 (2004: HK$41,062,000). The Group remunerates its employees based on their performance, working experience and the prevailing labour market. Performance related bonuses are granted on a discretionary basis. The Group also provides medical insurance coverage and provident fund to employees in Hong Kong.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls for the six months ended 30 September 2005. The audit committee comprises Poon Kwok Fai, Ronald, Wong Chung Mat, Ben and Tam Hok Lam, Tommy, the independent non-executive directors of the Company, with Tam Hok Lam, Tommy having appropriate professional financial qualifications.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("SEHK") throughout the six months ended 30 September 2005, except the following deviation:

Code Provision A.2.1 stipulates that the roles of chairman and chief executives officer should be separate and should not be performed by the same individual. Mr. Hui Leung Wah is the founder and Chairman of the Board. The Company does not have any officer with the title "chief executive officer". Mr. Hui assumes the role of both Chairman and Managing Director of the Company and he is in charge of the overall management of the Company. The Company considers that the combination of the roles of chairman and chief executive officer can promote the efficient formulation and implementation of the strategies which will enable the Company to take advantage of market opportunities promptly. The Company will review the feasibility of separating the two roles to comply with Code Provision A.2.1.

To comply with the Code Provision A.4.1 of the Code, the relevant resolutions have been proposed and approved by the shareholders at the annual general meeting of the Company held on 19 August 2005 whereby all non-executive directors were re-elected as a non-executive director for a specific terms of not more than three years.

To comply with the Code Provision A.4.2 of the Code, the relevant amendment to Bye-laws of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 19 August 2005 whereby all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director of the Company shall be subject to rotation at least once every three years respectively.

The Company has set up a remuneration committee in June 2005 responsible for formulating and making recommendation to the Board on the Group's policy and structure for all the remunerations of the Directors and senior management and on the establishment of formal procedures for developing policy on such remuneration.

The Company has also set up a nomination committee in June 2005. The committee is responsible for nominating and affirming potential directors approved by the Board, reviewing the structure and composition of the Board on a regular basis and ensuring fair and transparent procedures for the appointment of Directors to the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (the "Model Code")

The Company had adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding Director's securities transactions. Upon specific enquiry of the Company, all of the Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 September 2005.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or by any of its subsidiaries during the period.

APPRECIATION

On behalf of the Board of Directors, I take this occasion to thank sincerely our customers, suppliers, and shareholders for their support and the staff for their devotion and commitment to serve.

DETAILED RESULTS ANNOUNCEMENT ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) and 49(9) of Appendix 16 of the Listing Rules will be published on the web site of the Company (www.elegance-group.com) and the web site of SEHK in due course.

As at the date of this announcement, the executive Directors are Hui Leung Wah, Poon Sui Hong and Leung Shu Sum, the non-executive Directors are Mario Pietribiasi and Massimiliano Tabacchi and the independent non-executive Directors are Poon Kwok Fai, Ronald, Tam Hok Lam, Tommy and Wong Chung Mat, Ben.

By Order of the Board
Hui Leung Wah
Chairman

Hong Kong, 14 December 2005