



# ELEGANCE INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)  
website: <http://www.elegance-group.com>

Stock Code: 907

## CONTINUING CONNECTED TRANSACTIONS TRADING ARRANGEMENTS WITH THE SÀFILO GROUP

The Group has carried on certain Transactions with the Sàfilo Group since 1997. SFEL, a wholly-owned subsidiary of Sàfilo, is a substantial Shareholder of the Company, and the Transactions constitute non-exempt continuing connected transactions for the Company under the Listing Rules.

The Company has in the 2004 SGM obtained Independent Shareholders' approval of these Transactions based on the Existing Cap. As the Directors intend that such Transactions are to continue, the Company proposes to seek Independent Shareholders' approval of the Transactions subject to the New Cap.

SFEL and its associates will abstain from voting at the special general meeting of the Company to be convened for this purpose. The votes of the Independent Shareholders in the special general meeting will be taken by poll.

A circular containing, among other things, details of the Transactions, the advice of the IFA and the recommendations of the Independent Board Committee, together with a notice convening the special general meeting of the Company to approve the Transactions subject to the New Cap will be despatched to the Shareholders as soon as practicable.

### BACKGROUND

The Group is principally engaged in the businesses of design, manufacture and sale of metal and plastic optical frames and sunglasses. On 18th April 1997, the Company and Sàfilo had entered into the Supply Agreement pursuant to which the Group agreed to supply the Products to the Sàfilo Group. Each sale and purchase of such Products are made subject to purchase orders placed by the Sàfilo Group with the Group from time to time, at prices agreed between them on an arm's length basis based on market conditions. A discount based on a formula will be given if the aggregate invoiced amount reaches a certain level.

Sàfilo was established in Italy in 1934 and is a well-known eyewear producer in the premium eyewear market segment. As at the date of this announcement, SFEL, a wholly-owned subsidiary of Sàfilo, is interested in approximately 23.05% of the issued share capital of the Company. Accordingly, SFEL is a substantial Shareholder of the Company and the Transactions constitute continuing connected transactions of the Company under the Listing Rules. In light of this, the Company has in the 2004 SGM obtained Independent Shareholders' approval based on the Existing Cap in relation to the Transactions. Reference is made to the 2004 Announcements and 2004 Circular.

The Independent Shareholders' approval of these Transactions based on the Existing Cap is only for the period up to 31st March 2007. In the two years ended 31st March 2006 and the period from 1st April 2006 up to the date of this announcement, business between the Group and the Sàfilo Group has enjoyed healthy growth. As the Directors expect the Transactions to continue, the Company proposes to seek Independent Shareholders' approval of the Transactions subject to the New Cap.

### THE SUPPLEMENTAL AGREEMENT

To comply with the requirements of the Listing Rules, the Company and Sàfilo had on 15th February 2007 entered into the Supplemental Agreement incorporating the terms of the Supply Agreement which sets out the expected annual amounts of Products the Sàfilo Group proposes to purchase from the Group for the next three years ending 31st March 2010, subject to Independent Shareholders' approval. The aggregate expected annual amount of the Transactions set out in the Supplemental Agreement is equivalent to the New Cap. The Supplemental Agreement states that if and to the extent that the aggregate consideration received by the Group has reached the amounts of the New Cap, any further Transactions will be subject to compliance with requirements of the Listing Rules by the Company.

### NEW CAP FOR WHICH INDEPENDENT SHAREHOLDERS' APPROVAL IS PROPOSED TO BE SOUGHT

The aggregate values of the Transactions for the two years ended 31st March 2006 (based on the audited consolidated financial statements of the Group) and for the six months ended 30th September 2006 (based on the unaudited consolidated financial statements of the Group) are set out below. As at the date hereof, the Group has not exceeded any of the limits set out in the Existing Cap.

The Directors believe that it is in the commercial interest of the Company to seek Independent Shareholders' approval for the continuation of the Transactions up to the limits specified in the New Cap as set out below. The New Cap is calculated based on the projected future sales volume and intended average pricing of the Products.

	Amount (HK\$'000)					
	Year ended 31.03.2005	Year ended 31.03.2006	Year ending 31.03.2007	Year ending 31.03.2008	Year ending 31.03.2009	Year ending 31.03.2010
Existing Cap/New Cap	HK\$230,000	HK\$255,000	HK\$280,000	HK\$390,000 (Note 2)	HK\$470,000 (Note 3)	HK\$565,000 (Note 3)
Actual Annual Value of Transactions	HK\$214,773	HK\$214,886	HK\$135,750 (Note 1)			

Note 1: based on the unaudited consolidated interim financial statements of the Group for the six months ended 30th September 2006.

Note 2: based on the understanding between the Group and the Sàfilo Group of the expected growth in the sales volume of the Products made by the Sàfilo Group and therefore the purchase orders placed by the Sàfilo Group to the Group are expected to increase by approximately 18% for the year. The sales trend also suggested that an increasing amount of purchase orders for quality products and sunglasses (which involve higher production costs) will be placed by the Sàfilo Group. The average sales price is also expected to increase accordingly.

Note 3: based on the expected growth in the future sales volume of the Products made by the Sàfilo Group and therefore the purchase orders placed by the Sàfilo Group to the Group are expected to increase by around 10% per year and taking into account increase in average sales price per year.

As certain percentage ratios in respect of the New Cap for the Transactions on an annual basis exceed 2.5%, the Transactions will constitute "non-exempt continuing connected transactions" of the Company under the Listing Rules. Accordingly, the Transactions, the Supplemental Agreement and the New Cap are subject to Independent Shareholders' approval.

### REASONS FOR THE NEW CAP

The Independent Shareholders' approval of these Transactions based on the Existing Cap is only for the period up to 31st March 2007. The continued growth of business between the Group and the Sàfilo Group has contributed positively to the Group's results over the past three years and the Directors consider that the Transactions with the Sàfilo Group has become a stable source of business for the Group.

The Directors expect that in view of the good long term working relationship which it has established with the Sàfilo Group, the Group's business with the Sàfilo Group will continue to grow and will further enhance the growth prospects of the Group's business. The Directors (including the independent non-executive Directors) are of the view that the terms of the Supplemental Agreement and the Transactions (including the New Cap) are fair and reasonable and in the interests of the Shareholders as a whole and that the Supplemental Agreement and the Transactions are entered into on normal commercial terms.

In order to allow the Group to take advantage of such growth opportunities, in the context of the Transactions, the Directors now seek Independent Shareholders' approval of the Transactions subject to the New Cap. When setting the New Cap, the Directors made moderate projections of the Transactions over the next three years based on, amongst other factors, historical growth in turnover and indicative orders from the Group's customers for the three years ending 31st March 2010. The New Cap is considered by the Directors to be a reasonable buffer for further growth of the Transactions.

### GENERAL

An Independent Board Committee will be constituted to make recommendation to the Independent Shareholders in respect of the resolution to approve the Transactions, the Supplemental Agreement and the New Cap. The IFA has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transactions and the New Cap are fair and reasonable and whether they are in the interests of the Company and the Shareholders as a whole.

A circular containing, among other things, details of the Transactions and the New Cap, the advice of the IFA and the recommendations of the Independent Board Committee, together with a notice convening the special general meeting of the Company to approve the Transactions subject to the New Cap will be despatched to the Shareholders as soon as practicable. SFEL and its associates will abstain from voting at the special general meeting to be convened for this purpose. The votes of Independent Shareholders in the special general meeting will be taken by poll.

### DEFINITIONS

The following defined terms are used in this Announcement:

"2004 Announcements"	the announcements of the Company dated 4th March 2004, 31st March 2004 and 1st April 2004 in relation to the Transactions
"2004 Circular"	the circular of the Company dated 15th March 2004
"2004 SGM"	the special general meeting of the Company held on 31st March 2004
"associates"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Company"	Elegance International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
"Director(s)"	the director(s) of the Company
"Existing Cap"	the cap as approved by the Independent Shareholders in the 2004 SGM and referred to as the "New Cap" in the 2004 Circular
"Group"	the Company and its subsidiaries
"IFA"	Somerley Limited, the independent financial advisers of the Company
"Independent Board Committee"	a board committee comprising the independent non-executive Directors of the Company to be constituted to make recommendations to the Independent Shareholders in respect of the New Cap
"Independent Shareholders"	Shareholders other than SFEL and its associates
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"New Cap"	the maximum value of Transactions for each of the three years ending 31st March 2010 as set out under "New Cap For which Independent Shareholders' Approval is Proposed to be Sought"
"Products"	optical frames, sunglasses and other products
"Sàfilo"	Sàfilo S.p.A., a company incorporated in Italy with limited liability
"Sàfilo Group"	Sàfilo and its subsidiaries
"SFEL"	Sàfilo Far East Limited, a wholly-owned subsidiary of Sàfilo and a substantial Shareholder holding approximately 23.05% of the issued share capital of the Company
"Shareholder(s)"	holder(s) of shares of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed thereto in the Listing Rules
"substantial Shareholder"	has the meaning ascribed thereto in the Listing Rules
"Supplemental Agreement"	the supplemental agreement entered into between the Company and Sàfilo on 15th February 2007 which is supplemental to the Supply Agreement
"Supply Agreement"	the supply agreement entered into between the Company and Sàfilo on 18th April 1997 as amended by an amendment agreement made between the same parties on 7th July 1998 and the Supplemental Agreement
"Transactions"	the sales of optical frames, sunglasses and other products by the Group to the Sàfilo Group pursuant to the Supply Agreement

By Order of the Board  
Elegance International Holdings Limited  
Hui Leung Wah  
Chairman

As at the date of this announcement, the executive directors of the Company 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, JP and Wong Chung Mat, Ben.

Hong Kong, 15th February, 2007