I am pleased to present the annual report of China Elegance (Holdings) Limited ("the Company") and its subsidiaries ("the Group") for the year ended 31 March 2004.

RESULTS

During the year ended 31 March 2004, the Group's turnover increased by 16% to HK$163.1 million (2003: HK$140.2 million) as compared to that of last year. The increase in turnover was largely due to the increase in turnover of the metals and minerals trading business which was partially set-off by the decrease in consumer products business during the year.

Gross profit for the year ended 31 March 2004 decreased by 26% to HK$18.5 million (2003: HK$25.1 million) as compared to that of last year. Despite the increase in turnover, the decrease in gross profit was mainly due to the comparatively lower gross profit margin with the metals and minerals trading business to the consumers products business.

Selling and distribution cost dropped as a result of decrease in turnover of consumer products business. The significant increase in other operating expenses for current year was due to impairment loss of HK$53.4 million which was provided for the goodwill arose from the acquisition of certain subsidiaries in prior years, based on the estimated recoverable amounts of the goodwill after considering the significant difficulties in the operation of these subsidiaries.

As a result, the net loss attributable to shareholders increased by 366% to HK$67.5 million (2003: HK$14.5 million). Basic loss per share for the year increased by 311% to HK12.16 cents per share (2003: HK2.96 cents per share).

DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 March 2004.

BUSINESS REVIEW

Consumer products business

The Group's consumer products business comprises mainly manufacture, wholesaling and distribution of leather and non-leather garments, shoes and leatherware products, in particular under the high-end "GIOVANNI VALENTINO (Italy)" brand.

As disclosed in last year's annual report, the Group terminated the trademark licence of "GIOVANNI VALENTINO (Italy)" brand in PRC during the year, due to the operation problems arised from the presence of counterfeit products and numerous confusing brand names in the market. Nevertheless, the directors considered that the rapid economic growth in PRC could still provide opportunities for consumer products and therefore the Group has signed up a trademark licence for a new brand for the PRC market as well as the US market.

In addition to managing the new brand as mentioned above, the Group will continue its business in the manufacture, marketing and distribution of leatherware and other accessories products for both local and foreign markets.

Properties trading

All the remaining units of the properties located in Tianjin, PRC were sold during the first half of the year.

Leather materials

Due to unstable supply and volatility of raw leather materials price, the Group temporarily suspended the raw leather materials business during the year.

Metals and minerals trading

The Group started its metals and minerals trading business with the acquisition of an iron ores and steel trading business in 2002, which was involved in the sourcing and importing of iron ores and steel from overseas into PRC. The prosperity of the construction sector and car industry in PRC last year created enormous demand for iron ores and steel as well as other metals and minerals and, in this regard, the Group has expanded from its existing customer base in the Central-eastern provinces into other parts of PRC and also sourced other metals and minerals products for the PRC market. However, the recent macro-economic tightening measures imposed by the Central Government of China had slowed down the over-heated market for these commodity products.

CAPITAL REORGANISATION

The Company announced on 19 November 2003 for a capital reorganisation of the then existing share capital as well as an open offer of new shares after the capital reorganisation becoming effective. Details of which are set out in note 19 of the accompanying financial statements.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENT

The Group generally finances its operations with internally generated cashflows during the year under review. However, the subsidiary Chang Yuang Resources Limited has sometimes discounted its bills receivable to finance its metals and minerals trading business.

In order to expand the business of metals and minerals trading and as mentioned in the above section headed "CAPITAL REORGANISATION", the Company announced on 19 November 2003 to raise new capital by way of an open offer of new shares (the "Open Offer"). The Open Offer was completed and 794,967,120 new shares were issued on 30 January 2004 with net proceeds of approximately HK$6.6 million raised for additional working capital of the Group.

The Group's gearing ratio as at 31 March 2004 was nil as there was no borrowing as at 31 March 2004 (2003: 0.2% based on the bank borrowing of HK$0.2 million and the shareholders' fund of HK$98.1 million). Interest on bank borrowing is charged at commercial lending rates to the Group.

As at 31 March 2004, the Group had bank balances and cash of approximately HK$18.4 million (2003: HK$12.1 million) of which bank deposits of approximately HK$3.7 million (2003: HK$1.0 million) were pledged to secure 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.

At 31 March 2004, the Group had capital commitment which had been contracted but not been provided for in the financial statements of approximately HK$4,700,000 (2003: Nil) in respect of subscription of new shares of an overseas listed company.

CONTIGENT LIABILITIES

At 31 March 2004, there were contingent liabilities in respect of bills discounted with a bank amounting to approximately HK$3.0 million (2003: HK$10.4 million) for the Group.

PROSPECTS

The directors believe that the consumer products market in PRC still provides enormous opportunities for the Group with the rising trend of personal disposable income in PRC. Despite the termination of the trademark licence of "GIOVANNI VALENTINO (Italy)" brand during the year, a new trademark licence was signed up and the directors believed that this new brand will gradually provide reasonable contribution to the Group's result in the future, given the Group's stronghold and connection established in the PRC market in the past.

The macro-economic tightening measures recently imposed by the Central Government of China certainly had created moderate adjustments on the PRC economy. The real estate sector and the iron refinery industry, in which two of our principal activities are involved, are the major areas to be tightened and controlled. The directors consider the market for these two areas will remain volatile in the forthcoming year and the Group will take a prudent approach in evaluating any new property projects and also be very careful in dealing with the metals and minerals trading business.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2004, the Group employed approximately 190 full time managerial, and skilled staff, principally in Hong Kong and PRC.

The Group remunerates and provides benefits for its employees based on current industry practice. Discretionary bonus and other individual performance bonus are awarded to staff based on the financial performance of the Group and personal performance of individual staff. In PRC, the Group provides staff welfare for its employees in accordance with prevailing labour legislation. In Hong Kong, it provides staff benefits including mandatory provident fund scheme and medical scheme. 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
23 July 2004