Chairman's Statement

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 2005.

RESULTS

During the year ended 31 March 2005, the Group's turnover increased by 11.7% to HK$182.2 million (2004: HK$163.1 million) as compared to that of last year. The increase in turnover was due to the increase in turnover of the metals and minerals trading business which more than compensate the decrease in consumer products business during the year.

Gross profit for the year ended 31 March 2005 decreased by 33.0% to HK$12.4 million (2004: HK$18.5 million) as compared to that of last year. Despite the increase in turnover, the decrease in gross profit was mainly due to lower gross profit margin of the metals and minerals trading business as a result of competitive market condition. Decrease in turnover of consumer products business, which used to command higher gross profit margin as compared to the metals and minerals trading business, also contributed to the decrease in overall gross profit.

In view of decreasing turnover from the consumer products business, the Group increased its emphasis on sub-licensing of brands and thus increased other revenue from administration fee income. Despite the above, total other revenue decreased because the gain on disposal of subsidiaries generated in current year was much less than that in last year. Selling and distribution cost continued to drop for current year as a result of decrease in turnover of consumer products business. There was a significant decrease in other operating expenses for current year. It was due to a non-recurring impairment loss of HK$53.4 million for the goodwill arised on the acquisition of certain subsidiaries in prior years had been provided for in last year.

As a result, the net loss attributable to shareholders decreased by 98.8% to HK$0.8 million (2004: HK$67.5 million). Basic loss per share for the year decreased by 99.3% to HK0.09 cent per share (2004: HK12.16 cents per share).

DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 March 2005.

BUSINESS REVIEW

Consumer products business

The Group's consumer products business comprises mainly manufacture, wholesaling and distribution of garments and leatherware products, for branded and non-branded items.

As disclosed in last year's annual report, the Group signed up a trademark licence for a new brand with a local brand owner for various regions including the PRC market. It is anticipated that the rapid economic growth in PRC still provides opportunities for the Group's consumer products business.

However, to limit our investment while expanding quickly with our brand, the Group will put more emphasis in soliciting appropriate sub-licencees to help expand our business in this area.

Properties trading

The remaining units of the properties located in Tianjin, PRC were sold in last year and there is no other property project under development at present.

Metals and minerals trading

The macro-economic tightening measures imposed by the Central Government of China last year had slowed down the over-heated market for commodity products. Hence, the growth in demand for iron ores and other minerals as well as scrap metals for re-processing in China decreased.

As a result, the gross profit margin for metals and minerals trading business decreased and the Group decided to dispose its non-wholly owned subsidiary Chang Yuang Resources Limited ("Chang Yuang") which incurred a loss during the year. However, the Group has retained and increased interests in several Malaysian associates (which was held by Chang Yuang's wholly-owned subsidiary Kind Success Holdings Limited after reorganisation immediately before disposal of Chang Yuang) by the acquisition of Kind Success Holdings Limited from Chang Yuang (Details are set out in note 21 to the financial statements). The principal activities of these Malaysian associates primarily include extraction and sales of iron ores in Malaysia. The Group will continue its metals and minerals trading business through its wholly-owned subsidiaries China Elegance Mining Company Limited and Shui Yuen (Manganese) Group Limited and it is expected that the Malaysian associates can supplement the Group's operations in this business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflows during the year under review. However, the Group's metals and minerals division has sometimes discounted its bills receivable to finance its business.

The Group's gearing ratio as at 31 March 2005 was nil (2004: nil) as there was no bank borrowings at the balance sheet date. Interest on bank borrowings is charged at commercial lending rates to the Group.

As at 31 March 2005, the Group had bank balances and cash of approximately HK$15.4 million (2004: HK$18.4 million) of which a bank deposit of approximately HK$1.0 million (2004: HK$3.7 million) was pledged to secure general banking facilities granted to the Group.

The operating cash flows of the Group are mainly denominated in HK dollars, Renminbi and US dollars. Foreign exchange exposure of the Group is considered to be minimal as long as the policies of the Central Government of PRC and the Government of the Hong Kong Special Administrative Region to link Renminbi and HK dollars to US dollars remain unchanged. However, the Group will closely monitor the currency exposure and, when considered appropriate, will take the necessary actions to ensure that such exposure is properly hedged.

CONTINGENT LIABILITIES

At 31 March 2005, the Group had no significant contingent liabilities (2004: approximately HK$3.0 million in respect of bills discounted).

PROSPECTS

The directors believe that the consumer products market in PRC still provides opportunities for the Group with the growth of PRC economy and the rising trend of personal disposable income in PRC. Despite a maturing middle class who exhibits a much more sensible consumption behavior in recent years, the management remains cautiously optimistic that our new brand signed up last year can establish a foothold in the PRC market. As mentioned above, the Group will put more emphasis in soliciting appropriate sub-licencees to help expand our business in this area.

With the tightening of bank financing for properties and the recent imposition of business tax on total sales value of residential properties held by individuals for less than two years, the PRC property market remains unstable in the near future and the directors therefore temporarily suspended the properties trading business. With completion of the sale of the Tianjin property project last year, the Group has no other property project on hand.

With macro-economic tightening measures still in force and change in government's policy such as withdrawal of export VAT refund for ferro-alloy, demand for metals and minerals will remain volatile in PRC for the forthcoming year and the Group will remain cautious and careful in dealing with the metals and minerals trading business.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2005, the Group employed approximately 53 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. 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 the 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
15 July 2005