1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKAS and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

HKASs 32 and 39

The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in changes in the accounting policies relating to the Group's long term investments securities which were previously stated at cost less provision for impairment losses, if any, are now redesignated as available-for-sale investments and carried in the balance sheet at their fair values. The change in fair value is 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 amount, being the difference between the fair values of these available-for-sale investments and their previous carrying amounts, of HK$1,337,000 as at 31 March 2005 was debited to the Group's accumulated profits as at 1 April 2005.

As HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis, all the related financial impact on the Group's financial statements are reflected as opening adjustments to the Group's accumulated profits as at 1 April 2005 and accordingly, the comparative figures as presented in the audited condensed consolidated balance sheet have not been restated.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 2

The adoption of HKFRS 2 "Share-based Payment" has resulted in a change in the accounting policy for share-based payments.

The Group operates an equity-settled, share-based compensation plan. Until 31 March 2005, the provision of share options granted by the Company to the Group's employees including directors did not result in expenses in the income statement. With effect from 1 April 2005, the fair value of the employee services received in exchange for the grant of the share options of the Company is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share options granted by the Company.

The change in accounting policy has no effect on the results and financial position of the Group as there were no options outstanding at 1 April 2005 or granted during the six months ended 30 September 2005.

HKFRS 3

The adoption of HKFRS 3 "Business Combinations" has resulted in a change in the accounting policy for goodwill. In prior years, goodwill on acquisitions of subsidiaries or associates on or after 1 January 2001 was:

– amortised on a straight-line basis over ten years; and

– assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– the Group ceased amortisation of goodwill with effect from 1 April 2005;

– accumulated amortisation of goodwill as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill; and

– goodwill is tested annually for impairment, as well as when there is an indication of impairment.

As a result of this change in accounting policy, no amortisation has been charged in the current period. Comparative figures for prior period have not been restated.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the sales value of goods supplied to customers. An analysis of turnover and results by business segments is as follows:

Business segments:

	Revenue from external customers Six months ended 30 September		Segment results Six months ended 30 September	
	2005 (unaudited) HK$'000	2004 (unaudited) HK$'000	**2005 (unaudited) HK$'000**	2004 (unaudited) HK$'000
Sale of consumer products	**5,834**	5,476	**(3,767)**	(825)
Sale of properties	**–**	–	**–**	48
Sale of metals and minerals	**62,269**	104,050	**4,052**	(2,743)
	68,103	109,526	**285**	(3,520)
Unallocated operating income and expenses			**(4,574)**	(3,815)
Loss from operating activities			**(4,289)**	(7,335)
Finance costs			**(432)**	(428)
Share of profits of associates			**1,750**	1,892
Tax			**–**	–
Net loss for the period			**(2,971)**	(5,871)

Geographical segments:

As over 90% of the Group's business revenue was generated from the People's Republic of China, no geographical segments analysis is presented.

4. OTHER REVENUE

	Six months ended 30 September	
	2005 (unaudited) HK$'000	2004 (unaudited) HK$'000
Interest income	**219**	26
Others	**2,346**	2,540
	2,565	2,566

5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities has been arrived at after charging:

	Six months ended 30 September	
	2005	2004
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Depreciation	**354**	561
Amortisation of goodwill	**–**	117
Bad debts written off	**1,891**	–
Impairment loss of goodwill	**1,449**	–

6. TAX

	Six months ended 30 September	
	2005	2004
	(unaudited)	(unaudited)
	HK$'000	HK$'000
Hong Kong	**–**	–

No Hong Kong profits tax has been provided for the Company and its subsidiaries as they had no assessable profits for the current period (2004: Nil).

The Group's share of tax of associates of HK$655,000 (2004: Nil) is included under share of profits of associates in the unaudited condensed consolidated income statement.

Overseas taxes on profits assessable of the Company and its subsidiaries or associates, if any, are calculated at the rates of tax prevailing in the respective jurisdictions in which they operate, based on the prevailing legislation, interpretations and practices in respect thereof.

There were no significant deferred tax liabilities at the balance sheet date (31 March 2005: Nil).

7. LOSS PER SHARE

Basic loss per share is calculated based on the net loss attributable to the shareholders of the Company for the period of approximately HK$2,184,000 (2004: HK$1,836,000) and 883,296,800 (2004: 883,296,800) ordinary shares in issue during the period.

Diluted loss per share is not presented for both current and prior periods as the Company had no potential ordinary shares at the respective balance sheet dates.

8. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable is as follows:

	As at			
	30 September 2005		31 March 2005	
	(unaudited)	**(unaudited)**	(audited)	(audited)
	HK$'000	**Percentage**	HK$'000	Percentage
Current to three months	**25,127**	**95**	1,350	63
Four to six months	**89**	**1**	120	6
Over six months	**1,191**	**4**	671	31
	26,407	**100**	2,141	100

The normal credit period granted by the Group to customers ranges from 90 days to 180 days.

9. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable is as follows:

	As at			
	30 September 2005		31 March 2005	
	(unaudited)	**(unaudited)**	(audited)	(audited)
	HK$'000	**Percentage**	HK$'000	Percentage
Current to three months	**20,058**	**99**	189	74
Four to six months	**–**	**–**	28	11
Over six months	**135**	**1**	40	15
	20,193	**100**	257	100

10. SHARE CAPITAL

	Company	
	30 September 2005 (unaudited) HK$'000	31 March 2005 (audited) HK$'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	500,000	500,000
Issued and fully paid:		
883,296,800 ordinary shares of HK$0.01 each	8,833	8,833

Share options

The Company's share option scheme (the "Option Scheme"), which was adopted by the shareholders of the Company on 5 January 2004 (the "Adoption Date"), constitutes a share option scheme governed by Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and will remain in force for 10 years from the Adoption Date.

The Company operates the Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

No share option was granted under the Option Scheme during the period and there was no outstanding share option as at the balance sheet date.

11. CONTINGENT LIABILITIES

As at 30 September 2005, the Group had no significant contingent liabilities (31 March 2005: Nil).

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period's presentation.

To the board of directors of
China Elegance (Holdings) Limited
(Incorporated in Bermuda with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 1 to 10.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provision thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2005.

Johnny Chan & Co. Limited
Certified Public Accountants

Hong Kong, 16 December 2005

Chan Kin Hang Johnny
Practising Certificate number P00932