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 2006.

RESULTS

During the year ended 31 March 2006, the Group's turnover decreased by 42.2% to HK$105.3 million (2005: HK$182.2 million) as compared to that of last year. The decrease in turnover was mainly due to the decrease in turnover of the metals and minerals trading business as a result of disposal of the subsidiary Chang Yuang Resources Limited ("Chang Yuang") in the second half of last financial year.

Gross profit for the year ended 31 March 2006 decreased by 11.3% to HK$11.0 million (2005: HK$12.4 million) as compared to that of last year. Although the gross profit margin of the metals and minerals trading business had improved in current year after disposal of Chang Yuang, yet the total gross profit for the year had decreased due to the drop in turnover for metals and minerals trading business as well as the drop in gross profit margin for consumer products business.

There was a decrease in administration fee income as a result of non-performance of several sub-licencees in the consumer products business and there was no gain on disposal of subsidiaries recorded in current year, therefore other income had decreased as compared to that of last year. Selling and distribution costs continued to drop for current year as a result of decrease in turnover. The significant increase in other operating expenses for current year was mainly due to the write-offs of slow moving inventories and impairment on doubtful debts for consumer products business.

As a result, the net loss attributable to shareholders increased to approximately HK$11.0 million (2005: HK$0.8 million). Basic loss per share for the year increased to HK$0.0125 per share (2005: HK$0.0009 per share)

DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 March 2006.

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.

During the year, the gross profit margin dropped because of rises in raw materials and manufacturing costs, and due to intense market competition, all those increases in costs cannot be fully transferred to customers. Also, due to keen competition on global consumer products market, product life cycle has become shorter and therefore some finished products and raw materials were written off in current year as a result of obsolescence.

The sub-licensing of brand as mentioned in last year's annual report has become more difficult as more and more international brands entered PRC market as well as the rise of various local brands. As a result, administration fee income decreased in current year. Moreover, due to financial difficulties of debtors, certain trade and other receivables became doubtful and therefore impairment for such was made in the current year.

Properties trading

At present, the Group has no property project under development and management will take a prudent approach in evaluating any new prospective projects.

Metals and minerals trading

After disposal of Chang Yuang Resources Limited ("Chang Yuang") in last year, the Group continues its metals and minerals trading business through China Elegance Mining Company Limited and Shui Yuen (Manganese) Group Limited. Without the burden of the loss contributing Chang Yuang, overall gross profit margin for this business improves during the current year.

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 trading division has sometimes discounted its bills receivable to finance its business.

The Group's gearing ratio as at 31 March 2006 was nil (2005: 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 2006, the Group had bank balances and cash of approximately HK$13.9 million (2005: HK$15.4 million).

The operating cash flows of the Group are mainly denominated in HK dollars, Japanese Yen, Renminbi and US dollars. The available-for-sale investments are denominated in Australian dollars and certain accounts receivable and payable are denominated in US dollars, Japanese Yen and Renminbi. Foreign exchange exposure in respect of US dollars and Renminbi are considered to be minimal as HK dollars have been pledged with US dollars, and despite the recent gradual rise in Renminbi, the exchange rate of Renminbi against HK dollars is still considered relatively stable. For other currencies, 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 2006, the Group had no significant contingent liabilities (2005: nil).

PROSPECTS

With the rise in consumer awareness and intensified competition, the consumer products market in PRC has become diversified and fragmented. In view of this, the Group will continue to monitor the operation cautiously, and meanwhile continue to solicit appropriate sub-licencees for the consumer products business.

The overheated PRC property market during recent years has resulted in further tightening measures imposed by the Central Government, the directors believe that the market will become uncertain in the near future. However those measures are believed to facilitate a healthy development of the PRC property market in the long run. Currently the Group has no property project on hand and has temporarily suspended the property trading business until the market is more stable.

With increased volatility of global metals and minerals market, demand for metals and minerals will continue to remain volatile in PRC for the forthcoming year and the Group will be cautious and careful in dealing with the metals and minerals trading business.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2006, the Group employed approximately 34 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 with 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
13 June 2006