1. CORPORATE INFORMATION

China Elegance (Holdings) Limited (the "Company") is incorporated in Bermuda with limited liabilities. Its shares are listed on the Stock Exchange of Hong Kong Limited. The Company's registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Its head office and principal place of business is 25th Floor, Sunshine Plaza, 349-355 Lockhart Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consisted of investment holding, metals and minerals trading and the manufacture, trading and distribution of consumer products.

2. THE ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

In current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 consolidated income statement, balance sheet and statement of changes in equity.

With effect from 1 January 2005, minority interests are presented as part of equity separated from interests attributable to the equity shareholders of the Company, rather than as a deduction from net assets. Minority interests in the consolidated income statement are presented as an allocation to the profit/loss for the year rather than as a deduction from profit/loss. The changes in presentation have been applied retrospectively.

In prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates. The changes in presentation have also been applied retrospectively.

2. THE ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

In addition, the adoption of the new HKFRSs had 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 consolidated balance sheet at their fair values. The change in fair value is recognized 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 consolidated 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 revaluation reserve as at 1 April 2005.

As HKAS 39 does not permit to recognize, derecognize 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 revaluation reserve as at 1 April 2005 and accordingly, the comparative figures as presented in the consolidated balance sheet have not been restated.

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 consolidated income statement. With effect from 1 April 2005, the fair value of the employees services received in exchange for the grant of the share options of the Company is recongised 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 year ended 31 March 2006.

2. THE ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

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 provision of HKFRS 3:

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

– accumulated amortization 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 amortization has been charged in the current year. Comparative figures for prior year have not been restated.

3. HONG KONG FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKAS 1 Amendment	Capital Disclosures[1]
HKAS 19 Amendment	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures[3]
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation[3]
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[3]
HKAS 39 Amendment	The Fair Value Option[3]

3. HONG KONG FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[3]
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources[4]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[3]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease[3]
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[3]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[4]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]

1. *Effective for annual periods beginning on or after 1 January 2007*
2. *Effective for annual periods beginning on or after 1 March 2006*
3. *Effective for annual periods beginning on or after 1 January 2006*
4. *Effective for annual periods beginning on or after 1 December 2005*

4. BASIS OF PRESENTATION

Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances have been eliminated in the preparation of the consolidated financial statements.

Basis of preparation

The financial statements have been prepared in accordance with the new HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain available-for-sale investments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of polices and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as below.

Impairment of doubtful debts, net

Impairment of doubtful debts is based on an assessment of the recoverability of trade and other debtors. Impairments are applied to trade and other debtors where events or change in circumstances indicate that the balances cannot be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the future discounted cash flow of trade and other debtors is different from the carrying amount, such difference represents impairment of doubtful debts is recognized as expense in the income statement.

Write-off of inventories

The management of the Group reviews an ageing analysis at each balance sheet date and identifies the slow moving inventory items that are no longer suitable for use in production. The management estimates the net realizable value for finished goods based primarily on the latest invoice prices and current market conditions. In addition, the Group carries out an inventory review on a product-by-product basis at balance sheet date and makes the necessary write-off for obsolete items.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at balance sheet date, the impairment loss recognized in respect of goodwill arising on acquisition of further interests in a subsidiary was HK$1,449,000 as disclosed in Note 16.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost thereof.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life as follows:

Leasehold land and building	Over the remaining lease terms
Leasehold improvements	3 to 10 years
Plant and machinery	5 to 15 years
Furniture, fixtures, equipment and motor vehicles	3 to 5 years

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

In the Company's balance sheet, the interests in subsidiaries are stated at cost less provision for impairment losses, if any. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and goodwill on acquisition.

Equity accounting is discontinued when the carrying amount of the interest in an associate reaches zero unless the Group has incurred obligations or guaranteed obligations in respect of the associates.

Where audited financial statements of the associates are not co-terminous with those of the Group, the share of results is arrived at from the latest audited financial statements available or unaudited management financial statements up to 31 March.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generated units and is tested annually for impairment. On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities over the cost of a business combination is recognized immediately in the income statement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

Available-for-sale investments

Investments in securities held on a continuing basis for an identified long-term purpose are classified as available-for-sale investments. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchase and sale of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs. They are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

At each balance sheet date, the fair value of the investments is remeasured. Unrealised gains and losses arising from changes in the fair value together with the related foreign exchange component are recognized in equity until the investment is derecognized or impaired at which time the cumulative gain or loss previously reported in equity should be included in the income statement.

An impairment loss recognised in prior year is not reversed, and any subsequent increase in the fair value is recognised directly in equity.

The fair value of quoted investments is based on current bid prices.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). A previously recognised impairment loss of a non-financial asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Borrowing costs

Borrowing costs, which represent interest and other charges incurred in connection with the borrowing of operating funds, are recognised as expenses when they are incurred.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the lease terms.

Staff retirement scheme

On 1 December 2000, the Group joined a Mandatory Provident Fund ("MPF"). Contributions to the MPF are made based on rates applicable to the respective employees' relevant income from the Group and are charged to the income statement as they become payable in accordance with government regulations. The Group's mandatory contributions are fully and immediately vested in favour of the employees. The assets of the MPF are held separately from those of the Group in an independently administered fund.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. It is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the balance sheet of the Company's subsidiaries and associates expressed in foreign currencies are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. The resulting translation differences are included in the exchange fluctuation reserve.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold,

(b) rental income and administration fee income are recognised on a straight line basis,

and

(c) interest income is recognized as it accrues using the effective interest method.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to the external parties.

In respect of geographical segment reporting, revenue is based on the market segments in which the customers are located. Total assets and capital expenditure are where the assets are located.

7. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

Turnover represents the sales value of goods supplied to customers. The amount of each significant category of revenue recognised during the year is as follows:

	2006	2005
	HK$'000	HK$'000
Turnover		
Sales of consumer products	**14,522**	10,018
Sales of metals and minerals	**90,751**	172,151
	105,273	182,169
Other income		
Rental income	**8**	24
Interest income	**1,191**	98
Exchange gain, net	**207**	544
Administration fee income, net	**1,648**	3,088
Gain on disposal of fixed assets	**–**	108
Gain on disposal of subsidiaries	**–**	2,456
Sundry income	**1,122**	586
	4,176	6,904
	109,449	189,073

7. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments

	Consumer products 2006 HK$'000	Properties trading 2006 HK$'000	Metals and minerals 2006 HK$'000	Inter-segment elimination 2006 HK$'000	Unallocated 2006 HK$'000	Consolidated 2006 HK$'000
Revenue from external customers	14,522	–	90,751	–	–	105,273
Segment results	(12,020)	–	5,259	–	–	(6,761)
Unallocated operating income and expenses						(10,280)
Finance costs						(1,214)
Share of profits of associates	–	–	2,708	–	–	2,708
Tax	–	–	–	–	–	–
Loss for the year						(15,547)
Depreciation for the year	563	–	–	–	386	949
Impairment of						
– goodwill	1,449	–	–	–	–	1,449
– doubtful debts	2,976	–	–	–	–	2,976
Major non-cash expenses (other than depreciation and impairment)	3,470	–	–	–	7	3,477
SEGMENT ASSETS	7,238	–	9,171	–	–	16,409
Interests in associates	–	–	4,038	–	–	4,038
Unallocated assets						8,942
Total assets						29,389
SEGMENT LIABILITIES	3,083	–	40	–	–	3,123
Unallocated liabilities						468
Total liabilities						3,591
Capital expenditure incurred during the year	72	–	–	–	59	131

7. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Consumer products 2005 HK$'000	Properties trading 2005 HK$'000	Metals and minerals 2005 HK$'000	Inter-segment elimination 2005 HK$'000	Unallocated 2005 HK$'000	Consolidated 2005 HK$'000
Revenue from external customers	10,018	–	172,151	–	–	182,169
Segment results	(1,103)	62	2,333	(30)	–	1,262
Unallocated operating income and expenses						(8,944)
Finance costs						(699)
Share of profits of associates	–	–	2,550	–	–	2,550
Tax	–	–	450	–	–	450
Loss for the year						(5,381)
Depreciation for the year	678	–	13	–	458	1,149
Amortisation for the year	102	–	272	–	–	374
Impairment loss of fixed assets	457	–	–	–	–	457
SEGMENT ASSETS	17,751	5,283	17,590	(3,683)	–	36,941
Interests in associates	–	–	2,950	–	–	2,950
Unallocated assets						7,462
Total assets						47,353
SEGMENT LIABILITIES	2,993	5,433	38,676	(42,885)	–	4,217
Unallocated liabilities						548
Total liabilities						4,765
Capital expenditure incurred during the year	273	–	14	–	88	375

Secondary reporting format – 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.

8. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'000
L/C charges and interest	**1,214**	685
Interest on bank overdraft	**–**	14
	1,214	699

9. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	2006	2005
	HK$'000	HK$'000
Auditors' remuneration	**350**	390
Amortisation of goodwill	**–**	374
Depreciation	**949**	1,149
Fixed assets written off	**15**	–
Inventories written off	**3,462**	–
Impairment loss of fixed assets	**–**	457
Impairment loss of goodwill	**1,449**	–
Impairment loss of doubtful debts, net	**2,976**	–
Operating lease rentals on leasehold land and buildings	**1,898**	1,872
Operating lease rentals on equipment	**97**	114
Staff costs (including directors' remuneration – note 10):		
Salaries and wages	**6,587**	6,530
Other benefits	**938**	884
Pension contributions	**226**	218
	7,751	7,632
Share of taxation of associates	**1,042**	1,023

10. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

Name of director	Fee		Basic salaries, housing benefits, other allowances and benefits in kind		Pension contributions		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive director								
Mr. Cheung Ngan	**–**	–	**807**	723	**12**	12	**819**	735
Mr. Chan Chung Chun, Arnold	**–**	–	**351**	351	**12**	12	**363**	363
Independent non-executive director								
Mr. Chan Francis Ping Kuen	**10**	10	**–**	–	**–**	–	**10**	10
Mr. Hu Guang	**10**	10	**–**	–	**–**	–	**10**	10
Mr. Chan Chak Paul	**10**	10	**–**	–	**–**	–	**10**	10
Mr. Li Chao De	**–**	90	**–**	–	**–**	–	**–**	90
Mr. Zhao Hong	**–**	10	**–**	–	**–**	–	**–**	10
	30	130	**1,158**	1,074	**24**	24	**1,212**	1,228

The remuneration of the directors fell within the following bands:

	2006 Number of directors	2005 Number of directors
Nil – HK$1,000,000	**5**	7

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

During the year, no fees were paid to the executive directors (2005: Nil) and fees of HK$30,000 were paid to the non-executive directors (2005: HK$130,000).

During the year, no share options were granted to the directors.

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included two (2005: two) directors, details of whose remuneration are set out in note 10 above. The details of the remuneration of the remaining three (2005: three) non-director, highest paid individuals are as follows:

	2006 **HK$'000**	2005 HK$'000
Basic salaries, allowances and benefits in kind	**1,557**	1,469
Pension contributions	**24**	36
	1,581	1,505

The remuneration of the non-director, highest paid individuals fell within the following band:

	2006 **Number of employees**	2005 Number of employees
Nil – HK$1,000,000	**3**	3

12. TAX

(a) Tax in the consolidated income statement represents:

	Group	
	2006 **HK$'000**	2005 HK$'000
Hong Kong – overprovided for prior years	**–**	(450)

No Hong Kong profits tax has been provided for the Company and its subsidiaries as the accumulated tax losses exceed the estimated assessable profits for the year (2005: Nil).

Overseas taxes on profits assessable of the Company or its subsidiaries, 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.

12. TAX (Continued)

There were no significant unprovided deferred tax liabilities at the balance sheet date (2005: Nil). The unprovided deferred tax asset at the balance sheet date amounted to approximately HK$3,612,000 (2005: HK$4,922,000) which related primarily to tax losses.

(b) Reconciliation between the actual total tax charge and loss before tax at applicable tax rates is as follows:

	Group			
	2006		2005	
	HK$'000	**%**	HK$'000	%
Loss before tax	**(15,547)**		(5,831)	
Tax credit at the applicable rates	**(2,539)**	**16.33**	(1,463)	25.09
Non-taxable revenue	**(1,034)**	**6.65**	(1,979)	33.94
Non-deductible expenses	**2,142**	**(13.78)**	2,769	(47.49)
Others	**51**	**(0.33)**	131	(2.25)
Unutilised tax losses	**1,380**	**(8.87)**	542	(9.29)
Over provision in prior years	**–**	**–**	(450)	7.72
Tax credit for the year	**–**	**–**	(450)	7.72

13. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK$12,286,000 (2005: HK$823,000).

14. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$11,043,000 (2005: HK$823,000) and 883,296,800 (2005: 883,296,800) ordinary shares in issue during the year.

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

15. FIXED ASSETS

Group

	Leasehold land and building HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000
Cost:					
At 1 April 2004	1,700	1,044	456	4,805	8,005
Additions	–	–	–	375	375
Disposal	–	–	(151)	(132)	(283)
Through disposal of subsidiaries	–	–	–	(344)	(344)
At 31 March 2005 and beginning of year	1,700	1,044	305	4,704	7,753
Additions	–	27	4	100	131
Disposal	(1,700)	(15)	–	(7)	(1,722)
At 31 March 2006	–	1,056	309	4,797	6,162
Accumulated depreciation:					
At 1 April 2004	136	487	430	3,077	4,130
Provided during the year	68	246	2	833	1,149
Impairment	457	–	–	–	457
Disposal	–	–	(140)	(130)	(270)
Through disposal of subsidiaries	–	–	–	(304)	(304)
At 31 March 2005 and beginning of year	661	733	292	3,476	5,162
Provided during the year	–	285	3	661	949
Disposal	(661)	(7)	–	–	(668)
At 31 March 2006	–	1,011	295	4,137	5,443
Net book value:					
At 31 March 2006	–	45	14	660	719
At 31 March 2005	1,039	311	13	1,228	2,591

15. FIXED ASSETS (Continued)

Company

	Equipment
	HK$'000
Cost:	
At 1 April 2004, 31 March 2005 and 31 March 2006	131
Accumulated depreciation:	
At 1 April 2004	121
Provided during the year	10
At 31 March 2005 and 31 March 2006	131
Net book value:	
At 31 March 2006	–
At 31 March 2005	–

16. GOODWILL

	Group HK$'000
Cost:	
At 1 April 2004	85,146
Additions – through acquisition of additional interests in subsidiaries	827
Disposal of a subsidiary	(31,647)
At 31 March 2005	54,326
Opening balance adjustment to eliminate accumulated amortisation and impairment losses	(52,877)
At 31 March 2006	1,449
Accumulated amortisation and impairment losses:	
At 1 April 2004	83,738
Provided during the year	786
Disposal of a subsidiary	(31,647)
At 31 March 2005	52,877
Eliminated against cost	(52,877)
At 1 April 2005	–
Impairment loss	1,449
At 31 March 2006	1,449
Carrying amount:	
At 31 March 2006	–
At 31 March 2005	1,449

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**66,743**	66,743
Due from subsidiaries	**568,859**	560,479
Due to subsidiaries	**(15,397)**	(3,911)
	620,205	623,311
Less: Provision for Impairment	**(597,968)**	(586,716)
	22,237	36,595

The balances with the subsidiaries are unsecured, interest-free and have no fixed terms of repayment, and approximate to their fair value.

17. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company 2006	Percentage of equity attributable to the Company 2005	Principal activities
Directly held					
China Elegance Holdings Limited	British Virgin Islands	US$1,000	**100%**	100%	Investment holding
Indirectly held					
Apex Winner Limited	Hong Kong	HK$1	**100%**	100%	Provision of management services
Brilliant Challenge (Hong Kong) Limited	Hong Kong	HK$1,000	**60%**	60%	Trading of leather and leather products
C & R International (Holdings) Limited	Hong Kong	HK$2	**60%**	60%	Trading of leather and leather products
C & R International (Management) Limited	Samoa/ PRC	US$1	**60%**	60%	Brand management
CE Investment Limited (formerly Oceanic Development Limited)	Samoa	US$1	**100%**	100%	Investment holding
CE Logistics Limited*	British Virgin Islands	US$1	**100%**	–	Dormant

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Indirectly held (Continued)					
Charmful Challenge (Asia) Limited	Hong Kong	HK$1,000	**60%**	60%	Sourcing and trading of leather products
Cheuk Yiu Investment Limited	Samoa	US$397,436	**100%**	100%	Investment holding
China Elegance Marine Shipping Limited*	British Virgin Islands	US$100	**60%**	–	Dormant
China Elegance Mining Company Limited	British Virgin Islands/ PRC	US$1	**100%**	100%	Trading of metals and minerals
China Elegance Resources Limited*	British Virgin Islands	US$1	**100%**	–	Dormant
Gold Billion Limited	Samoa	US$1	**60%**	60%	Provision of management services
Grand Capital Enterprises Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
Indirectly held (Continued)					
Hero Gain Limited	Hong Kong	HK$100	**100%**	100%	Provision of management services
Hong Kong Cable Services Co. Limited	Hong Kong/ PRC	HK$100	**89%**	89%	Trading of computer hardware and software, provision of computer maintenance services and software development
Hugefaith Development Limited	Hong Kong	HK$2	**60%**	60%	Provision of management services
Jointech International Limited	British Virgin Islands	US$2,000	**89%**	89%	Investment holding
Kind Success Holdings Limited	British Virgin Islands	US$100	**100%**	100%	Investment holding

17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ paid-up registered capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
Indirectly held (Continued)					
Legend World Group Limited	British Virgin Islands	US$100	**100%**	100%	Investment holding
Shenzhen Shiqin Leather Products Company Limited+	PRC	RMB1,000,000	**45%**	45%	Manufacturing of leather products
Shui Yuen (Manganese) Group Limited	British Virgin Islands	US$1	**100%**	100%	Trading of metals and minerals
Timesway Limited	British Virgin Islands	US$1	**100%**	100%	Dormant
Unicon Spirit Development Ltd.	British Virgin Islands	US$10	**60%**	60%	Investment holding

* Acquired or incorporated during the year
\+ The Group held 75% of the voting power of the subsidiary

The above table lists the subsidiaries which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INTERESTS IN ASSOCIATES

	Group 2006 HK$'000	Group 2005 HK$'000
Share of net assets	**4,040**	2,952
Due to associates	**(2)**	(2)
	4,038	2,950

The balances with the associates are unsecured, interest-free and have no fixed term of repayment.

Particulars of the Group's associates are as follows:

Name	Business structure	Place of incorporation/ registration and operation	Percentage of equity attributable to the Group 2006	Percentage of equity attributable to the Group 2005	Principal activities
China Anshan Corporation Sdn. Bhd.	Corporate	Malaysia	**49%**	49%	Investment holding
Terengganu Anshan Mining Sdn. Bhd.	Corporate	Malaysia	**35%**	35%	Iron ores mining
Terengganu Anshan Iron & Steel Sdn. Bhd.	Corporate	Malaysia	**24%**	24%	Exploration and extraction of iron ores
TAM Mining Sdn. Bhd.	Corporate	Malaysia	**25%**	25%	Mining and refining of iron ores

18. INTERESTS IN ASSOCIATES (Continued)

For the year ended 31 March 2006, the financial information of a significant associate, TAM Mining Sdn. Bhd., is as follows:

	2006 HK$'000	2005 HK$'000
Total assets	13,561	11,624
Total liabilities	(3,059)	(3,740)
Turnover	26,709	22,769
Net profit for the year	9,098	8,120

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006 HK$'000	2005 HK$'000
At fair value/cost,		
Listed equity securities, outside Hong Kong	3,183	4,426
Market value of listed equity securities, outside Hong Kong	3,183	3,089

The listed equity securities above is the Group's investment in 10.18% of the ordinary shares of QMASTOR Limited, a company incorporated in Australia. The investment is denominated in Australian dollars.

20. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**2,529**	4,797
Work in progress	**109**	438
Finished goods	**886**	1,701
	3,524	6,936

At 31 March 2006, none of the inventories included in the above was carried at net realisable value (2005: HK$Nil). Amount of HK$3,462,000 was written off during the year (2005: Nil).

21. ACCOUNTS RECEIVABLE

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

	2006		2005	
	HK$'000	**Percentage**	HK$'000	Percentage
Current to three months	**1,349**	**79**	1,350	63
Four to six months	**53**	**3**	120	6
Over six months	**297**	**18**	671	31
	1,699	**100**	2,141	100

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

Included in the above accounts receivable is an amount of HK$105,000 (2005: Nil) denominated in Japanese Yen.

At 31 March 2006, the fair values of the Group's accounts receivable approximates to the corresponding carrying amounts.

22. ACCOUNTS PAYABLE

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

	2006		2005	
	HK$'000	**Percentage**	HK$'000	Percentage
Current to three months	**89**	**37**	189	74
Four to six months	**–**	**–**	28	11
Over six months	**152**	**63**	40	15
	241	**100**	257	100

At 31 March 2006, the fair values of the Group's accounts payable approximates to the corresponding carrying amounts.

23. SHARE CAPITAL

	Company	
	2006	2005
	HK$'000	HK$'000
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
883,296,800 (2005: 883,296,800) ordinary shares of HK$0.01 each	**8,833**	8,833

23. SHARE CAPITAL (Continued)

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation.

The Scheme, which was adopted by an ordinary resolution of the shareholders at the special general meeting of the Company on 5 January 2004 (the "Adoption Date"), constitutes a share option scheme governed by Chapter 17 of the Listing Rules and will remain in force for 10 years from the Adoption Date.

Pursuant to the Scheme, the board of directors is empowered, at its discretion, to invite any full-time employees of the Company or any of its subsidiaries or associated companies, including any executive directors and non-executive directors of the Company or of any of its subsidiaries or associated companies, to take up options to subscribe for shares in the Company. The period during which an option may be exercised will be determined by the directors at their discretion, save that no option may be exercised later than 10 years after it has been granted. Acceptance of the offer shall be within 21 days after the date of offer of the grant of options, upon payment of a nominal consideration of HK$1. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the aggregate of the shares of the Company in issue as at 3 September 2004, the date upon which the limit was refreshed by an ordinary resolution of the shareholders. Pursuant to the Scheme, the above limit can be further refreshed by the shareholders. However, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme shall not exceed 30% of the shares in issue from time to time. The subscription price of the share options shall not be less than the higher of (i) the closing price of the shares on the Stock Exchange on the date of offer; (ii) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares.

There were no share options granted during the year and there were no outstanding share options granted at the balance sheet date.

24. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

Company

	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2004	87,109	(57,405)	29,704
Net loss for the year	–	(823)	(823)
At 31 March 2005 and at beginning of year	87,109	(58,228)	28,881
Net loss for the year	–	(12,286)	(12,286)
At 31 March 2006	87,109	(70,514)	16,595

The contributed surplus of the Company at the beginning of the year represents the excess of the fair value of the shares of the subsidiary acquired over the nominal value of the Company's shares issued in exchange therefor, at the time of the Group reorganisation in preparation for the listing of the Company's shares.

Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its members out of the contributed surplus under certain circumstances prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries

	Group	
	2006	2005
	HK$'000	HK$'000
Net assets disposed of:		
Fixed assets	–	40
Accounts receivable	–	34,887
Tax recoverable	–	289
Prepayments, deposits and other receivables	–	441
Pledged bank deposits	–	1,206
Cash and bank balances	–	549
Accounts payable	–	(18,816)
Accrued liabilities and other payables	–	(14,948)
Minority interest	–	(1,958)
	–	1,690
Gain on disposal of subsidiaries	–	2,456
	–	4,146
Satisfied by:		
Cash	–	4,146

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	Group	
	2006	2005
	HK$'000	HK$'000
Cash consideration	–	4,146
Cash and bank balances disposed of	–	(549)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	3,597

26. COMMITMENTS

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are as follows:

	Group			
	2006		2005	
	Properties HK$'000	**Equipment HK$'000**	Properties HK$'000	Equipment HK$'000
Within one year	**182**	**78**	954	84
Later than one year and not later than five years	**–**	**264**	140	28
	182	**342**	1,094	112

The Group had no other significant commitments at the balance sheet date (2005: Nil).

27. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include available-for-sale investments, bank balances, trade debtors, trade creditors. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The available-for-sale investments are denominated in Australian dollars and certain accounts receivable and payable of the Group are denominated in US dollars, Japanese Yen and Renminbi. Therefore the Group is exposed to US dollars, Japanese yen, Australian dollars and Renminbi currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Market price risk

The Group is exposed to equity security price risk of the investment held which are classified in the balance sheet as available-for-sale investments. The Group will continue to monitor the market price and will consider necessary action should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's bank deposits and balances are deposits with banks in Hong Kong. The credit risk on these liquid funds is limited because the counterparties are banks with good credit-rating.

In order to minimize credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt and other receivables regularly to ensure that adequate impairment losses are recognized for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

28. CONTINGENT LIABILITIES

At 31 March 2006, the Group had no significant contingent liabilities (2005: Nil).

29. PLEDGE OF ASSETS

At 31 March 2006, the Group had no pledged assets. At 31 March 2005, the Group's bank deposit of approximately HK$1,042,000 was pledged to secure general banking facilities granted to the Group.

30. COMPARATIVE FIGURES

As further explained in note 2 to the financial statements, due to the adoption of the new and revised HKFRSs during the year, the accounting treatment and presentation of certain balances in the financial statements have been revised to comply with the new requirements.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 13 June 2006.