

NOTES TO CONDENSED FINANCIAL STATEMENTS

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 37th Floor, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consisted of investment holding and metals and minerals trading. The Group was also engaged in the manufacture, trading and distribution of consumer products which was discontinued in the current period (See note 8).

2. 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”).

3. PRINCIPAL 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 2006 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of these new HKFRSs has resulted in changes to the Group’s accounting policies in the following area:

Financial guarantee contracts

In the current period, the Group has applied HKAS 39 and HKFRS 4 (Amendments) “Financial Guarantee Contracts” which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 “Financial Instruments: Recognition and Measurement” as “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument”.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group acts as the issuer of the financial guarantee contracts

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

The adoption of this amendment has had no material effect on the results and presentation in the Group's interim financial statements.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective as the Company anticipates that the application of these new HKFRSs will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ³
HK(IFRIC) – INT 10	Interim financial reporting and impairment ²

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 November 2006.

³ Effective for annual periods beginning on or after 1 June 2006.

⁴ Effective for annual periods beginning on or after 1 May 2006.

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4. 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:

	Continuing operations		Discontinued operation		Consolidated	
	Metals and minerals		Consumer products		Six months ended	
	Six months ended		Six months ended		30 September	
	30 September		30 September		30 September	
	2006	2005	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	–	62,269	7,636	5,834	7,636	68,103
Segment results	(1,817)	4,052	(13)	(3,767)	(1,830)	285
Unallocated operating income and expenses					(5,748)	(4,574)
Finance costs					–	(432)
Share of profits of associates					1,730	1,750
Tax					–	–
Net loss for the period					(5,848)	(2,971)

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.

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5. OTHER REVENUE

	Continuing operations		Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	2006	2005	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gain on disposal of subsidiaries	428	–	74	–	502	–
Interest income	103	207	3	12	106	219
Others	356	651	549	1,695	905	2,346
	887	858	626	1,707	1,513	2,565

6. LOSS FROM OPERATING ACTIVITIES

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

	Continuing operations		Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	2006	2005	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	257	179	107	175	364	354
Bad debts written off	–	–	–	1,891	–	1,891
Impairment loss of goodwill	–	1,449	–	–	–	1,449

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7. TAX

	Continuing operations		Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	2006	2005	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 (2005: Nil).

The Group's share of tax of associates of HK\$699,000 (2005: HK\$655,000) 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 2006: Nil).

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8. DISCONTINUED OPERATION

The Company had, through its wholly-owned subsidiary, entered into a sale and purchase agreement on 17 August 2006 with a third party to dispose of its entire 60% interest in Unicon Spirit Development Ltd. ("Unicon Spirit") for a consideration of HK\$3,400,000 ("Disposal"). Unicon Spirit and its subsidiaries ("Unicon Group") are engaged in the manufacture, trading and distribution of consumer products. The Disposal represented the discontinuance of the Group's consumer products operation.

An analysis of the results of the discontinued operation is as follows:

	Six months ended 30 September	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Turnover	7,636	5,834
Cost of sales	(5,179)	(4,239)
Gross profit	2,457	1,595
Other revenue	552	1,707
Selling and distribution costs	(832)	(704)
Administrative expenses	(2,190)	(4,262)
Loss before tax	(13)	(1,664)
Tax	—	—
Loss after tax of discontinued operation	(13)	(1,664)
Gain on disposal of discontinued operation	74	—
Profit/(Loss) for the period from discontinued operation	61	(1,664)
Attributable to:		
Shareholders of the Company	(8)	(941)
Minority interests	69	(723)
	61	(1,664)

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8. DISCONTINUED OPERATION (Continued)

The cash flows attributable to the discontinued operation are as follows:

	Six months ended	
	30 September	
	2006	2005
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Cash inflow/(outflow) from:		
Operating activities	1,570	(1,650)
Investing activities	(317)	2,093
Net cash inflow	1,253	443

9. 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\$6,345,000 (2005: HK\$2,184,000) and weighted average number of ordinary shares of 938,214,833 (2005: 883,296,800) during the period.

i) From continuing operations

Basic loss per share from continuing operations is calculated based on the loss from continuing operations attributable to the shareholders of the Company for the period of approximately HK\$6,337,000 (2005: HK\$1,243,000) and weighted average number of ordinary shares of 938,214,833 (2005: 883,296,800) during the period.

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9. LOSS PER SHARE (Continued)

ii) From discontinued operation

	Six months ended 30 September	
	2006	2005
	(unaudited)	(unaudited)
Loss per share		
Basic	HK\$(0.0001)	HK\$(0.0011)
Diluted	N/A	N/A

Basic loss per share from discontinued operation is calculated based on the loss from discontinued operation attributable to the shareholders of the Company for the period of approximately HK\$8,000 (2005: HK\$941,000) and weighted average number of ordinary shares of 938,214,833 (2005: 883,296,800) 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.

10. ACCOUNTS RECEIVABLE

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

	As at			
	30 September 2006		31 March 2006	
	(unaudited)	(unaudited)	(audited)	(audited)
	HK\$'000	Percentage	HK\$'000	Percentage
Current to three months	–	–	1,349	79
Four to six months	40	89	53	3
Over six months	5	11	297	18
	45	100	1,699	100

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

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11. ACCOUNTS PAYABLE

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

	As at			
	30 September 2006		31 March 2006	
	(unaudited) HK\$'000	(unaudited) Percentage	(audited) HK\$'000	(audited) Percentage
Current to three months	—	—	89	37
Four to six months	—	—	—	—
Over six months	—	—	152	63
	<u>—</u>	<u>—</u>	<u>241</u>	<u>100</u>

12. SHARE CAPITAL

	Company	
	30 September 2006	31 March 2006
	(unaudited) HK\$'000	(audited) HK\$'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
1,033,296,800 (31 March 2006: 883,296,800) ordinary shares of HK\$0.01 each	<u>10,333</u>	<u>8,833</u>

The Company entered into a placing agreement on 6 July 2006 ("Placing Agreement") with a placing agent where it conditionally agreed to place through the placing agent up to 150,000,000 new shares at the issue price of HK\$0.055 per share. Pursuant to the Placing Agreement, the Company issued 150,000,000 new shares to independent third parties at the issue price of HK\$0.055 per share as at 26 July 2006.

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12. SHARE CAPITAL (Continued)

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.

13. DISPOSAL OF SUBSIDIARIES

	Six months ended 30 September 2006 (unaudited) HK\$'000
Net assets disposed of:	
Fixed assets	734
Corporate membership	268
Inventories	5,980
Accounts receivable	1,832
Prepayments, deposits and other receivables	1,031
Cash and bank balances	1,099
Accounts payable	(725)
Accrued liabilities and other payables	(5,873)
Amount due to immediate holding company	(580)
Minority interests	(867)
	2,899
Exchange reserve released	(1)
	2,898
Gain on disposal of subsidiaries	502
	3,400
Satisfied by:	
Cash	3,400

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13. DISPOSAL OF SUBSIDIARIES (Continued)

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

	Six months ended 30 September 2006 (unaudited) HK\$'000
Cash consideration	3,400
Cash and bank balances disposed of	(1,099)
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	<u>2,301</u>

14. CONTINGENT LIABILITIES

As at 30 September 2006, the Group had provided corporate guarantee of US\$12,000,000 (31 March 2006: Nil) to a bank in respect of banking facilities granted to the Group. The banking facilities were not utilised by the Group at the balance sheet date.

15. PLEDGE OF ASSETS

As at 30 September 2006, the Group had pledged its bank deposit of approximately HK\$468,000 (31 March 2006: Nil) to secure banking facilities granted to the Group. The banking facilities were not utilised by the Group at the balance sheet date.

16. COMPARATIVE FIGURES

Due to the Disposal of the Unicon Group during the period, which constituted a discontinued operation under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", certain comparative figures were restated so as to reflect the results for the continuing operations.