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 2007.

RESULTS

During the first half year, the Group restructured its operation to direct its focus in the metals and minerals trading business by discontinuing the consumer products business through the disposal of Unicon Spirit Development Ltd. and its subsidiaries (the "Unicon Group").

During the year ended 31 March 2007, the Group's turnover from its continuing operation, the metals and minerals trading business, decreased by 46.3% to HK$48.8 million (2006: HK$90.8 million) as compared to that of last year. The decrease in turnover was mainly due to the increased volatility of global metals and minerals market and the increase in the sea freight costs during the year.

Gross profit from continuing operation for the year ended 31 March 2007 decreased by 83.5% to HK$1.4 million (2006: HK$8.5 million) as compared to that of last year. The rising cost of sea freight squeezed the gross profit margin of the metals and minerals trading business. The decrease in both the turnover and the gross profit margin resulted in a decline in gross profit.

During the year, the Group had relocated its head office which resulted in an increase in operating lease rentals on leasehold land and buildings and therefore there is a slight increase in administrative expenses. The significant decrease in operating expenses for current year was due to a non-recurring impairment loss for 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 equity holders of the Company increased to approximately HK$14.4 million (2006: HK$11.0 million). Basic loss per share for the year increased to HK$0.0147 per share (2006: HK$0.0125 per share).

DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 March 2007.

BUSINESS REVIEW

Consumer products business

As mentioned in the 2006 annual report of the Company, there was a rise in raw materials and manufacturing costs of consumer products and an intense market competition on global consumer products market. As a result, the gross profit margin of the Group's consumer products business dropped from approximately 30% to approximately 17% during the past financial year.

In view of the above, the Directors decided to reformulate the Group's business strategy by disposing its consumer products business by the disposal of its entire 60% interests in Unicon Group (the "Disposal"). The Directors considered that the Disposal will allow the Group to focus on its other core business, metals and minerals trading. The Disposal was completed on 17 August 2006 and it constituted the discontinued operation of the Group in the current year.

Metals and minerals trading

During the year, both the turnover and gross profit margin dropped because of the volatility in the demand for metals and minerals in the People's Republic of China (the "PRC") as well as the increase in the transportation and freight costs.

LIQUIDITY AND FINANCIAL RESOURCES

The Company announced on 7 July 2006 that the Company proposed for a placement of up to 150,000,000 new shares at the issue price of HK$0.055 per placing share (the "Placing"). The Directors have considered various ways of raising additional funds for future use and having considered that the recent rising trend of interest rates of bank loans, the Directors consider that the Placing represents an opportunity for the Company to raise capital at a relatively low cost while broadening the shareholder base of the Company. The Placing was completed on 26 July 2006 and 150,000,000 new shares were issued to independent third parties. The net proceeds of approximately HK$8.04 million will be used for general working capital of the Group and for future investments.

During the year, a director of the Company advanced HK$10.14 million (2006: nil) to the Group to meet its short-term funds requirement. The amount has been subsequently settled after the balance sheet date.

Besides the capital raised and the amount advanced by a director, the Group generally finances its operations with internally generated cashflows during the year under review. However, the Group's metals and minerals trading division sometimes discounts its bills receivable to finance its business.

The Group's gearing ratio as at 31 March 2007 was 47.1% (2006: nil), based on the amount advanced by a director of HK$10.14 million (2006: nil) and the equity attributable to the equity holders of the Company of HK$21.54 million (2006: HK$25.43 million). No interest was charged on the amount advanced by the director.

As at 31 March 2007, the Group had bank balances and cash of approximately HK$6.7 million (2006: HK$13.9 million). The Group had obtained banking facilities with a total amount of US$12.0 million (2006: nil) which had not been utilised at the balance sheet date. Bank deposits of HK$0.7 million (2006: nil) were pledged to secure these banking facilities.

The operating cash flows of the Group are mainly denominated in HK dollars, 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 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 2007, the Company had provided corporate guarantee of US$12.0 million (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.

PROSPECTS

The demand for metals and minerals was volatile in the PRC during the year due to increased volatility of global metals and minerals market as well as the increase in transportation and freight costs. The Group will be cautious and careful in dealing with the metals and minerals trading business.

In the meantime, the Group will also focus its efforts to identify and pursue other resources type trading business and the Directors believe that the Group will be able to take up such opportunities when they arise.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2007, the Group employed approximately 21 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
31 May 2007