CHINA ELEGANCE (HOLDINGS) LIMITED

(Stock Code: 476)

ANNUAL REPORT
2006

Contents

Corporate Information

FINANCIAL ADVISOR

Somerley Limited
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8 Finance Street
Central, Hong Kong

AUDITORS

Johnny Chan & Co. Limited
Certified Public Accountants
Room 509 Bank of America Tower
12 Harcourt Road
Central, Hong Kong

LEGAL ADVISORS IN HONG KONG

D.S. Cheung & Co.
Rooms 1910-1913, Hutchison House
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PRINCIPAL REGISTRARS

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

BRANCH REGISTRARS IN HONG KONG

Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

25th Floor, Sunshine Plaza
349-355 Lockhart Road
Wanchai, Hong Kong

DIRECTORS

Mr. Cheung Ngan *(Chairman)*
Mr. Chan Chung Chun, Arnold
(Deputy Chairman)
Mr. Chan Francis Ping Kuen
(Independent Non-Executive Director)
Mr. Hu Guang
(Independent Non-Executive Director)
Mr. Chan Chak Paul
(Independent Non-Executive Director)

SECRETARY

Mr. Chan Chung Chun, Arnold *CPA*

PRINCIPAL BANKER

Bank of China

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

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

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.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business segments is set out in note 7 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 62.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the results of the Group for the last five financial reporting years and of its assets and liabilities at the respective financial reporting year end dates, as extracted from the published audited financial statements of the Group.

RESULTS

	Year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**105,273**	182,169	163,077	140,245	170,517
LOSS BEFORE TAX	**(15,547)**	(5,831)	(66,661)	(11,851)	(34,684)
Tax	**–**	450	–	(197)	(262)
LOSS FOR THE YEAR	**(15,547)**	(5,381)	(66,661)	(12,048)	(34,946)
ATTRIBUTABLE TO:					
Shareholders of the Company	**(11,043)**	(823)	(67,510)	(14,479)	(37,604)
Minority interests	**(4,504)**	(4,558)	849	2,431	2,658
	(15,547)	(5,381)	(66,661)	(12,048)	(34,946)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**29,389**	47,353	73,107	132,067	174,854
TOTAL LIABILITIES	**(3,591)**	(4,765)	(21,656)	(21,905)	(54,136)
MINORITY INTERESTS	**(370)**	(4,874)	(12,914)	(12,065)	(8,142)
	25,428	37,714	38,537	98,097	112,576

FIXED ASSETS

Details of movements in the fixed assets of the Company and of the Group are set out in note 15 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and associates are set out in notes 17 and 18 to the financial statements, respectively.

BORROWINGS

As at 31 March 2006, the Group had no outstanding bank and other borrowings (2005: Nil).

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 23 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 24 to the financial statements. Detail of movements in the reserves of the Group during the year are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company had no accumulated profits available for distribution. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company in the amount of HK$87,109,000 as at 31 March 2006 (2005: HK$87,109,000) is distributable to shareholders in certain circumstances, prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total
Sales	
– the largest customer	59%
– five largest customers combined	92%
Purchases	
– the largest supplier	50%
– five largest suppliers combined	92%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Mr. Cheung Ngan *(Chairman)*
Mr. Chan Chung Chun, Arnold *(Deputy Chairman)*

Independent non-executive directors

Mr. Chan Francis Ping Kuen
Mr. Hu Guang
Mr. Chan Chak Paul

Mr. Cheung Ngan and Mr. Chan Chung Chun, Arnold shall retire from the Board in accordance with the Company's bye-laws, and being eligible, shall offer themselves for re-election as directors of the Company at the forthcoming annual general meeting.

REMUNERATION OF DIRECTORS AND OF THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' remuneration and that of the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), which was adopted by an ordinary resolution of the shareholders at the special general meeting of the Company on 5 January 2004, constitutes a share option scheme governed by Chapter 17 of the Listing Rules.

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 associates, including any executive directors and non-executive directors of the Company or any of its subsidiaries or associates, to take up options to subscribe for shares in the Company. Details of the Scheme are set out in note 23 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

There were no new share options granted to directors under the Scheme during the year and there were no outstanding share options granted to the directors at the balance sheet date.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At the balance sheet date, the interests and short positions of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity/ Nature of interest	Number of shares Long position	Short position	Approximate percentage of shareholding in the Company
Mr. Cheung Ngan	Personal	311,232,469	–	35.2%

Save as disclosed above, as at the balance sheet date, none of the directors of the Company have interest or short positions in the shares and underlying shares or other securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS

No director, whether directly or indirectly, had a beneficial interest in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At as 31 March 2006, no person, other than Mr. Cheung Ngan's interests which are disclosed in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of 5% or more of the issued share capital of the Company in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS

Name	Age	Position held	Number of years of service	Business experience
Mr. Cheung Ngan	49	Chairman, Director	8	Joined the Group in March 1998 and is responsible for the development of corporate strategies, corporate planning, marketing and management functions of the Group. He has over 22 years' working experience in corporate management and knowledge of PRC investments.
Mr. Chan Chung Chun, Arnold	46	Deputy Chairman, Director	11	Joined the Group in April 1995 and is responsible for general corporate investment and the financial advisory functions of the Group. He has extensive working experience in accountancy and commercial fields, particularly in the manufacturing, marketing and retailing of consumer products in Hong Kong and the PRC.

Name	Age	Position held	Number of years of service	Business experience
Mr. Chan Francis Ping Kuen	47	Independent Non-Executive Director	1	Appointed independent non-executive director of the Company in September 2004. Mr. Chan holds a bachelor's degree in economics from the University of Sydney in Australia. He is a member of The Institute of Chartered Accountants in Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan has over 21 years of experience in auditing, accounting and financial management and previously worked for an international accounting firm and a number of listed companies in Hong Kong and the United States.
Mr. Hu Guang	39	Independent Non-Executive Director	1	Appointed independent non-executive director of the Company in September 2004. Mr. Hu holds a master degree of business administration from Tianjin University in the PRC. Mr. Hu is currently the General Manager of 天津大眾投資發展有限公司in Tianjin, the PRC and has over 15 years experience in property development and financing business in the PRC.
Mr. Chan Chak Paul	45	Independent Non-Executive Director	1	Appointed independent non-executive director of the Company in February 2005. Mr. Chan has extensive experience in trading industries and PRC investment. Mr. Chan used to hold several senior management positions in both foreign and local companies.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.

AUDITORS

Johnny Chan & Co. Limited retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Cheung Ngan
Chairman

Hong Kong
13 June 2006

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the year ended 31 March 2006 except that: (i) the roles of chairman and chief executive officer are not separate and are performed by the same individual, (ii) the non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election, (iii) a remuneration committee of the Board comprising a majority of independent non-executive directors was only formed on 14 October 2005 in compliance with the Code.

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's business, strategic decisions and financial performances. The Board delegates to the management team the day-to-day management of the Company's business including the preparation of annual and interim reports, and for implementation of internal control, business strategies and plans developed by the Board.

The Board comprises two executive directors and three independent non-executive directors. More than one-third of the Board is independent non-executive directors and one of them has appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

Each of the independent non-executive directors has made an annual confirmation of independence, and the Company considers that all of the independent non-executive directors are independent in accordance with the guidelines as set out in Rule 3.13 of the Listing Rules.

Board meetings are scheduled to be held at about quarterly interval. The attendance of the directors at the Board meetings for the year ended 31 March 2006 is as follows:

Name of Directors	**Number of attendance**
Mr. Cheung Ngan	4/4
Mr. Chan Chung Chun, Arnold	4/4
Mr. Chan Francis Ping Kuen	4/4
Mr. Hu Guang	2/4
Mr. Chan Chak Paul	4/4

The current independent non-executive directors of the Company are not appointed for a specific term as required by code provision A.4.1. In order to be more consistent with code provision A.4.1, the relevant bye-law of the Company was amended to ensure that all directors, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years at the Company's annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer of the Company have been performed by Mr. Cheung Ngan. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and will consider appointing an individual as chief executive officer when it thinks appropriate.

BOARD COMMITTEE

The Board has established two committees with clearly-defined written terms of reference. The independent views and recommendations of the two committees ensure proper control of the Group and the continual achievement of the high standard corporate governance practices.

Remuneration Committee

The Remuneration Committee (the "Committee") composed of two independent non-executive directors and one executive director, being Mr. Chan Chak Paul, Mr. Chan Francis Ping Kuen and Mr. Cheung Ngan respectively. One meeting was held during the year ended 31 March 2006 and all members of the Committee had attended the meeting.

The brief duties of the Committee as per the terms of reference were as follows:

i) to make recommendations to the Board on the Company's policy and structure for the remuneration of the directors;

ii) to have the delegated responsibilities to determine the specific remunerations package of all executive directors; and

iii) to review and approve compensation payable to directors in connection with loss of their office or compensation arrangement relating to dismissal or removal of director.

The Committee has every right to access to professional advice relating to remuneration proposal if considered necessary.

Audit Committee

The Company has an Audit Committee comprising three independent non-executive directors, Mr. Hu Guang, Mr. Chan Chak Paul, and Mr. Chan Francis Ping Kuen who serves as the chairman of the Committee. Two meetings were held during the year ended 31 March 2006 and all members of the Audit Committee had attended the meetings.

During the year ended 31 March 2006, the Audit Committee had reviewed the Company's annual report for the year ended 31 March 2005, the interim report for the six months ended 30 September 2005 and the principal duties of the Audit Committee include:

i) monitoring integrity of the Company's financial statements and reports;

ii) reviewing of financial controls, internal controls, and risk management system; and

iii) reviewing of the Company's financial and accounting policies and practices.

The Audit Committee is authorized by the Board to investigate any activity and seek any information it requires within its terms of reference. It is also authorized to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

NOMINATION OF DIRECTORS

Directors are responsible for identifying suitable qualified individual and make recommendation to the Board for consideration. The Board will apply certain criteria on selection such as the consideration of what business or financial experience that the nominated individual can bring into the Board, his or her capabilities to maintain and improve the competitiveness of the Company, and his or her ability to contribute to the Board in formulating Company's policies and strategies, as well as to the effective ways of discharging the Board's responsibilities.

CODE OF CONDUCT ON DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the Code of Conduct regarding directors' securities transactions.

Specific enquiry has been made of all the directors of the Company who have confirmed in writing their compliance with the required standards set out in the Code of Conduct during the year under review.

AUDITORS' REMUNERATION

For the year ended 31 March 2006, the auditors of the Company received approximately HK$350,000 for audit service and no fee was payable for other non-audit services.

INTERNAL CONTROL

The Board review the internal control system of the Company annually and will take any necessary and appropriate action to maintain an adequate internal control system to safeguard shareholders' investments and the Company's assets. The effectiveness of the internal control system was discussed on an annual basis with the Audit Committee.

ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility for preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group and of the results and cash flow for that period. The directors ensure that the financial statements for the year ended 31 March 2006 were prepared in accordance with statutory requirements and applicable accounting standards, and have been prepared on going concern basis.

Report of the Auditors

To the members
China Elegance (Holdings) Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 21 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Johnny Chan & Co. Limited
Certified Public Accountants

Hong Kong
13 June 2006

Chan Kin Hang Johnny
Practising Certificate number P00932

Consolidated Income Statement

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
TURNOVER	7	**105,273**	182,169
Cost of sales		**(94,298)**	(169,764)
Gross profit		**10,975**	12,405
Other income	7	**4,176**	6,904
Selling and distribution costs		**(2,153)**	(3,314)
Administrative expenses		**(22,678)**	(22,847)
Other operating expenses		**(7,361)**	(830)
Finance costs	8	**(1,214)**	(699)
Share of profits of associates		**2,708**	2,550
LOSS BEFORE TAX	9	**(15,547)**	(5,831)
Tax	12	**–**	450
LOSS FOR THE YEAR		**(15,547)**	(5,381)
ATTRIBUTABLE TO:			
Shareholders of the Company	13	**(11,043)**	(823)
Minority interests		**(4,504)**	(4,558)
		(15,547)	(5,381)
LOSS PER SHARE	14		
Basic		**HK$(0.0125)**	HK$(0.0009)
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Fixed assets	15	**719**	2,591
Goodwill	16	**–**	1,449
Interests in associates	18	**4,038**	2,950
Available-for-sale investments	19	**3,183**	4,426
Corporate membership		**268**	268
		8,208	11,684
CURRENT ASSETS			
Inventories	20	**3,524**	6,936
Bills receivable		**155**	305
Accounts receivable	21	**1,699**	2,141
Prepayments, deposits and other receivables		**1,913**	10,935
Pledged bank deposit		**–**	1,042
Cash and bank balances		**13,890**	14,310
		21,181	35,669
CURRENT LIABILITIES			
Accounts payable	22	**241**	257
Accrued liabilities and other payables		**2,786**	3,944
Tax payable		**564**	564
		3,591	4,765
NET CURRENT ASSETS		**17,590**	30,904
NET ASSETS		**25,798**	42,588
CAPITAL AND RESERVES			
Share capital	23	**8,833**	8,833
Reserves	24	**16,595**	28,881
Capital and reserves attributable to shareholders of the Company		**25,428**	37,714
Minority interests		**370**	4,874
		25,798	42,588

Mr. Cheung Ngan
Director

Mr. Chan Chung Chun, Arnold
Director

Year ended 31 March 2006

	Attributable to shareholders of the Company							
	Share capital	**Contributed surplus**	**Exchange fluctuation reserve**	**Revaluation reserve**	**Accumulated profits/ (losses)**	**Total**	**Minority interests**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2004	8,833	20,566	1	–	9,137	38,537	12,914	51,451
Net loss for the year	–	–	–	–	(823)	(823)	(4,558)	(5,381)
Total recognized income (expenses) for the year	–	–	–	–	(823)	(823)	(4,558)	(5,381)
Disposal of subsidiaries	–	–	–	–	–	–	(1,958)	(1,958)
Increase in percentage of subsidiaries	–	–	–	–	–	–	(1,524)	(1,524)
At 31 March 2005 and at beginning of year								
– as previously reported	8,833	20,566	1	–	8,314	37,714	4,874	42,588
Opening adjustment for adoption of HKASs 32 and 39	–	–	–	(1,337)	–	(1,337)	–	(1,337)
– as restated	8,833	20,566	1	(1,337)	8,314	36,377	4,874	41,251
Change in fair value of available-for-sale investments	–	–	–	94	–	94	–	94
Net income recognized directly in equity	–	–	–	94	–	94	–	94
Net loss for the year	–	–	–	–	(11,043)	(11,043)	(4,504)	(15,547)
Total recognized income (expenses) for the year	–	–	–	94	(11,043)	(10,949)	(4,504)	(15,453)
At 31 March 2006	8,833	20,566	1	(1,243)	(2,729)	25,428	370	25,798

Included in the figure for the accumulated profits/(losses) is an amount of HK$4,088,000 (2005: accumulated profits of HK$1,380,000) being the accumulated profits attributable to associates.

Consolidated Cash Flow Statement

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		**(15,547)**	(5,831)
Adjustments for:			
Interest income		**(1,191)**	(98)
Finance costs		**1,214**	699
Depreciation		**949**	1,149
Amortisation of goodwill		**–**	374
Impairment loss of goodwill		**1,449**	–
Inventories written off		**3,462**	–
Gain on disposal of fixed assets		**–**	(108)
Impairment loss of doubtful debts, net		**2,976**	–
Impairment loss of fixed assets		**–**	457
Fixed assets written off		**15**	–
Gain on disposal of subsidiaries		**–**	(2,456)
Share of profits of associates		**(2,708)**	(2,550)
OPERATING LOSS BEFORE CHANGES IN WORKING CAPITAL		**(9,381)**	(8,364)
(Increase)/decrease in inventories		**(50)**	197
Increase in accounts receivable		**(99)**	(14,499)
Decrease in prepayments, deposits and other receivables		**4,152**	6,696
(Decrease)/increase in accounts payable		**(16)**	11,593
Increase in accrued liabilities and other payables		**1,277**	5,730
CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(4,117)**	1,353
TAX			
Hong Kong profits tax refund		**–**	10
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES – PAGE 25		**(4,117)**	1,363

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES – PAGE 24		**(4,117)**	1,363
INVESTING ACTIVITIES			
Decrease in pledged bank deposit		**1,042**	1,423
Acquisition of additional interests in subsidiaries		**–**	(1,500)
Purchase of available-for-sale investments		**–**	(4,426)
Disposal of subsidiaries	25	**–**	3,597
Dividend received from an associate		**1,620**	360
Proceeds from disposal of fixed assets		**1,039**	121
Purchases of fixed assets		**(131)**	(375)
Repayment to an associate		**–**	(549)
Interest income		**1,191**	98
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**4,761**	(1,251)
FINANCING ACTIVITIES			
L/C charges and interest paid		**(1,214)**	(699)
NET CASH USED IN FINANCING ACTIVITIES		**(1,214)**	(699)
Net decrease in cash and cash equivalents		**(570)**	(587)
Cash and cash equivalents at beginning of year		**14,615**	15,202
CASH AND CASH EQUIVALENTS AT END OF YEAR		**14,045**	14,615
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**13,890**	14,310
Bills receivable		**155**	305
		14,045	14,615

Balance Sheet

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Fixed assets	15	**–**	–
Interests in subsidiaries	17	**22,237**	36,595
		22,237	36,595
CURRENT ASSETS			
Prepayments, deposits and other receivables		**623**	779
Cash and bank balances		**2,990**	792
		3,613	1,571
CURRENT LIABILITIES			
Accrued liabilities and other payables		**410**	440
Tax payable		**12**	12
		422	452
NET CURRENT ASSETS		**3,191**	1,119
NET ASSETS		**25,428**	37,714
CAPITAL AND RESERVES			
Share capital	23	**8,833**	8,833
Reserves	24	**16,595**	28,881
		25,428	37,714

Mr. Cheung Ngan
Director

Mr. Chan Chung Chun, Arnold
Director

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 HK$'000	Group 2005 HK$'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 HK$'000	2005 HK$'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		Principal activities
			2006	2005	
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		Principal activities
			2006	2005	
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 2006	2005	Principal activities
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 2006	2005	Principal activities
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$'000	2005 HK$'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	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	2005
	HK$'000	HK$'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	2005
	HK$'000	HK$'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	Accumulated losses	Total
	HK$'000	HK$'000	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.