
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Elegance (Holdings) Limited**, you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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CHINA ELEGANCE (HOLDINGS) LIMITED
(瑞源國際有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 476)

DISCLOSEABLE TRANSACTION
DISPOSAL OF THE ENTIRE INTEREST IN
UNICON SPIRIT DEVELOPMENT LTD.

6 September 2006

* *For identification purpose only*

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Agreement”	the sale and purchase agreement dated 17 August 2006 entered into between the Purchaser and the Vendor relating to the Disposal
“Board”	board of Directors
“Company”	China Elegance (Holdings) Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Disposal upon the terms set out in the Agreement
“Consideration”	the aggregate consideration for the sale and purchase of the Sale Shares under the Agreement, being a sum of HK\$3.4 million
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Shares to the Purchaser by the Vendor pursuant to the Agreement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	third party independent of and not connected with the Company and its connected person (as defined in the Listing Rules)
“Latest Practicable Date”	4 September 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Purchaser”	Ms. Leung Shuk Fun
“Sale Shares”	6 ordinary shares of US\$1 each in the issued share capital of Unicon Spirit, which represents 60% of its issued share capital as at the date of the Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Unicon Spirit”	Unicon Spirit Development Ltd., a company incorporated in the British Virgin Islands with limited liability and is owned as to 60% by the Vendor and 40% by Mr. Ng Tai Kee, a director of Unicon Spirit
“Unicon Spirit Group”	Unicon Spirit and its subsidiaries
“Vendor”	China Elegance Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, being a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



CHINA ELEGANCE (HOLDINGS) LIMITED (瑞源國際有限公司*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 476)

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

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

*Head Office and principal place of
business*

37th Floor

China Online Centre

333 Lockhart Road

Wanchai

Hong Kong

6 September 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION DISPOSAL OF THE ENTIRE INTEREST IN UNICON SPIRIT DEVELOPMENT LTD.

INTRODUCTION

On 18 August 2006, the Board announced that China Elegance Holdings Limited, a wholly-owned subsidiary of the Company, entered into the Agreement with the Purchaser pursuant to which it agreed to sell and the Purchaser agreed to purchase the Sale Shares, which represents 60% interest in Unicon Spirit, at a consideration of HK\$3.4 million.

* *For identification purpose only*

LETTER FROM THE BOARD

The Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The purpose of this circular is to provide you with details of the Disposal.

THE AGREEMENT

Date

17 August 2006

Parties

Vendor: China Elegance Holdings Limited, a wholly-owned subsidiary of the Company.

Purchaser: Ms. Leung Shuk Fun. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Purchaser is a social acquaintance of a director of a member of the Group and an Independent Third Party with no business relationship with the Group.

Interest being disposed of

60% of the entire issued share capital of Unicon Spirit.

Consideration

The Consideration of an aggregate amount of HK\$3.4 million has been satisfied by payment in cash upon Completion. The Consideration was negotiated between the parties at arm's length on normal commercial terms, having regard to the audited consolidated net asset value of Unicon Spirit Group as at 31 March 2006 of approximately HK\$4.2 million. The Consideration under the Agreement was approximately equal to the Group's attributable interest of 60% in Unicon Spirit Group's audited consolidated net asset value as at 31 March 2006.

Having considered the above and the factors described in the paragraph headed "Reasons for the Disposal" below, the Directors are of the view that the terms of the Agreement (including the Consideration) are fair and reasonable and in the interests of the Shareholders as a whole.

Completion

Completion of the Agreement took place forthwith upon signing of the Agreement. After the Completion, Unicon Spirit is no longer a subsidiary of the Company and the Group does not hold any interest in Unicon Spirit.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP AND UNICON SPIRIT

The principal activity of the Company is investment holding. The principal activities of its subsidiaries consist of investment holding, metals and minerals trading and the manufacture, trading and distribution of consumer products. Immediately after the Disposal, the Group is not engaged in the manufacture, trading and distribution of consumer products.

Unicon Spirit is a non-wholly owned subsidiary of the Vendor and is owned as to 60% by the Vendor. The Unicon Spirit Group is principally engaged in the manufacture, trading and distribution of consumer products.

The audited turnover of Unicon Spirit Group for the years ended 31 March 2005 and 31 March 2006 were approximately HK\$10.0 million and HK\$14.5 million respectively. The audited consolidated net loss of Unicon Spirit Group before taxation and minority interest for the year ended 31 March 2005 was approximately HK\$0.6 million and the audited consolidated net profit of Unicon Spirit Group after taxation and minority interest for the year ended 31 March 2005 was approximately HK\$0.1 million. The audited consolidated net loss of Unicon Spirit Group for the year ended 31 March 2006 before and after taxation and minority interest were approximately HK\$9.3 million and HK\$8.1 million respectively.

The audited consolidated net asset value of Unicon Spirit Group as at 31 March 2006 was approximately HK\$4.2 million, which attributes approximately 16.3% to the audited consolidated net asset value of the Group as at 31 March 2006 of approximately HK\$25.8 million.

REASONS FOR THE DISPOSAL

As mentioned in the 2006 Annual Report of the Company, there was a rise in raw material and manufacturing costs of consumer products and an intense market competition on global consumer products market. 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 of Unicon Spirit. The Directors considered that the Disposal will allow the Group to focus on its other core businesses, including but not limited to, metals and minerals trading. Further, the sale proceeds of approximately HK\$3.4 million generated by the Disposal will provide additional working capital for the Group.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE DISPOSAL

Based on the carrying amount of the investment in Unicon Spirit Group, the Group estimates that the expected net gain from the Disposal (after deducting the related transaction costs) will not be more than HK\$0.1 million. Upon Completion, the assets and liabilities of Unicon Spirit Group will not be consolidated in the Group's financial statements. The Directors consider that the Disposal does not have any significant adverse effect on the net assets of the Group.

GENERAL

Pursuant to Chapter 14 of the Listing Rules, the Disposal constitutes a discloseable transaction of the Company.

Your attention is drawn to the additional information set out in the appendix to this circular.

By Order of the Board
China Elegance (Holdings) Limited
Cheung Ngan
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained herein misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of 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 and 8 of Part XV of the SFO (including interests and 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 they were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity/ Nature of Interest	Number of Shares		Approximate percentage of shareholding in the Company
		Long position	Short position	
Mr. Cheung Ngan	Personal	311,232,469	–	30.12%

Save as disclosed herein, as at the Latest Practicable Date, none of Directors and chief executive of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any of 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 and 8 of Part XV of the SFO (including interests and 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 of the Listing Rules to be notified to the Company and the Stock Exchange.

3. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, no person, other than Mr. Cheung Ngan's interests which are disclosed in the paragraph headed 'Disclosure of Directors' Interests' had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company or any of its subsidiaries which was not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as known to the Directors, there is no litigation or claim of material importance pending or threatened against any member of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of Directors or their respective associates (as defined in the Listing Rules) had any interests in business which competes or may compete with the business of the Group.

7. MISCELLANEOUS

- (a) Mr. Chan Chun Chung, Arnold, an associate member of the Hong Kong Institute of Certified Public Accountants, is the secretary and the qualified accountant of the Company and is also an executive Director.
- (b) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The head office and principal place of business of the Company in Hong Kong is at 37th Floor, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong.
- (d) The branch share registrar of the Company in Hong Kong is Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (e) The English text of this circular shall prevail over their respective Chinese text in the case of inconsistency.