GAY GIANO INTERNATIONAL

ANNUAL REPORT 2006

GAY GIANO INTERNATIONAL GROUP LIMITED
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

CONTENTS

Corporate Information

Head office and principal place of business

Suites 701-702, Grandtech Centre
8 On Ping Street
Siu Lek Yuen
Shatin, N.T.
Hong Kong

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Directors

Executive:
Ms Cheung Yin Sheung Subraina
Mr Tong Kwong Fat
Ms Yung Wing Sze Vivian

Non-Executive:
Ms To Ming Oi Wendy

Independent non-executive:
Mr Chan Ka Ling Edmond
Mr Lo Wa Kei Roy
Mr Ching Kwok Ho Samuel

Company secretary

Mr Ting Lam Kwai James

Auditors

BDO McCabe Lo Limited
Certified Public Accountants

Solicitors

Hong Kong:
Fairbairn Catley Low & Kwong

Bermuda:
Conyers, Dill & Pearman

Principal share registrar and transfer office in Bermuda

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

Branch share registrar and transfer office in Hong Kong

Union Registrars Limited
311-312 Two Exchange Square
Central
Hong Kong

Principal bankers

The Hongkong and Shanghai Banking Corporation Limited
ICBC (Asia)
Shanghai Commercial Bank Limited
Wing Hang Bank, Limited

Website

www.gaygiano.com

Chairman's Statement

Business and Operation Review

Business Review

During the year, the Group continued to apply different strategies to improve the overall performance. However, facing the inflationary pressure in imported material, local rental and human resources costs and the weakened economic recovery, the result of the struggle contributed by the management was impaired accordingly.

The Group continued to focus on the fashion apparel retail market in Hong Kong. The turnover of the Group for the year was approximately HK$132.8 million (2005: HK$126.4 million), representing an approximately 5% increase than last year. This achievement is contributed by our wider distribution channel and effective marketing strategies. However, the keen price competition in fashion market and the weakened consumption sentiment limited the degree of improvement of the turnover for the year.

The gross profit margin of the Group for the year ended March 31, 2006 was maintained at a relatively high level at approximately 67% (2005: 70%), representing a 3% decrease when compared with last year. The management of the Group had imposed different efforts in production cost control to maintain the gross profit margin. However, the imported inflation of fabrics and fashion accessories from European countries and the keen price competition has lowered down the gross profit ratio of the Group. Certain production cost minimizing plans will be applied in next financial period in order to maintain the high gross profit margin level of the Group in the long run.

During the year, the Group tried to develop the distributional channel and the total number of retail outlet as at March 31, 2006 is 15 (2005: 13) with total controlled retail area of 24,911 sq. feet (2005: 24,901 sq. feet). In order to achieve the strategic goal of retail outlet area optimization, the Group continued the progress of relocation of the existing retail outlets and opened certain new shops in different area. As a result, the total number of retail outlets increased with a similar level of total controlled retail area in this year and the ratio of turnover per square foot is improved accordingly. This retail area optimization strategy effectively controlled the overall rental expenditure of the Group in the existing rental inflationary trend in retail market. On the other hand, certain retail outlets were renovated so as to enhance the brand image and to provide a more comfortable shopping environment to our customers.

The net profit for the year ended March 31, 2006 is approximately HK$2.1 million (2005: HK$13.9 million), decreased by approximately 85% from last year. The considerable decrease in net profit during the year is mainly due to the worsened operating environment in retail market and an one-off property disposal profit of approximately HK$4.9 million was recorded in last year. The ratio of distribution costs to turnover and administrative expenses to turnover for the year are maintained at the level of approximately 35% (2005: 34%) and 31% (2005: 29%) respectively. Despite the tight fiscal discipline on operating expenses, the ratio of distribution and administrative expenses increased slightly due to the burden of inflating human resources and retail rental cost.

Prospect

The Group will focus on the retail fashion market in Hong Kong. Facing the uncertain momentum of local economic growth and the inflationary pressure of the operating environment, the Group will continue to deploy prudent cost control and distributional strategies on our future retail outlets development. Looking ahead, we believe that the firm commitment of the management to build brand loyalty, effective operational and financial strategies, along with our sophisticated yet contemporary apparel products and effective distribution channel, will support the Group's healthy growth and enable us to gain access to additional business opportunities that may be presented to the Group in the future.

Appreciation

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers, suppliers, bankers and professional advisors for their continued support. May I also thank my fellow directors and our staff for their dedication and contribution.

Cheung Yin Sheung Subraina
Chairman

Hong Kong

July 14, 2006

Management Discussion and Analysis

Liquidity and financial resources

As at March 31, 2006, net current assets and current ratio of the Group were approximately HK$33.9 million (2005: HK$30.5 million) and 3.3 (2005: 3.5), respectively. The current assets mainly comprised inventories of approximately HK$27.4 million (2005: HK$19.3 million), accounts receivable of approximately HK$1.1 million (2005: HK$2.0 million) and cash and bank balances of approximately HK$12.2 million (2005: HK$14.1 million). The Group had total assets of approximately HK$68.4 million (2005: HK$63.3 million), current liabilities of approximately HK$14.5 million (2005: HK$12.3 million), non-current liabilities of approximately HK$1.6 million (2005: HK$1.2 million) and shareholders' equity of approximately HK$52.3 million (2005: HK$49.8 million).

The overall gearing ratio for the year was maintained at 9.8% (2005: 9.2%) with total borrowings of approximately HK$5.1 million (2005: HK$4.6 million) and net worth of approximately HK$52.3 million (2005: HK$49.8 million) as at March 31, 2006. Overall gearing ratio is defined as the total borrowings over the net worth.

The Group recorded a net cash inflow from operating activities of approximately HK$0.5 million (2005: HK$7.4 million) for the year and repaid aggregated bank and other loans of HK$4.2 million. (2005: HK$4.3 million).

Treasury policies

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks and financial institutions in Hong Kong. As of March 31, 2006, the total outstanding short-term borrowings stood at approximately HK$5.0 million (2005: HK$4.3 million). Borrowing methods used by the Group mainly include bank loans and other loans from financial institutions. The interest rates of most of these loans are determined by reference to the Hong Kong dollar prime rate. The Group had no interest rate hedging arrangement during the year. The directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

Capital expenditure

Capital expenditures amounted to approximately HK$3.0 million (2005: HK$3.1 million) for the year ended March 31, 2006. These expenditure were mainly used in retail network improvement. There were no material capital commitments at March 31, 2006 (2005: Nil).

Pledge of assets and contingent liabilities

At March 31, 2006, the Group pledged the leasehold land and buildings in Hong Kong with an aggregate net book value of approximately HK$5.4 million (2005: HK$5.2 million). At March 31, 2006, the Group had no significant contingent liabilities (2005: Nil).

Investment in properties

The Group's leasehold land and buildings were valued at approximately HK$5.4 million (2005: HK$5.2 million) at March 31, 2006 by Savills Valuation and Professional Services Limited on an open market, existing use basis. This valuation gave rise to a revaluation surplus of approximately HK$0.3 million which has been credited to reserves. Such leasehold land and buildings were reclassified from investment properties to leasehold land and buildings at March 31, 2005. Upon reclassification at March 31, 2005, the properties were revaluated and the revaluation surplus arising thereon amounted to HK$1.3 million was credited to income statement.

Properties leased in Hong Kong: the Group leases 15 (2005: 13) retail outlets from independent third parties with a total floor area of 24,911 sq.ft. (2005: 24,901 sq.ft). The Group also leases certain units at Siu Lek Yuen, Shatin, New Territories as warehouse and office space.

Property leased in the PRC: the production facilities and dormitories of the Group are located in Shediju, Shenzhen, PRC.

Segment Information

Details of the segment information of the Group are disclosed in Note 5 of this report.

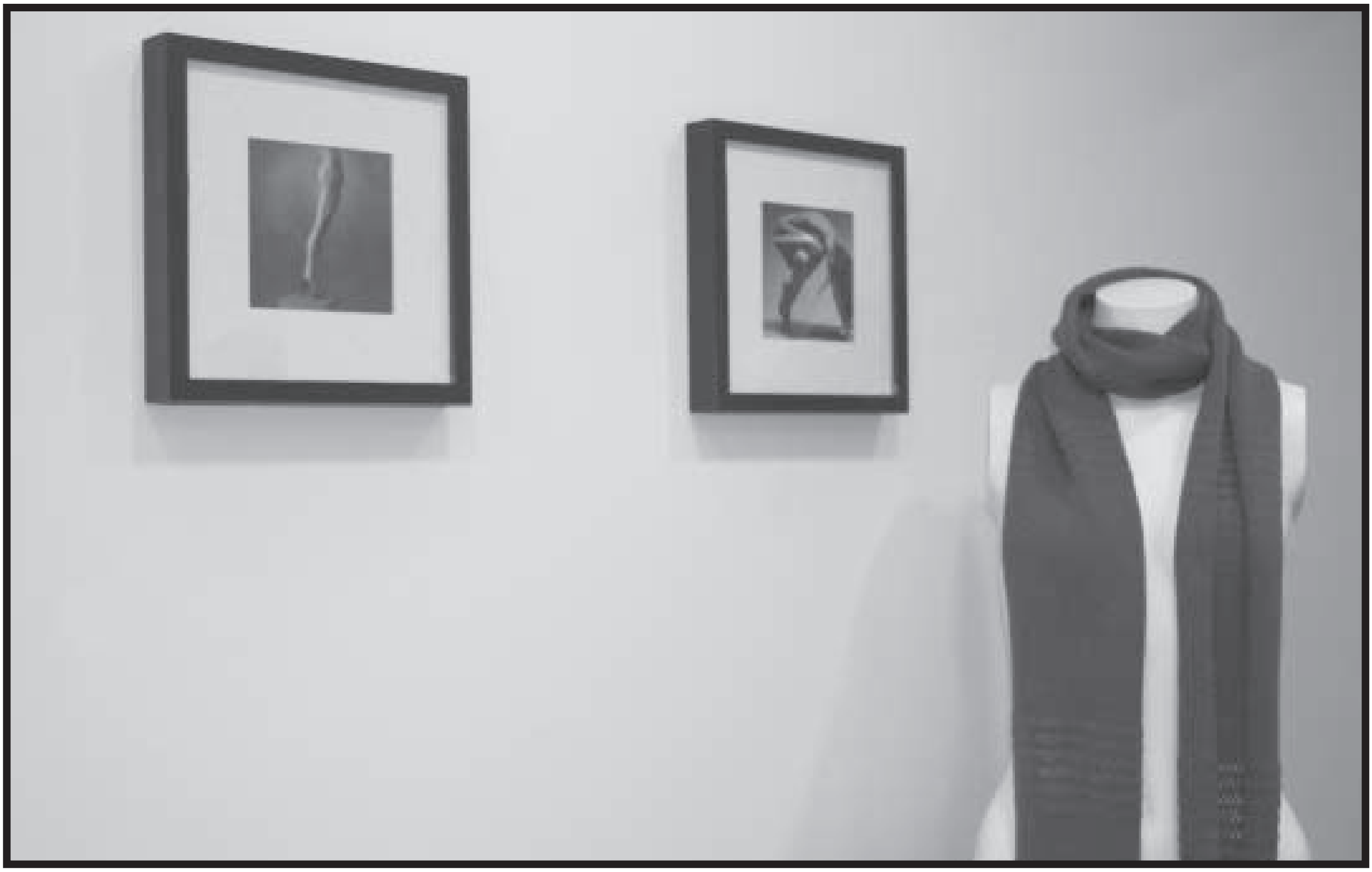
Hong Kong is the major geographical segment of the Group. This segment incurred a profit of approximately HK$2.0 million (2005: HK$14.9 million). The decrease in profit is mainly due to the keen price competition and the worsened operating environment in Hong Kong retail market.

Employees and remuneration policies

As of March 31, 2006, the Group had employed approximately 187 (2005: 161) full-time employees in Hong Kong and approximately 375 (2005: 367) full-time employees in the PRC. The total number of full-time employees of the Group is 562 (2005: 528). The Group has a share option scheme for the benefit of its directors and eligible employees of the Group.

Foreign exchange exposure

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and Renminbi. Exchange rates between these currencies were relatively stable during the year under review. However, the recent fluctuation of the exchange rate of EURO may render the Group suffering a greater exchange risk as in the forthcoming year, certain amount of the Group's raw materials are sourced from European countries. The Group had no foreign exchange rate hedging arrangement during the year. However, the management will monitor foreign exchange exposure and considers hedging significant foreign currency exposure should the need arises.



Biographical details of directors and senior management

Executive Directors

Cheung Yin Sheung Subraina, aged 51, is an Executive Director and the Chairman of the Company. She is one of the founders of the Group and is responsible for the Group's overall strategic planning as well as the Group's merchandising management and overall daily retail administrative management. Ms Cheung has over 34 years of experience in the fashion apparel distribution and management business. She is the spouse of Mr Tong Kwong Fat, the aunt of Ms Yung Wing Sze Vivian, the sister-in-law of Ms To Ming Oi Wendy, the elder sister of Mr Cheung Sing Chi and the younger sister of Mr Cheung For Sang.

Tong Kwong Fat, aged 51, is an Executive Director and the Chief Executive Officer of the Company. He is responsible for the Group's overall strategic management as well as marketing and retail development. Mr Tong joined the Group in 1994 and is the spouse of Ms Cheung Yin Sheung Subraina, the uncle of Ms Yung Wing Sze Vivian, brother-in-law of Ms To Ming Oi Wendy, Mr Cheung Sing Chi and Mr Cheung For Sang.

Yung Wing Sze Vivian, aged 30, is an Executive Director of the Company and is responsible for the Group's overall strategic management and business development. She holds a bachelor's degree and a master's degree in Commerce from University of New South Wales. Ms Yung joined the Group in 2000. Ms Yung is the niece of Ms Cheung Yin Sheung Subraina, Mr Tong Kwong Fat, Ms To Ming Oi Wendy, Mr Cheung Sing Chi and Mr Cheung For Sang.

Non-Executive Directors

To Ming Oi Wendy, aged 43, is a Non-Executive Director of the Company. She has over 10 years working experience in merchandising and retail management. Ms To joined the Group in 2006 and is the spouse of Mr Cheung Sing Chi. Ms To is also the sister-in-law of Ms Cheung Yin Sheung Subraina, Mr Tong Kwong Fat and Mr Cheung For Sang and the aunt of Ms Yung Wing Sze Vivian.

Independent Non-Executive Directors

Chan Ka Ling Edmond, aged 47, is an Independent Non Executive Director of the Company. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants (Practising). He has been practicing as a certified public accountant in Hong Kong for 18 years and is a partner in Chan and Chan, CPA. He is currently an independent non-executive director of Tack Hsin Holdings Limited and Simsen International Cooperation Limited, both companies are listed on the Main Board of the Stock Exchange.

Lo Wa Kei Roy, aged 35, is an Independent Non-Executive Director of the Company. He is a member of the Hong Kong Institute of Certified Public Accountants (Practicing), a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Securities Institute. He is also a Senior International Finance Manager. He has over 13 years of experience in auditing, accounting and finance. He is currently the independent non-executive director of Sun Hing Vision Group Holdings Limited, Sun Man Tai Holdings Company Limited and Vital BioTech Holdings Limited, all of the three companies are listed on the Main Board of the Stock Exchange. He is also an ex-independent non-executive director of Proactive Technology Holdings Limited, a company listed on the GEM Board of the Stock Exchange.

Ching Kwok Ho Samuel, aged 49, is an Independent Non-Executive Director of the Company. He is a practising solicitor in Hong Kong. He graduated from the University of Hong Kong with bachelor of laws degree and a postgraduate certificate in laws. Mr Ching is currently one of the partners of King & Company in Hong Kong. He has over 20 years of legal experience in banking and finance, liquidation, tenancy, conveyancing, commercial disputes and civil litigation in Hong Kong. Mr Ching currently is an independent non-executive director of Tack Fat Group International Limited, a company listed on the Main Board of the Stock Exchange.

Senior Management

Cheung Sing Chi, aged 45, is the Creative Director of the Group. He is one of the founders of the Group and is responsible for the overall fashion design management of the Group. He has over 26 years of experience in the fashion apparel distribution and manufacturing business. Mr Cheung is the substantial shareholder of the Group. He is the younger brother of Ms Cheung Yin Sheung Subraina and Mr Cheung For Sang, the brother-in-law of Mr Tong Kwong Fat, the uncle of Ms Yung Wing Sze Vivian and the spouse of Ms To Ming Oi Wendy.

Cheung For Sang, aged 53, is the Manufacturing Director of the Group. He is one of the founders of the Group and is responsible for the manufacturing management of the Group. He has over 26 years experience in fashion manufacturing management. He is the elder brother of Ms Cheung Yin Sheung Subraina and Mr Cheung Sing Chi, the brother-in-law of Mr Tong Kwong Fat and Ms To Ming Oi Wendy. He is also the uncle of Ms Yung Wing Sze Vivian.

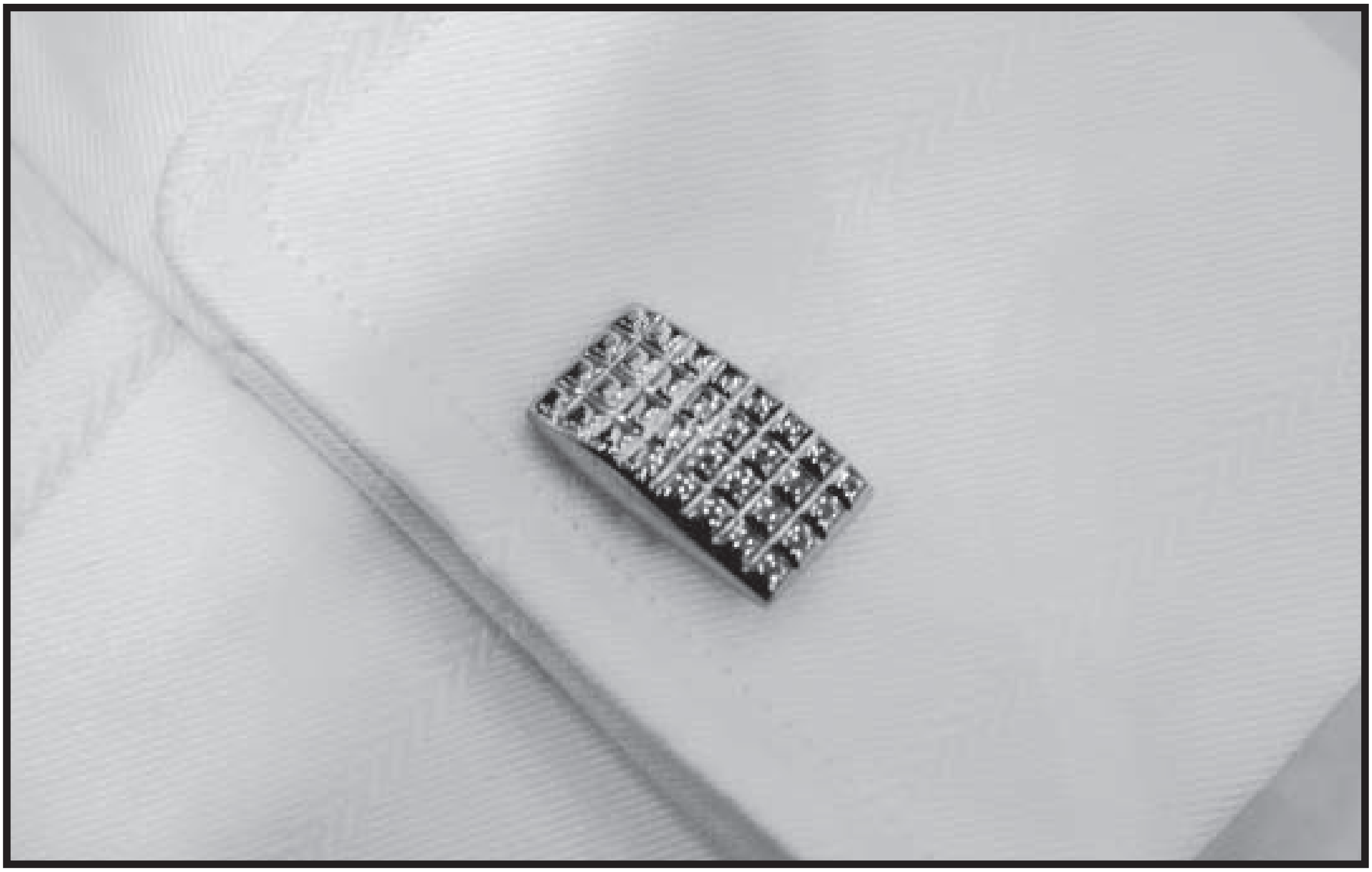
Chiu Che Chung Patrick, aged 43, is the Administration Manager of the Group. He holds a bachelor's degree in Arts from Tunghai University in Taiwan and is a member of the Institute of Human Resources Management. Mr Chiu joined the Group in 1992 and is responsible for the Groups administration and personnel management. He has more than 14 years of experience in general management.

Chan Kwok Kay, aged 43, is the Design Manager of the Group. He is responsible for the fashion design of the Group. He joined the Group in 1988 and has over 22 years of experience in fashion design.

Ting Lam Kwai James, aged 30, is the Financial Controller of the Company and the Company Secretary of the Company. He is responsible for the overall corporate finance strategy and formulation of corporate policies. He is also responsible for the company secretarial duties of the Company. Mr Ting is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He joined the Group in 2001.

Lee Yin Shan, aged 35, is the Accounting Manager and Deputy General Manager (Retail) of the Group. She is responsible for the overall finance, accounting and retail operation management. She is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Miss Lee joined the Group in 1998 and has more than 15 years of experience in accounting and auditing.

Lee Hop Mui, aged 41, is the Retail Manager of the Group and is responsible for the overall daily retail operations of the Group. She joined the Group in 1987 and has over 21 years of experience in fashion retailing.



Shop list

GAY GIANO

Shop 525, Times Square, 1 Matheson St, Causeway Bay, H.K.
Shop 36, G/F., Fashion Island, 19 Great George St., Causeway Bay, H.K.
Shop 2315-16, Level 2, Harbour City, Tsimshatsui, KLN.

COUR CARRÉ

Shop A, G/F., Style House, The Park Lane Hotel, 310 Gloucester Rd., Causeway Bay, H.K.
Shop 111 on Level One, Man Yee Arcade, Man Yee Bldg., 68 Des Voeux Road Central, H.K.
Shop 052, G/F., Cityplaza 2, 18 Taikoo Shing Rd., Taikoo Shing, H.K.
Shop 2332, Level 2, Harbour City, Tsimshatsui, KLN.
Shop G35-G37, G/F., Fashion World, Site 2 Whampoa Garden, Hunghom, KLN.
Shop Unit G80, Telford Plaza 1, Telford Garden, 33 Wai Yip St., Kowloon Bay, KLN.
Shop210-213, Level 2, Grand Century Place, KCRC Mongkok Station, KLN.
LG1-28, Level LG1, Festival Walk, 80 Tat Chee Avenue, Kowloon Tong, KLN.
Shop L024-L025, G/F., New World Centre Shopping Mall, 18-24, Salisbury Rd., Tsimshatsui, KLN.
Shop No. UC-2, Upper Concourse Level, Millennium City 5, 418 Kwun Tong Rd., KLN.
Shop 472, 4/F., Phase 1, New Town Plaza, 18 Shatin Centre St., Shatin, N.T.
Shop UG17, Upper Ground Floor, Olympian City 2, 18 Hoi Ting Road, Tai Kok Tsui, KLN.

Summary of financial information

The following is a summary of the consolidated results and assets and liabilities of the Group for the five financial years ended March 31, 2006.

Result	Year ended March 31,				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover					
Gay Giano	36,688	34,333	32,317	44,802	67,432
Cour Carré	93,132	87,252	77,846	83,139	142,898
Due G	2,965	4,819	12,094	23,040	34,588
	132,785	126,404	122,257	150,981	244,918
Profit/(loss) before taxation	1,680	14,182	(8,422)	(29,232)	(440)
Taxation	463	(235)	(70)	293	(449)
Net profit/(loss) for the year	2,143	13,947	(8,492)	(28,939)	(889)

Assets and Liabilities	At March 31,				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment	13,223	14,662	21,295	36,885	49,164
Rental deposits	6,277	5,853	3,855	7,652	8,294
Deferred tax assets	571	—	—	—	—
Current assets	48,367	42,831	29,408	36,836	66,030
Total assets	68,438	63,346	54,558	81,373	123,488
Current liabilities	14,473	12,327	13,161	22,558	43,433
Non-current liabilities	1,641	1,239	5,572	14,498	6,767
Total liabilities	16,114	13,566	18,733	37,056	50,200
Net assets	52,324	49,780	35,825	44,317	73,288

Key financial statistics

	Unit/Place	2006	2005	2004	2003	2002
Turnover	HK$'000	132,785	126,404	122,257	150,981	244,918
Profit/(loss) before taxation	HK$'000	1,680	14,182	(8,422)	(29,232)	(440)
Profit/(loss) for the year	HK$'000	2,143	13,947	(8,492)	(28,939)	(889)
Total equity	HK$'000	52,324	49,780	35,825	44,317	73,288
Total assets	HK$'000	68,438	63,346	54,558	81,373	123,488
Working capital	HK$'000	33,894	30,504	16,247	14,278	22,597
Total borrowings	HK$'000	5,142	4,585	6,628	22,846	25,345
Earnings/(loss) per share						
— Basic	HK cents	1.07	6.97	(4.25)	(14.47)	(0.44)
— Diluted	HK cents	1.07	6.95	N/A	N/A	N/A
Number of shops		15	13	12	16	24
Total controlled retail floor area	Square feet	24,911	24,901	27,172	34,751	42,082
Capital expenditure	HK$'000	3,027	3,090	729	1,110	4,220
Number of employees	Hong Kong, SAR	187	161	168	203	255
	PRC	375	367	348	377	482

Report of directors

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

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 32 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended March 31, 2006 is set out in note 5 to the financial statements.

Results and dividends

The Group's profit for the year ended March 31, 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 31. The directors do not recommend the payment of any dividend in respect of the year.

Property, plant and equipment

Details of movements in the Group's property, plant and equipment during the year are set out in note 12 to the financial statements.

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 24 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are stated in the Consolidated Statement of Changes in Equity on page 32.

Summary of financial information

A summary of the results of the Group for the past five financial years ended March 31, 2006 is set out on page 14 of the annual report.

Distributable reserves

At March 31, 2006, the Company has reserves of HK$20,876,000 available for cash distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account in the amount of HK$26,137,000 may be distributed in the form of fully paid bonus shares.

Bank Loans and Other Loan

Details of movements in the Group's bank loans and other loan during the year are set out in note 20 and note 21 respectively to the financial statements.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Emolument Policy

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the note 24 to the financial statement.

Retirement Scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. The MPF Scheme has been operated since December 1, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group in the PRC are required to participate in a central pension scheme operated by the local municipal governments. The Group are required to contribute certain stipulated percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they became payable in accordance with the rules of the central pension scheme.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. The Group's largest customer accounted for less than 1% of the Group's total sales during the year.

Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. The Group's largest supplier accounted for approximately 7% of the Group's total purchases during the year.

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

Directors

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Cheung Yin Sheung Subraina (Chairman)
Tong Kwong Fat
Yung Wing Sze Vivian

Directors (continued)

Non-executive director:

To Ming Oi Wendy (appointed on January 1, 2006)

Independent non-executive directors:

Chan Ka Ling Edmond
Tsang Wai Kit (resigned on May 1, 2006)
Lo Wa Kei Roy
Ching Kwok Ho Samuel (appointed on May 1, 2006)

In accordance with the Bye-Law 111 of the Company's Bye-Laws, Ms Yung Wing Sze Vivian will retire by rotation and, being eligible, will offer herself for re-election at the forthcoming annual general meeting.

In accordance with the Bye-Law 115 of the Company's Bye-Laws, Ms To Ming Oi Wendy and Mr Ching Kwok Ho Samuel shall hold office only until the forthcoming annual general meeting and shall then retire and, being eligible, will offer themselves for re-elections at the forthcoming annual general meeting.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on page 11 of this annual report.

Directors' service contracts

Except for Ms Yung Wing Sze Vivian, each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from April 1, 2000, which will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Each of non-executive director and independent non-executive directors has entered into a services contract with the Company for a term of one year, which will continue thereafter until terminated by either party giving not less than one month's notice in writing to the other party.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

Save as disclosed in note 30 to the financial statements and in the section "Connected transactions" below, no director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year.

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at March 31, 2006, 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 corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures (continued)

(i) Long positions in ordinary shares of the Company

Name of Directors	Capacity	Type of interests	Number of shares held	Approximate % of the issued share capital
Cheung Yin Sheung Subraina ("Ms Cheung")	Beneficial owner	Corporate (Note 1)	120,000,000	60
	Interest of spouse (Note 2)	Corporate (Note 1)	120,000,000	60
Tong Kwong Fat ("Mr Tong")	Beneficial owner	Corporate (Note 1)	120,000,000	60
	Interest of spouse (Note 2)	Corporate (Note 1)	120,000,000	60
To Ming Oi Wendy ("Ms To")	Interest of spouse (Note 3)	Corporate (Note 1)	120,000,000	60

Notes:

1. The 120,000,000 shares are held by Gay Giano (BVI) Group Limited, ("Gay Giano (BVI)"), a limited company incorporated in the British Virgin Islands and Ms Cheung and Mr Tong owned 250 shares and 50 shares respectively, which representing 12.5% and 2.5% respectively of Gay Giano (BVI).

2. Mr Tong is the spouse of Ms Cheung. By virtue of the SFO, Mr Tong and Ms Cheung are taken to be interested in the shares held by each other.

3. The 120,000,000 shares are held by Gay Giano (BVI), Mr Cheung Sing Chi ("Mr Cheung") owned 1,450 shares, which representing 72.5% of Gay Giano (BVI). As Ms To is the spouse of Mr Cheung, Ms To is taken to be interested in the shares held by Mr Cheung by virtue of the SFO.

(ii) Interests in options to subscribe for the Company's shares

As at March 31, 2006, the directors had interests in share options to subscribe for shares in the Company under the Old Scheme (as defined in the Section "Share option scheme" below) as follows:

			Number of share options			
Name of directors	Exercise period of share options	Exercise price of share options HK$	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Outstanding at end of the year
Cheung Yin Sheung Subraina	February 5, 2001 to February 4, 2011	0.2528	1,800,000	–	–	1,800,000
Tong Kwong Fat	February 5, 2001 to February 4, 2011	0.2528	1,800,000	–	–	1,800,000
Yung Wing Sze Vivian	February 5, 2001 to February 4, 2011	0.2528	1,170,000	–	–	1,170,000
To Ming Oi Wendy	February 5, 2001 to February 4, 2011	0.2528	3,000,000 (Note)	–	–	3,000,000

Note: These 3,000,000 underlying shares held by Mr Cheung pursuant to the share option scheme adopted by the Company on March 14, 2000. As Ms To is the spouse of Mr Cheung. Ms To is taken to be interested in these underlying shares held by Mr Cheung by virtue of the SFO.

Save as disclosed above, none of directors or chief executives or their associates held any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation as at March 31, 2006 which had to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was 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, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' rights to acquire shares or debt securities

Apart from as disclosed under the heading "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or chief executive, or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries and fellow subsidiaries, a party to any arrangement to enable the directors, chief executives, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

Directors' interest in competing business

During the year, none of the directors or management shareholders of the Company (as defined in the Listing Rules) has an interest in a business which compete or may corporate with the business of the Group.

Share option scheme

In 2001, the Stock Exchange announced changes to the Listing Rules which set out the revised requirements for share option schemes operated by listed companies. In this respect, the operation of the share option scheme adopted by the Company on March 14, 2000 (the "Old Scheme") was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option would be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On September 10, 2002, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme") under which the board of directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time. Other details of the New Scheme were disclosed in the circular dated July 29, 2002. As at March 31, 2006, no options have been granted under the New Scheme.

Details of the movements in the share options granted and exercised during the year ended March 31, 2006 under the Old Scheme are as follows:

Name or category of participant	Date of grant of share options (Note 1)	Exercisable period of share options	At April 1, 2005	Granted during the year
Directors				
Cheung Yin Sheung Subraina	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	–
Tong Kwong Fat	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	–
Yung Wing Sze Vivian	February 5, 2001	February 5, 2001 to February 4, 2011	1,170,000	–
			4,770,000	–
Other employees				
In aggregate	February 5, 2001	February 5, 2001 to February 4, 2011	10,550,000	–
			15,320,000	–

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

2. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

Summary details of the Company's share option schemes are set out in note 24 to the financial statements.

Number of share options				
Exercised during the year	Lapsed during the year	Cancelled during the year	At March 31, 2006	Exercise price of share options HK$ (Note 2)
—	—	—	1,800,000	0.2528
—	—	—	1,800,000	0.2528
—	—	—	1,170,000	0.2528
—	—	—	4,770,000	
(70,000)	(90,000)	—	10,390,000	0.2528
(70,000)	(90,000)	—	15,160,000	

Substantial shareholders' interests and short positions in shares, underlying shares and debentures

According to the records entered into the register required to be kept by the Company pursuant to Section 336 of the SFO, so far as the directors of the Company are aware of and having made due enquiries, as at March 31, 2006, the interests and short positions of the following parties (other than the directors or chief executives of the Company as disclosed above), in the shares or underlying shares of the Company were as follows:

Name	Capacity	Type of interests	Number of shares held	Number of underlying share held	% of the issued share capital
Gay Giano (BVI)	Beneficial owner	Corporate	120,000,000	—	60.00
K&E Industries Limited	Beneficial owner	Corporate	30,000,000	—	15.00
Cheung Sing Chi	Interest of Controlled Corporation (Note)	Corporate	120,000,000	—	60.00
	Beneficial owner	Personal	—	3,000,000	1.50

Note:

Mr Cheung Sing Chi holds 72.5% of the shares in issue of Gay Giano BVI and therefore has a controlling interest in it. By virtue of the SFO, Mr Cheung Sing Chi is taken to be interested in the shares of the Company held by Gay Giano BVI.

Save as disclosed above, as at March 31, 2006, the Company was not notified by any person (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Connected transactions

During the year, the Group has entered into the following transactions with "connected persons" for the purpose of the Listing Rules:

During the year ended March 31, 2006, Gay Giano International Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Boldsmore International Limited ("Boldsmore"), a fellow subsidiary of the Company. Pursuant to the agreement, Boldsmore leased an office and a warehouse to the Group for a term of two years from November 1, 2005 to October 31, 2007 at a monthly rent of HK$220,000.

FPDSavills (Hong Kong) Limited, an independent firm of professional valuers, has reviewed the terms of the lease agreement as set out above and has confirmed to the directors that the rentals payable under the agreement is based on normal commercial terms and is fair and reasonable.

The independent non-executive directors are of the opinion that the terms of the above transactions are fair and reasonable so far as the shareholders of the Company are concerned; and that the transactions have been entered into by the Group in its ordinary course of business and on normal commercial terms and were carried out in accordance with the terms of the agreements governing such transactions.

Public float

As far as the information publicly available to the Company is concerned and to the best knowledge of the directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at July 25, 2006 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained in the report).

Auditors

Messrs KLL Associates CPA Limited ("KLL") had been the auditors of the Company for three years until their practice merged with that of BDO McCabe Lo Limited ("BDO") in 2005. The Board appointed BDO as auditors of the Company immediately following the resignation of KLL on September 30, 2005.

Messrs BDO shall retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of Messrs BDO as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company. Save as aforesaid, the Company has not changed its auditors in the preceding three years.

ON BEHALF OF THE BOARD
Cheung Yin Sheung Subraina
Chairman

Hong Kong
July 14, 2006

Report of corporate governance

Corporate governance practices

Throughout the year ended March 31, 2006, the Group has adopted and complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which became effective on January 1, 2005, except for the deviations from Code Provision A.4.2 which is explained in the following relevant paragraphs and also the code provision on internal controls which are to be implemented for accounting periods on or after July 1, 2005 pursuant to the CG Code.

Directors' securities transactions

The Company has adopted a model code as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors of the Company (the "Directors"), the Company confirmed that all Directors have complied with the required standard set out in the Model Code.

Board of directors

Composition of the Board of Directors

The Board of Directors of the Company (the "Board") comprises seven Directors, of whom three are Executive Directors, namely Ms Cheung Yin Sheung Subraina, Mr Tong Kwong Fat, Ms Yung Wing Sze Vivian, a Non-executive Director, namely Ms To Ming Oi Wendy and, three are Independent Non-executive Directors, namely Mr Chan Ka Ling Edmond, Mr Lo Wa Kei Roy and Mr Ching Kwok Ho Samuel. Each of Directors' respective biographical details is set out in the "Biographical details of directors and senior management" of this annual report.

The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. To the best knowledge of the Board, save as the family relationships set out in the "Biographical details of directors and senior management" of this annual report, there is no financial, business, family or other material/relevant relationship among members of the Board.

Chairman and Chief Executive Officer

The Chairman and the Chief Executive Officer of the Company are Ms Cheung Yin Sheung Subraina and Mr Tong Kwong Fat respectively. Ms Cheung Yin Sheung Subraina is the spouse of Mr Tong Kwong Fat. The roles of the Chairman and Chief Executive Officer are segregated to assume a balance of authority and power. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

Functions of the Board of Directors

The Board is responsible for the leadership and control of the Company, oversee the Group's businesses and evaluate the performance of the Group. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group. The Board delegates day-to-day operations of the Group to executive directors and senior management who perform their duties under the leadership of the Chairman.

Independent Non-executive Directors

In compliance of Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors. And among the three independent non-executive Directors, two of them have appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The Company has received from each of its independent non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers Mr Chan Ka Ling Edmond, Mr Lo Wa Kei Roy and Mr Ching Kwok Ho Samuel to be independent.

Board of directors (continued)

Directors' Appointment, Re-election and Removal

All non-executive Directors are appointed for a specific term 1 year subject to the retirement and reappointment provisions in the Bye-law of the Company (the "Bye-laws").

According to the code provision A4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointments. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Bye-laws, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third) shall retire from office by rotation at each annual general meeting of the Company, but the directors were not required to retire by rotation at least once every three years. In addition, according to the Bye-laws, any directors appointed to fill a casual vacancy shall hold office only until the next following annual general meeting and shall then be eligible for re-election at that meeting. In order to ensure full compliance with code provision A.4.2, a special resolution will be proposed to amend the relevant Bye-laws at the forthcoming Annual General Meeting to be held on September 25, 2006, so that every director appointed by the Board during the year, if any, shall retire at the next general meeting. Every director shall be subject to retirement at least once every three years.

Board meetings and Board Practices

The Board has scheduled at least four meetings a year and meets when required. During the year, the Board held 4 meetings. The Company Secretary assists the Chairman in preparing the agenda of meeting. For all such meetings, at least 14 days' notice is given to all Directors while reasonable notice is generally given for other board meetings. The Company Secretary is responsible for distributing detailed documents to Directors to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing to the Board of Directors opinions on matters in relation to the compliance with the procedures of the Board meetings. All Board and committee minutes are recorded in appropriate detail and all minutes are kept by Company Secretary and are open for inspections by the Directors. In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company.

During the year ended March 31, 2006, the Company held 4 Board meetings, and the Directors' attendance records for those meetings held are set out below.

Directors' Attendance at Board Meetings

		Directors' Attendance
Executive Directors		
Ms Cheung Yin Sheung Subraina (Chairman)		4/4
Mr Tong Kwong Fat		4/4
Ms Yung Wing Sze Vivian		4/4
Non-executive Director		
Ms To Ming Oi Wendy	(appointed on January 1, 2006)	0/0
Independent Non-executive Directors		
Mr Chan Ka Ling Edmond		3/4
Mr Lo Wa Kei Roy		3/4
Mr Tsang Wai Kit		3/4

Board Committees

Audit Committee

The Company has established an audit committee on March 14, 2000 with written terms of reference in accordance with the requirements of the CG Code. The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr Chan Ka Ling Edmond, Mr Lo Wa Kei Roy and Mr Ching Kwok Ho Samuel. Mr Chan Ka Ling Edmond is the Chairman of the audit committee. The audit committee acts as an important link between the Board and the Company's auditors in matters within the scope of the group audit. The duties of the audit committee are to review and provide supervision over the financial reporting process of the Group. The audit committee meets regularly with the management and the external auditors to discuss the accounting principles and practices adopted by the Group and financial reporting matters. The financial statements of the Group for the year ended March 31, 2006 have been reviewed by the audit committee and there were 3 meetings held during the year ended March 31, 2006. The attendance records for the audit committee meetings are set out below:

Members of the audit committee	Directors' Attendance
Mr Chan Ka Ling Edmond	3/3
Mr Lo Wa Kei Roy	3/3
Mr Tsang Wai Kit	3/3

Remuneration Committee

The Company established a remuneration committee on September 28, 2005 with terms of reference in compliance with the provisions set out in the CG Code. The principal responsibilities of the remuneration committee include making recommendations to the Board on the Company's policy and structure in relation to the remuneration of directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. It comprises three members, including the Company's two independent non-executive Directors, namely Mr Chan Ka Ling Edmond and Mr Lo Wa Kei Roy and an executive director, Ms Yung Wing Sze Vivian. Mr Chan Ka Ling Edmond is the Chairman of the remuneration committee.

The remuneration committee meets at least once a year. During the financial year ended March 31, 2006, the remuneration committee has held 1 meeting to review the existing remuneration packages of each Director and senior management of the Company, and to recommend to the Board the salaries and bonuses of the Directors and senior management as necessary. The attendance record of individual committee members is set out as below:

Members of the remuneration committee	Directors' Attendance
Mr Chan Ka Ling Edmond	1/1
Mr Lo Wa Kei Roy	1/1
Ms Yung Wing Sze Vivian	1/1

Nomination of Directors

According to the CG Code, it is recommended to set up a nomination committee with a majority of the members thereof being independent non-executive directors. As the Board considers that may take up by the board members, therefore, the Company has not established a nomination committee.

The Board is responsible for considering to select and recommend candidates for directorship which based on assessment of their professional qualifications and experience. The Board is responsible for determining the independence of each Director and conducting assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

Auditors' remuneration

During the year ended March 31, 2006, there is no fees paid/payable to KLL Associates CPA Limited, the ex-auditors of the Company, who resigned on September 30, 2005.

During the year ended March 31, 2006, the fees paid/payable to BDO McCabe Lo Limited, the existing auditors of the Company, in respect of audit is HK$320,000.

Directors' responsibility for the financial statements

The Board is responsible for the preparation of the financial statements of the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Directors acknowledge their responsibility for preparing the financial statements of the Group. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Report of auditors

BDO McCabe Lo Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Telefax: (852) 2815 0002

德豪嘉信會計師事務所有限公司

香港干諾道中一百一十一號
永安中心二十五樓
電話:(八五二)二五四一 五〇四一
傳真:(八五二)二八一五 〇〇〇二

TO THE SHAREHOLDERS OF
GAY GIANO INTERNATIONAL GROUP LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 29 to 58 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 Companies Act 1981 of Bermuda, 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 Group's and the Company'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 Group and of the Company as at March 31, 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO McCabe Lo Limited
Certified Public Accountants

Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, July 14, 2006

Consolidated income statement

For the year ended March 31, 2006

	Notes	2006 HK$'000	2005 HK$'000
TURNOVER	4	132,785	126,404
Cost of sales		(44,123)	(38,076)
GROSS PROFIT		88,662	88,328
Other income		971	5,526
Distribution costs		(46,363)	(43,090)
Administrative expenses		(41,450)	(36,317)
PROFIT FROM OPERATIONS	6	1,820	14,447
Finance costs	7	(140)	(265)
PROFIT BEFORE TAX		1,680	14,182
Tax expense	9	463	(235)
PROFIT FOR THE YEAR		2,143	13,947
ATTRIBUTABLE TO:			
— Equity holders of the Company		2,143	13,947
Dividend	10	NIL	NIL
EARNINGS PER SHARE			
— Basic	11	HK1.07 cents	HK6.97 cents
— Diluted	11	HK1.07 cents	HK6.95 cents

Consolidated balance sheet

As at March 31, 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	13,223	14,662
Rental deposits		6,277	5,853
Deferred tax assets	13	571	—
Total non-current assets		20,071	20,515
CURRENT ASSETS			
Inventories	15	27,395	19,272
Trade receivables	16	1,063	2,022
Prepayments, deposits and other receivables		4,216	3,946
Pledged bank deposits		3,500	3,500
Cash and cash equivalents	18	12,193	14,091
Total current assets		48,367	42,831
CURRENT LIABILITIES			
Trade payables	19	2,767	1,463
Accrued liabilities and other payables		6,695	6,304
Tax payable		7	250
Bank loans (secured)	20	4,867	2,263
Other loan (secured)	21	59	1,924
Obligations under finance leases	22	78	123
Total current liabilities		14,473	12,327
NET CURRENT ASSETS		33,894	30,504
TOTAL ASSETS LESS CURRENT LIABILITIES		53,965	51,019
NON-CURRENT LIABILITIES			
Other loan (secured)	21	—	59
Obligations under finance leases	22	138	216
Employee benefits	23	1,503	964
Total non-current liabilities		1,641	1,239
TOTAL NET ASSETS		52,324	49,780
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	24	20,013	20,006
Reserves		32,311	29,774
TOTAL EQUITY		52,324	49,780

On behalf of the Board

Cheung Yin Sheung Subraina
Director

Tong Kwong Fat
Director

Balance sheet

As at March 31, 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Investment in a subsidiary	14	21,233	21,233
CURRENT ASSETS			
Prepayment		3	9
Amounts due from subsidiaries	17	45,824	46,024
Cash and cash equivalents	18	6	7
Total current assets		45,833	46,040
CURRENT LIABILITIES			
Accrued liabilities		40	40
Net current assets		45,793	46,000
TOTAL NET ASSETS		67,026	67,233
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	24	20,013	20,006
Reserves	25	47,013	47,227
TOTAL EQUITY		67,026	67,233

On behalf of the Board

Cheung Yin Sheung Subraina
Director

Tong Kwong Fat
Director

Consolidated statement of changes in equity

For the year ended March 31, 2006

	Share capital HK$'000	Share premium HK$'000	Exchange fluctuation reserve HK$'000	Leasehold land and buildings revaluation reserve HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
THE GROUP						
At April 1, 2004	20,003	26,121	116	—	(10,415)	35,825
Exercise of share options	3	5	—	—	—	8
Profit for the year	—	—	—	—	13,947	13,947
At March 31, 2005	20,006	26,126	116	—	3,532	49,780
Exercise of share options	7	11	—	—	—	18
Change in fair value of leasehold land and buildings	—	—	—	353	—	353
Profit for the year	—	—	—	—	2,143	2,143
Exchange realignments	—	—	30	—	—	30
At March 31, 2006	**20,013**	**26,137**	**146**	**353**	**5,675**	**52,324**

Consolidated cash flow statement

For the year ended March 31, 2006

	Note	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,680	14,182
Adjustment for:			
Depreciation of property, plant and equipment		3,460	2,078
Surplus on revaluation of investment properties		—	(1,270)
Loss/(gain) on write-off and disposals of property, plant and equipment, net		1,329	(3,601)
Write-down of inventories to net realisable value		877	1,797
Provision for long service payments		539	—
Interest income		(176)	(11)
Interest on bank loans and overdrafts		123	128
Interest on obligations under finance leases		12	29
Interest on other loan		5	108
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		7,849	13,440
Increase in rental deposits		(424)	(1,998)
Increase in inventories		(9,000)	(3,763)
Decrease in trade receivables		959	247
(Increase)/decrease in prepayments, deposits and other receivables		(270)	3,258
Increase/(decrease) in trade payables		1,304	(1,809)
Increase/(decrease) in accrued liabilities and other payables		391	(1,681)
CASH GENERATED FROM OPERATIONS		809	7,694
Interest received		176	11
Interest on bank loans and overdrafts		(123)	(128)
Interest on obligations under finance leases		(12)	(29)
Interest on other loan		(5)	(108)
Income tax paid		(351)	(27)
NET CASH FROM OPERATING ACTIVITIES		494	7,413
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in pledged bank deposits		—	(3,500)
Proceeds on disposals of property, plant and equipment		60	12,516
Purchase of property, plant and equipment		(3,027)	(2,775)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		(2,967)	6,241
CASH FLOWS FROM FINANCING ACTIVITIES	27		
Issue of shares		18	8
Repayments of other loan		(1,924)	(211)
Repayments of obligations under finance leases		(123)	(185)
Proceeds from bank loans (secured)		4,867	2,263
Repayments of bank loans (secured)		(2,263)	(4,067)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		575	(2,192)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,898)	11,462
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		14,091	2,629
CASH AND CASH EQUIVALENTS AT END OF YEAR		12,193	14,091
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		12,193	14,091

Notes to the financial statements

March 31, 2006

1. General

The Company was incorporated in Bermuda as exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and principal place of business is at Suites 701-702, Grandtech Centre, 8 On Ping Street, Siu Lek Yuen, Shatin, N.T., Hong Kong.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is a subsidiary of Gay Giano (BVI) Group Limited, a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company.

The Company acts as an investment holding company. The Group is principally involved in the manufacturing, retailing and wholesaling of fashion apparel and complementary accessories. The activities of its principal subsidiaries are set out in note 32.

2. Principal accounting policies

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements also comply with the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Basis of preparation

The financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after January 1, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. The changes in presentation have been applied retrospectively.

The applicable HKFRSs are set out as below.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue

2. Principal accounting policies (continued)

(b) Basis of preparation (continued)

HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earning Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payments
HKAS-INT 15	Operating Leases — Incentives
HKAS-INT 21	Income Taxes — Recovery of Revalued Non-Depreciable Assets

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 33, 36, 37 and 40, HKFRS 2, and HKAS-INT 15 and 21 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the income statement, balance sheet, and statement of changes in equity.
- HKAS 8, 16 and 21 affect certain disclosures of the financial statements.
- HKAS 2, 7, 10, 12, 14, 18, 19, 23, 27, 33, 36, 37 and 40, and HKAS-INT 15 and 21 do not have any impact on the Group as the Group's accounting policies already comply with the standards.
- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

HKAS 17 "Leases"

The adoption of HKAS 17 "Leases" has resulted in a change in accounting policy relating to leasehold land. In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to "Interests in leasehold land held for own use under operating leases", which are carried at cost and amortised over the lease term on a straight-line basis. The related revaluation reserve on the leasehold land is de-recognised and the related deferred taxation reversed. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land are accounted for as property, plant and equipment. The adoption of HKAS 17 has no significant impact on the financial statements for current and prior years. The 2005 financial statements have not been restated.

HKFRS 2 "Share-Based Payment"

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after April 1, 2005. In relation to share options granted before April 1, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before November 7, 2002 or vested before April 1, 2005. Since the share options of the Company were vested before April 1, 2005, the HKFRS 2 has no significant impact on the financial statements for current and prior years. The 2005 financial statements have not been restated.

2. Principal accounting policies (continued)

(b) Basis of preparation (continued)

HKAS 32 "Financial Instruments: Disclosure and Presentation"
HKAS 39 "Financial Instruments: Recognition and Measurement"

In current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after January 1, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provision in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

From April 1, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" that are not part of a hedging relationship and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. This change did not have significant impact on the financial statements for current and prior years. Comparative figures for 2005 have not been restated.

Financial assets and financial liabilities other than debt and equity securities

From April 1, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets".

Derecognition

Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after April 1, 2005.

(c) Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

The Company's interests in subsidiaries are stated at cost less impairment loss, if any.

2. Principal accounting policies (continued)

(d) Subsidiaries

A subsidiary is an entity in which the Company is able to exercise its control on it. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(e) Revenue recognition

Revenue from the sale of goods is recognised when title of goods sold has passed to the purchaser.

Interest income is accrued on a time basis on the principal outstanding and at the applicable rate.

Royalty fee income is recognised on accrual basis in accordance with the terms of the agreements.

(f) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended use or sale.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(g) Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to be lessor.

Where substantially all of the risks and rewards incidental to ownership of a leased asset are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

(h) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

2. Principal accounting policies (continued)

(i) Share-based payment

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

The Group also operates a share option scheme. An option pricing model is used to measure the Group's liability at each balance sheet date, taking into account the terms and conditions on which the bonus is awarded and the extent to which employees have rendered service. Movements in the liability (other than cash payments) are recognised in the income statement.

(j) Employee benefits

(i) Defined contribution pension plan

Obligations for contributions to defined contribution retirement plan are recognised as an expense in the income statement as incurred.

(ii) Long service payments

The Group's net obligations in respect of lump sum long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services in the current and prior periods. The obligations is calculated using the projected unit credit method, discounted to its present value, and the fair value of any related plan assets is deducted. The discount rate is the yield at balance sheet date on government bonds that have maturity dates approximating the terms of the Group's obligations.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iv) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(k) Foreign currency

Transactions entered into by the Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

2. Principal accounting policies (continued)

(k) Foreign currency (continued)

On consolidation, the results of overseas operations are translated into Hong Kong Dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

(l) Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on March 31. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense.

(m) Property, plant and equipment

The building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. Fair value is determined by the property valuer based on independent valuations which are performed periodically. The directors review the carrying value of the leasehold buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the leasehold land and buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged and thereafter to leasehold land and buildings revaluation reserve.

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Leasehold land	2% on straight-line basis
Buildings	Over the lease terms
Leasehold improvements	20 — 50% on reducing balance basis
Plant and machinery	20 — 50% on reducing balance basis
Furniture and fixtures	20 — 50% on reducing balance basis
Motor vehicles	25 — 50% on reducing balance basis

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenances costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

2. Principal accounting policies (continued)

(m) Property, plant and equipment (continued)

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the income statement in the period in which such expenses are incurred.

The gain or loss on disposal of a property, plant and equipment other than leasehold building is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(n) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversation and other costs incurred in bringing the inventories to their present location and condition.

First-in, first-out cost is used to determine the cost of ordinarily interchangeable items.

(o) Cash equivalents

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(p) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(q) Financial instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investment are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement.

2. Principal accounting policies (continued)

(q) Financial instruments (continued)

(ii) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term and long-term monetary liabilities, which are recognised at amortised cost, using the effective interest rate method.

- Bank borrowing are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest payable while the liability is outstanding.

(iii) Derecognition

The Group derecognise a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

3. Potential impact arising on the new accounting standards not yet effective

The Group has not yet applied the following new HKFRSs that have been issued but not yet been effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instrument: Disclosures
HKFRS — Interpretation 4	Determining whether an Arrangement contains a lease
HKFRS — Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) — Interpretation 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
HK(IFRIC) — Interpretation 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) — Interpretation 8	Scope of HKFRS 2
HK(IFRIC) — Interpretation 9	Reassessment of Embedded Derivatives

4. Turnover

Turnover represents the net invoiced value of goods sold, after goods returns and trade discounts, from retail and wholesale of ladies' and men's fashion apparel and complementary accessories.

5. Segment information

Business segments

No segment analysis for business segment is presented as the Group principally operates in one business segment, which is the retail and wholesale of fashion apparel.

Geographical segments

The following table presents the revenue, results, assets and expenditure information for the geographical segments of the Group:

	Hong Kong		PRC		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue						
Sales to external customers	**131,337**	122,417	**1,448**	3,987	**132,785**	126,404
Segment results	**1,950**	14,926	**(130)**	(479)	**1,820**	14,447
Other segment information:						
Segment assets	**57,841**	52,405	**10,597**	10,941	**68,438**	63,346
Capital expenditure	**2,912**	3,077	**115**	13	**3,027**	3,090

6. Profit from operations

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Profit from operations is stated after charging:		
Cost of inventories sold	44,123	38,076
Staff costs (excluding directors' emoluments, note 8)*		
Wages and salaries	35,573	32,987
Retirement benefits	1,805	1,833
Provision for long service payments	539	—
	37,917	34,820
Write-down of inventories to net realisable value*	877	1,797
Depreciation of property, plant and equipment*		
— Owned	3,358	1,962
— Leased	102	116
Minimum lease payments under operating leases on land and buildings*	31,996	29,643
Auditors' remuneration	320	310
Loss on write-off and disposals of property, plant and equipment, net	1,329	—
Exchange losses, net*	—	472
and after crediting:		
Surplus on revaluation of investment properties	—	1,270
Gain on write-off and disposals of property, plant and equipment, net	—	3,601
Royalty fee income	616	616
Interest income	176	11
Exchange gains, net*	741	—

* Cost of inventories sold includes direct staff costs, operating lease rentals on land and buildings, write-down of inventories to net realisable value, net exchange gains/losses and depreciation of property, plant and equipment in aggregate of HK$7,109,000 (2005: HK$7,860,000), which are included in the above respective captions of expenses.

7. Finance costs

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Interest expenses on:		
Bank loans and overdrafts	123	128
Obligations under finance leases	12	29
Other loan wholly repayable within five years	5	—
Other loan not wholly repayable within five years	—	108
Total finance costs	140	265

8. Directors' and employees' emoluments

(a) Directors' emoluments

The aggregate amounts of the directors' emoluments, disclosed pursuant to the Listing Rules and Section 161 of Hong Kong Companies Ordinance, are as follows:

Name of directors	Fees HK$'000	Basic salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	2006 Total HK$'000
Executive directors:				
Cheung Yin Sheung Subraina (Chairman)	—	820	12	**832**
Tong Kwong Fat	—	805	12	**817**
Yung Wing Sze Vivian	—	723	12	**735**
Non-executive director:				
To Ming Oi Wendy	60	—	—	**60**
Independent non-executive directors:				
Chan Ka Ling Edmond	85	—	—	**85**
Tsang Wai Kit	45	—	—	**45**
Lo Wa Kei Roy	36	—	—	**36**
Total	226	2,348	36	**2,610**

	Fees HK$'000	Basic salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	2005 Total HK$'000
Executive directors:				
Cheung Yin Sheung Subraina (Chairman)	—	666	12	678
Tong Kwong Fat	—	653	12	665
Yung Wing Sze Vivian	—	604	12	616
Independent non-executive directors:				
Chan Ka Ling Edmond	80	—	—	80
Tsang Wai Kit	36	—	—	36
Lo Wa Kei Roy	35	—	—	35
Total	151	1,923	36	2,110

No directors waived any emoluments in the years ended March 31, 2006 and 2005.

During the years ended March 31, 2006 and 2005, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as compensation for loss of office.

8. Directors' and employees' emoluments (continued)

(b) The five highest paid individuals

The five highest paid individuals during the year included three (2005: three) directors. Details of the emoluments of the remaining two (2005: two) highest paid individuals are as follows:

	THE GROUP 2006 HK$'000	2005 HK$'000
Employees		
— basic salaries and allowances	2,920	1,992
— retirement benefits scheme contributions	24	24
	2,944	2,016

The number of highest paid and non-director employees whose emoluments fell within the following bands is as follows:

	Number of employees 2006	2005
Nil — HK$1,000,000	—	1
HK$1,000,000 — HK$1,500,000	2	1
	2	2

No highest paid and non-director employees waived any emoluments in the years ended March 31, 2006 and 2005.

During the years ended March 31, 2006 and 2005, no emoluments were paid by the Group to any of the two (2005: two) highest paid and non-director employees as an inducement to join or upon joining the Group or as compensation for loss of office.

9. Tax expense

The amount of tax expense in the consolidated income statement represents:

	THE GROUP 2006 HK$'000	2005 HK$'000
Current tax — provision for Hong Kong Profits Tax		
— tax for the year	5	187
— under provision in respect of prior years	68	—
	73	187
Current tax — overseas		
— tax for the year	35	48
Deferred tax (note 13)		
— current year	(571)	—
	(463)	235

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year.

The Company's subsidiary established in the PRC is subject to Enterprise Income Tax at a rate of 15% (2005: 15%). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. Tax expense (continued)

The tax expense for the year can be reconciled to the profit per the consolidated income statement as follows:

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Profit before tax	1,680	14,182
Tax calculated at the domestic income tax rate of 17.5% (2005: 17.5%)	294	2,482
Net tax effect of revenue and expenses not subject to tax and not deductible for tax purpose	568	(783)
Tax effect of utilisation of tax losses not previously recognised	(991)	(1,742)
Tax losses for the year not recognised	184	164
Tax effect of temporary differences not recognised	(660)	93
Under provision in the prior year	68	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	74	21
Tax expense for the year	(463)	235

10. Dividend

No dividend were paid or proposed during the year of 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

11. Earnings per share

The calculation of basic earnings per share is based on the profit for the year of HK$2,143,000 (2005: HK$13,947,000) and the weighted average number of 200,127,000 (2005: 200,031,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2006	2005
	Number of shares	Number of shares
	'000	'000
Issued ordinary shares at beginning of the year	200,060	200,030
Effect of share options exercised	67	1
Weighted average number of ordinary shares at end of the year	200,127	200,031

The calculation of diluted earnings per share is based on the profit for the year of HK$2,143,000 (2005: HK$13,947,000) and the weighted average number of 200,133,000 (2005: 200,652,000) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 200,127,000 (2005: 200,031,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 6,000 (2005: 621,000) ordinary shares assumed to have been issued at no consideration upon exercise of all share options outstanding during the year.

12. Property, plant and equipment

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP						
COST OR VALUATION:						
At April 1, 2005	5,150	11,960	3,362	14,452	3,612	38,536
Additions	—	1,656	28	1,110	233	3,027
Write-off and disposals	—	(3,033)	—	(1,230)	(400)	(4,663)
Change in fair value	250	—	—	—	—	250
Exchange realignments	—	131	131	21	8	291
At March 31, 2006	5,400	10,714	3,521	14,353	3,453	37,441
Analysis of cost or valuation:						
At cost	—	10,714	3,521	14,353	3,453	32,041
At valuation	5,400	—	—	—	—	5,400
	5,400	10,714	3,521	14,353	3,453	37,441
ACCUMULATED DEPRECIATION:						
At April 1, 2005	—	8,326	2,877	10,689	1,982	23,874
Charge for the year	103	982	488	1,463	424	3,460
Eliminated on write-off and disposals	—	(2,244)	—	(728)	(302)	(3,274)
Change in fair value	(103)	—	—	—	—	(103)
Exchange realignments	—	122	116	17	6	261
At March 31, 2006	—	7,186	3,481	11,441	2,110	24,218
NET BOOK VALUE:						
At March 31, 2006	5,400	3,528	40	2,912	1,343	13,223
At March 31, 2005	5,150	3,634	485	3,763	1,630	14,662

The net book value of property, plant and equipment held under finance leases included in the amount of motor vehicles at March 31, 2006 amounted to HK$278,000 (2005: HK$476,000).

At March 31, 2006, the Group's leasehold land and buildings, situated in Hong Kong, is held under medium-term leases. At March 31, 2006, the leasehold land and buildings of the Group with net book value of HK$5,400,000 (2005: HK$5,150,000) was pledged to secure other loan granted to the Group (note 20).

The Group's leasehold land and buildings in Hong Kong was last valued at March 31, 2006 by Messrs Savills Valuation and Professional Services Limited, on an open market value basis. Messrs Savills Valuation and Professional Services Limited is not connected with the Group.

Had the revaluated leasehold land and buildings been measured on a historical cost basis, their net book values would have been HK$5,047,000 (2005: HK$5,150,000).

12. Property, plant and equipment (continued)

	Investment properties HK$'000	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP							
COST:							
At April 1, 2004	3,880	8,160	12,823	3,362	14,324	3,890	46,439
Additions	—	—	1,484	—	924	682	3,090
Write-off and disposals	—	(8,160)	(2,347)	—	(796)	(960)	(12,263)
Surplus on revaluation	1,270	—	—	—	—	—	1,270
Transfer	(5,150)	5,150	—	—	—	—	—
At March 31, 2005	—	5,150	11,960	3,362	14,452	3,612	38,536
ACCUMULATED DEPRECIATION:							
At April 1, 2004	—	488	9,041	2,770	10,401	2,444	25,144
Charge for the year	—	139	725	107	776	331	2,078
Eliminated on write-off and disposals	—	(627)	(1,440)	—	(488)	(793)	(3,348)
At March 31, 2005	—	—	8,326	2,877	10,689	1,982	23,874
NET BOOK VALUE:							
At March 31, 2005	—	5,150	3,634	485	3,763	1,630	14,662
At March 31, 2004	3,880	7,672	3,782	592	3,923	1,446	21,295

The analysis of the net book value of leasehold land and buildings is as follows:

	THE GROUP 2006 HK$'000	THE GROUP 2005 HK$'000
Building in Hong Kong Medium — term lease	**5,400**	5,150

13. Deferred tax assets

The Group

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior periods:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At April 1, 2004	(777)	777	—
Credit/(charge) to income for the year	93	(93)	—
At March 31, 2005	(684)	684	—
(Charge)/credit to income for the year	(132)	703	571
At March 31, 2006	(816)	1,387	571

At the balance sheet date, the Group has unused tax losses of HK$33,317,000 (2005: HK$37,928,000) available to set off future profits. A deferred tax asset has been recognised in respect of HK$7,927,000 (2005: HK$3,908,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$25,390,000 (2005: HK$34,020,000) due to the unpredictability of future profits streams. All the losses can be carried forward indefinitely.

13. Deferred tax assets (continued)

The Company

At the balance sheet date, the Company has unused tax losses of HK$1,326,000 (2005: HK$1,101,000). No deferred tax assets has been recognised in relation to such unused tax losses due to the unpredictability of future profits streams.

14. Investment in a subsidiary

	THE COMPANY 2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	32,251	32,251
Impairment	(11,018)	(11,018)
	21,233	21,233

Particulars of the principal subsidiaries of the Company at March 31, 2006 are set out in note 32.

15. Inventories

	THE GROUP 2006 HK$'000	2005 HK$'000
Raw materials	4,401	3,912
Work in progress	1,828	1,860
Finished goods	21,166	13,500
	27,395	19,272

16. Trade receivables

The following is an ageing analysis of trade receivables at the balance sheet date, based on the invoice dates:

	THE GROUP 2006 HK$'000	2005 HK$'000
0 — 30 days	436	517
31 — 60 days	—	232
Over 60 days	627	1,273
	1,063	2,022

Normal credit terms granted by the Group to its customers ranges from 30 to 60 days of invoice date. The Group grants credit terms of over 60 days to certain customers of long business relationship or with high creditability.

Included in trade receivables is the following amount denominated in a currency other than the functional currency of the Group to which it relates:

	THE GROUP 2006 '000	2005 '000
Renminbi	783	1,834

17. Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, bearing interest at rates ranging from 5.5% to 8.75% per annum and repayable on demand.

18. Cash and cash equivalents

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash	**12,193**	14,091	**6**	7

The cash and cash equivalents of the Group and the Company that are denominated in currencies other than the functional currency of the Group are set out as below:

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Renminbi	**267**	240	**—**	—

19. Trade payables

The following is an ageing analysis of trade payables at the balance sheet date:

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
0 — 30 days	**1,744**	883
31 — 60 days	**792**	263
Over 60 days	**231**	317
	2,767	1,463

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the Group to which they relate:

	THE GROUP	
	2006	2005
	'000	'000
Euro	**8**	22
Renminbi	**50**	185
United States Dollars	**—**	1

20. Bank loans (secured)

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Secured bank loans repayable:		
Within one year	**4,867**	2,263

The bank loans of the Group that are denominated in currencies other than the functional currency of the Group are set out below:

	THE GROUP	
	2006	2005
	'000	'000
Euro	**272**	193
Japanese Yen	**—**	4,289
United States Dollars	**284**	—

At March 31, 2006, bank loans of the Group were secured by a pledged bank deposit of HK$3,500,000 (2005: HK$3,500,000).

21. Other loan (secured)

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Secured other loan repayable:		
Within one year	59	1,924
In the second year	—	8
In the third to fifth years, inclusive	—	25
After five years	—	26
	59	1,983
Less: Amount due within one year shown under current liabilities	(59)	(1,924)
	—	59

At March 31, 2006, other loan of the Group was secured by legal charges over the leasehold land and buildings of the Group and bore variable interest rate ranging from 5% to 8% per annum. The amount is repayable by installments and will be fully repaid in the year of 2012.

22. Obligations under finance leases

The Group leased certain of its motor vehicles. The leases are classified as finance leases and have remaining lease terms ranging from less than one year to four years.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Future lease payments are due as follows:

	Minimum lease payments 2006 HK$'000	Interest 2006 HK$'000	Present value 2006 HK$'000
Not later than one year	88	(10)	78
Later than one year and not later than five years	154	(16)	138
	242	(26)	216

	Minimum lease payments 2005 HK$'000	Interest 2005 HK$'000	Present value 2005 HK$'000
Not later than one year	135	(12)	123
Later than one year and not later than five years	242	(26)	216
	377	(38)	339

The present value of future lease payments are analysed as:

	2006 HK$'000	2005 HK$'000
Current liabilities	78	123
Non-current liabilities	138	216
	216	339

23. Employee benefits

	THE GROUP 2006 HK$'000	2005 HK$'000
Liabilities for employee benefits comprise:		
Long service payments accrual	1,503	964

Long service payments

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations. According to the Hong Kong Employment Ordinance, the directors applied the statutory maximum retirement benefits entitled to each employee in the calculation of long service payments.

(a) Movement for the year

	2006 HK$'000	2005 HK$'000
At beginning of the year	964	964
Expense recognised in the consolidated income statement	539	—
At end of the year	1,503	964

(b) The directors' assumptions with reference to the independent valuers' report used for accounting purposes at March 31 are as follows:

	2006	2005
Discount rate applied to pension obligations	4.6%	4.6%
Future salary increases	1.7%	1.7%

24. Share capital

	2006 Number of shares '000	2006 HK$'000	2005 Number of shares '000	2005 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	1,000,000	100,000	1,000,000	100,000
Issued and fully paid:				
At the beginning of the year	200,060	20,006	200,030	20,003
Issued on exercise of share options (Note)	70	7	30	3
At the end of the year	200,130	20,013	200,060	20,006

Note:

During the year, the Company issued 70,000 (2005: 30,000) ordinary shares of HK$0.10 each at exercise price of HK$0.2528 per share upon the exercise of share options granted to certain employees. The proceeds from issue of shares were used as working capital of the Group.

Share options

The operation of the share option scheme adopted by the Company on March 14, 2000 (the "Old Scheme") was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option would be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

24. Share capital (continued)

Share options (continued)

On September 10, 2002, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme") under which the board of directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and other schemes of the Group must not in aggregate exceed 10% of the shares in issue upon completion of the share offer and the capitalisation issue at the time dealings in the shares commence on the Stock Exchange unless a fresh approval from the shareholders of the Company has been obtained.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time.

The total number of shares issued and may be issued upon exercise of the options granted to each eligible person under the New Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in 12-month period must not exceed 1% of the issued share capital of the Company.

Option granted under the New Scheme must be accepted within 28 days from the date of grant. Upon acceptance, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

The subscription price for the shares under the New Scheme shall be a price determined by the board of directors of the Company and notified to an eligible participant and shall not be lower than the higher of: (i) the nominal value of a share; (ii) the closing price of one share as stated in the daily quotation sheets issued by the Stock Exchange on the offer date, which shall be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date.

The following tables disclose details of the Company's share options under the Old Scheme held by employees (including directors) and movements in such holdings during the year:

(a) **Movements in share options**

	2006 Number	2005 Number
At the beginning of the year	**15,320,000**	15,380,000
Exercised	**(70,000)**	(30,000)
Cancelled	**(90,000)**	(30,000)
At the end of the year	**15,160,000**	15,320,000

(b) **Terms of unexpired and unexercised share options at balance sheet date**

Date granted	Exercise period	Exercise price	2006 Number	2005 Number
February 5, 2001	February 5, 2001 to February 4, 2011	HK$0.2528	**15,160,000**	15,320,000

Details of unexpired and unexercised share options analysed by directors and non-directors are disclosed in the report of directors.

The financial impact of share options granted and vested before April 1, 2005 was not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge was recognised in the income statement in respect of the value of options granted and vested before April 1, 2005. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

The weighted average closing price of the Shares of the Company immediately before the dates on which the share options were exercised was HK$0.3457. The weighted average exercise price of the share options was HK$0.2528 throughout the year. No option has been granted under the New Scheme since its adoption on September 10, 2002.

25. Reserves

	Share capital HK$'000	Share premium HK$'000	Contributed surplus* HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY					
At April 1, 2004	20,003	26,121	32,051	(11,289)	66,886
Exercise of share options	3	5	—	—	8
Profit for the year	—	—	—	339	339
At March 31, 2005	20,006	26,126	32,051	(10,950)	67,233
Exercise of share options	7	11	—	—	18
Loss for the year	—	—	—	(225)	(225)
At March 31, 2006	**20,013**	**26,137**	**32,051**	**(11,175)**	**67,026**

* The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the underlying net assets of subsidiaries which were acquired by the Company pursuant to a group reorganisation implemented during the year ended March 31, 2000.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay dividends, or make a distribution out of contributed surplus, if:

(1) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(2) the realisable value of the company's assets would thereby be less than the aggregate of its issued share capital and share premium accounts.

26. Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. The MPF Scheme has been operated since December 1, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group in the PRC are required to participate in a central pension scheme operated by the local municipal governments. The Group are required to contribute certain stipulated percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they became payable in accordance with the rules of the central pension scheme.

27. Major non-cash transaction

During the year ended March 31, 2005, the Group entered into a finance lease arrangement in respect of assets with a total capital value at the inception of lease of HK$315,000.

28. Operating lease commitments

At balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases for its properties falling due as follows:

	THE GROUP	
	2006 HK$'000	2005 HK$'000
Within one year	**30,093**	26,143
In the second to fifth years, inclusive	**21,244**	30,274
	51,337	56,417

29. Contingent liabilities

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

At March 31, 2006, the Company had provided guarantee to a bank against facilities utilised by a subsidiary as follow:

	THE COMPANY	
	2006	2005
	HK$'000	HK$'000
Bank loans	4,867	2,263

30. Related party transactions

(a) During the year, the Group entered into the following related party transaction:

Related party relationship	Type of transaction	Transaction amount 2006 HK$'000	2005 HK$'000
Entity in which a director of the Company has interest	Rental on office premises paid by the Group	2,374	2,184

Further details of the above-mentioned transaction is included under the heading "Connected transactions" in the Report of the Directors.

(b) Compensation of key management personnel

The emoluments of directors (included in note 8) and other members of key management during the year were as follows:

	2006 HK$'000	2005 HK$'000
Short-term benefits	5,902	4,406
Post-employments benefits	72	72
	5,974	4,478

(c) During the year, the Group sold finished goods amounted to HK$1,424,000 (2005: HK$1,613,000) to an entity of which the owner name is registered in the name of a director of a subsidiary of the Group. The transactions were based on normal commercial terms and with reference to market prices. The director of that subsidiary declared that such entity is beneficially owned by an independent third party.

31. Financial instruments — risk management

The Group is exposed through its operations to the following financial risks:

- Currency risk;
- Liquidity risk;
- Interest rate risk; and
- Fair value risk.

Policy for managing these risks is set by the directors of the Group. The policy for each of the above risks is described in more detail below.

Currency Risk

Several subsidiaries of the Company have foreign currency purchases which expose the Group to foreign currency risk. The management is aware of the possible exchange appreciation in Euro in the future although the Group's cash outlay on purchase of raw materials are mainly denominated in Hong Kong dollars and United State dollars and currency risk exposure is immaterial . The Group currently does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure and consider hedging significant foreign currency exposure should the need arises.

Liquidity Risk

Individual operating entities within the Group are responsible for their own cash management, including the cash, current working capital and the raising of funds from issue of shares and underlying interests in shares of the Company, subject to approval by the Company's shareholders, if necessary. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and longer term.

Interest Rate Risk

The Group is exposed to interest rate risk on variable-rate bank loans and other loan. The management monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arises.

Fair Value Risk

The fair values of financial assets and financial liabilities reported in the balance sheets of the Group and the Company approximate their carrying amounts.

32. Principal subsidiaries

Particulars of the Company's principal subsidiaries at March 31, 2006 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ registration and operations	Nominal value of paid-up issued share/registered capital	Percentage of equity attributable to the Company %	Principal activities
Directly held:					
Gay Giano Holdings Limited	Limited	British Virgin Islands	US$1,000	100	Investment holding
Indirectly held:					
Belarus Limited	Limited	Hong Kong	HK$3,000	100	Sourcing of materials and investment holding
Cour Carré (Asia) Limited	Limited	British Virgin Islands	US$1	100	Investment holding
Cour Carré Company Limited	Limited	Hong Kong	HK$1,000	100	Retail of fashion apparel and complementary accessories
Cour Carré World Limited	Limited	British Virgin Islands	US$1	100	Wholesale of fashion apparel and complementary accessories
Due G Company Limited	Limited	Hong Kong	HK$10,000	100	Retail of fashion apparel and complementary accessories
Gay Giano Company Limited	Limited	Hong Kong	HK$1,000,000	100	Retail of fashion apparel and complementary accessories
Gay Giano International Limited	Limited	Hong Kong	HK$1,000	100	Investment holding and provision of administrative services
Gay Giano Technology Limited	Limited	British Virgin Islands/ Hong Kong	US$1	100	Provision of information technology services
Maxrola Limited	Limited	Hong Kong	HK$2	100	Property investment
Shenzhen Longwei Fashion Mfg. Co., Ltd.* ("SLFM")	Co-operative joint venture	PRC	HK$12,000,000	100	Manufacture and distribution of fashion apparel

* SLFM is a co-operative joint venture established by the Group and a partner in the PRC for a period of operation for ten years commencing from the date of the issuance of its business licence on May 3, 1996. At the date of the financial statements, the operation period was renewed to May 3, 2007. According to the joint venture contract, the PRC partner is entitled to the payment of a fixed sum of RMB436,320 per annum and the Group is entitled to all of the profits and shall bear all of the losses of SLFM. SLFM is treated as a subsidiary as under the joint venture contract, the Group controls the composition of the board of directors of SLFM and has control over the financial and operating policies of SLFM.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for 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.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

33. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below:

Impairment loss on trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and ageing analysis of the trade receivables and on management's judgement. A considerable amount of judgment is required in assessing the ultimate realisation of these trade receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Impairment on inventories

The management of the Group reviews an ageing analysis at each balance sheet date, and writes down obsolete and slow-moving inventory items identified to net realisable value. The management estimated the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

Depreciation and impairment of property, plant and equipment

The management of the Group reviews the depreciation policy and estimates the useful lives of each category of property, plant and equipment with respect to their respective condition and deterioration rate. If the conditions and recoverable value of assets were to deteriorate, acceleration on depreciation and additional impairment may be required. The management will also consider referring to professional property valuers' estimation in assessing impairment.

Provision for long service payment and annual leave

A provision is made for the estimated liability for long service payment and annual leave and the calculation of which involves assumption and assessment on the employees' final salary, years of service, employee turnover rate, the change of labour market condition and other relevant economic and strategic policies. Adjustment on provision is dependent on the aggregate effect of relevant factors which involve considerable degree of estimation. The management will also consider taking reference to the independent valuers' report in assessing whether adjustment on provision is required.

34. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on July 14, 2006.

GAY GIANO
INTERNATIONAL