1. CORPORATE INFORMATION

Bauhaus International (Holdings) Limited is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Room 501, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong.

During the year, the Group was involved in the manufacturing and trading of garments and accessories.

In the opinion of the directors, the parent and the ultimate holding company of the Group is Huge Treasure Investments Limited, which is incorporated in the British Virgin Islands.

2.1 GROUP REORGANISATION, BASIS OF PRESENTATION AND PREPARATION

Group Reorganisation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 October 2004 under the Companies Law of the Cayman Islands.

On 21 April 2005, pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 May 2005, the Company acquired the entire issued share capital in Bauhaus Investments (BVI) Limited ("Bauhaus (BVI)"), the then holding company of the subsidiaries, in consideration for the aggregate allotment and issue of 1,000,000 ordinary shares of HK$0.1 each in the share capital of the Company to the then shareholders of Bauhaus (BVI). The Company then became the holding company of the companies now comprising the Group (the "Group Reorganisation").

Further details of the Group Reorganisation were set out in the Company's listing prospectus (the "Listing Prospectus") dated 29 April 2005.

The shares of the Company were listed on the Main Board of the Stock Exchange on 12 May 2005.

Basis of presentation

The Group Reorganisation above involved companies under common control and the Group resulting from the Group Reorganisation is regarded and accounted for as a continuing group. Accordingly, the consolidated financial statements have been prepared on the merger basis as if the Company had been the holding company of the companies comprising the Group from 1 April 2004. Under this basis, the Company has been treated as the holding company of its subsidiaries pursuant to the Group Reorganisation for the financial years presented, rather than from the date of acquisition of the subsidiaries.

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale financial asset, which has been measured at fair value. These financial statements are presented in Hong Kong dollars.

2.1 GROUP REORGANISATION, BASIS OF PRESENTATION AND PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

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
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	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 33, 36, 37, 38 and 39 Amendment, HKFRSs 2 and 3, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

HKAS 17 has affected the presentation of the Group's leasehold land and buildings. In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts in the consolidated balance sheet for the year ended 31 March 2005 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land. Balance of prepaid land lease payments amortisable within one year from the balance sheet date of HK$155,000 (2005: HK$155,000) has been classified as current asset with the remaining portion of HK$7,329,000 (2005: HK$7,484,000) classified as non-current asset.

(b) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group classified its investment in certain time deposit as cash and cash equivalents, which were stated at face value. Upon the adoption of HKAS 39, the time deposit held by the Group at 1 April 2005 in the amount of HK$3,900,000 are designated as available-for-sale financial asset under the transitional provisions of HKAS 39 and accordingly is stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are applicable to the Group and are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contract
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 April 2005	Effect of adopting		
	HKAS 17#	HKASs 32# and 39*	
Effect of new policies (Increase/(decrease))	Prepaid land lease payments	Change in classification of/ accounting for financial instruments	Total
	HK$'000	HK$'000	HK$'000
Assets			
Property, plant and equipment	(7,639)	–	(7,639)
Prepaid land lease payments, non-current	7,484	–	7,484
Prepaid land lease payment, current	155	–	155
Available-for-sale financial asset	–	3,900	3,900
Cash and cash equivalents	–	(3,900)	(3,900)
			–

* Adjustment taken effect prospectively from 1 April 2005

Adjustment/presentation taken effect retrospectively

At 31 March 2006	**Effect of adopting**		
	HKAS 17	**HKASs 32 and 39**	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Change in classification of/ accounting for financial instruments**	**Total**
	HK$'000	**HK$'000**	**HK$'000**
Assets			
Property, plant and equipment	**(7,484)**	**–**	**(7,484)**
Prepaid land lease payments, non-current	**7,329**	**–**	**7,329**
Prepaid land lease payment, current	**155**	**–**	**155**
Available-for-sale financial asset	**–**	**3,900**	**3,900**
Cash and cash equivalents	**–**	**(3,900)**	**(3,900)**
			–

(b) The adoption of the new and revised HKFRSs had no effect on the balances of equity as at 31 March 2006 (2005: Nil) and consolidated income statement for the year ended 31 March 2006 (2005: Nil).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2%
Leasehold improvements	Over the lease terms
Plant and machinery	9% to 25%
Computer equipment	20% to 30%
Furniture, fixtures and equipment	18% to 25%
Motor vehicles	20% to 30%

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised.

Trademarks with definite useful lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their useful lives of about 5 to 15 years.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets (applicable to year ended 31 March 2006)

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets (applicable to year ended 31 March 2006) *(Continued)*

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Impairment of financial assets (applicable to year ended 31 March 2006)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to year ended 31 March 2006) *(Continued)*

Assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Derecognition of financial assets (applicable to year ended 31 March 2006)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision is recognised and included in accruals and other payables in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension schemes and other retirement benefits

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 of the Group companies operating in Hong Kong who are eligible to participate in the MPF Scheme. 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 Group's subsidiaries established in Mainland China participate in defined contribution retirement plans managed by the local municipal government in PRC of regions which they operate. The relevant authorities of the local municipal government in PRC undertake the retirement obligations of the Group's employees. The Group has no obligation for the payment of retirement benefits beyond the monthly contributions. The contribution payable is charged as an expense to the income statement as and when incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Pension schemes and other retirement benefits (Continued)

According to the existing relevant regulations in Taiwan, a subsidiary of the Group incorporated in Taiwan is required to participate in the retirement plan or scheme operated by the government of Taiwan (the "Taiwan Scheme") for the provision of pension benefits to its employees. This Taiwan subsidiary is required to contribute a certain percentage of their payroll to the Taiwan Scheme to fund the benefits. The obligation of the Group with respect to the Taiwan Scheme is to pay the ongoing required contribution and make a lump sum payment of pension to a retired employee under the current Taiwan Scheme. Contributions under the Taiwan Scheme are charged to the income statement as they become payable in accordance with the rules of the Taiwan Scheme, and the outstanding payment of the contribution is reflected on the balance sheet.

A subsidiary of the Group incorporated in Macau makes monthly contributions to the social security fund managed by the relevant authority of the local government, which undertakes the retirement obligations of the Group's employees. The Group has no obligation for payment of retirement benefits beyond the monthly contributions. The contribution payable is charged as an expense to the income statement as and when incurred.

Dividends

Final and special dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the memorandum and articles of association of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has not come across significant judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements.

Estimation uncertainty

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 discussed below.

Estimation of useful lives of property, plant and equipment

The management estimates the useful lives of property, plant and equipment when acquired based on the period over which the item of property, plant and equipment is expected to be available for use to the Group. The useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

Impairment test of assets

Management estimates the recoverable amount of assets when an indication of impairment exists. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

2.6 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Deferred tax assets

The carrying amount of deferred tax assets and related financial models and budgets are reviewed by management at each balance sheet date. To the extent that there is insufficient convincing evidence that sufficient taxable profits will be available in the future to allow utilisation of the tax losses carried forward, deferred tax assets will not be recognised in the consolidated balance sheet.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

Each of the Group's geographical segments represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other business segments. The Group's customer-based geographical segments are as follows:

(a) Hong Kong

(b) Taiwan

(c) Japan

(d) Mainland China

(e) Elsewhere

In determining the Group's geographical segments, revenues and assets are attributed to the segments based on the location of the customers. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

With respect to the Group's secondary reporting by business segment, the Group has three business segments and each of which represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. The Group business segments comprise:

(a) Retail operation which is engaged in the retailing businesses through the operations of the Group's retail outlets;

(b) Wholesale operation which is engaged in the sale of garments and accessories to customers for distribution; and

(c) Franchise business which is engaged in the sale of garments and accessories to the designated franchisees for their own operations of retailing businesses in the designated locations.

3. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 March 2006 and 2005.

	Hong Kong		Taiwan		Japan		Mainland China		Elsewhere		Eliminations		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:														
Sales to external customers	**355,823**	291,665	**28,216**	26,039	**11,109**	7,946	**17,734**	7,739	**23,126**	9,337	**–**	–	**436,008**	342,726
Intersegment sales	**–**	–	**14,744**	11,674	**–**	–	**–**	–	**–**	–	**(14,744)**	(11,674)	**–**	–
Total	**355,823**	291,665	**42,960**	37,713	**11,109**	7,946	**17,734**	7,739	**23,126**	9,337	**(14,744)**	(11,674)	**436,008**	342,726
Segment results	**63,543**	68,689	**1,854**	3,601	**2,224**	1,360	**7,851**	1,901	**5,180**	1,944	**–**	–	**80,652**	77,495
Interest income													**3,011**	245
Unallocated expenses													**(22,208)**	(20,970)
Finance costs													**(397)**	(201)
Profit before tax													**61,058**	56,569
Tax													**(10,197)**	(10,012)
Profit for the year													**50,861**	46,557

3. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

	Hong Kong		Taiwan		Japan		Mainland China		Elsewhere		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)				(Restated)						(Restated)
Assets and liabilities												
Segment assets	**132,685**	90,989	**20,694**	11,992	**2,379**	3,093	**3,561**	777	**3,326**	2,461	**162,645**	109,312
Unallocated assets											**163,047**	85,632
Total assets											**325,692**	194,944
Segment liabilities	**11,008**	29,191	**1,024**	1,266	**45**	22	**3,886**	1,191	**740**	534	**16,703**	32,204
Unallocated liabilities											**18,007**	19,309
Total liabilities											**34,710**	51,513
Other segment information:												
Capital expenditure	**7,547**	12,845	**1,258**	84	**–**	36	**174**	175	**539**	534	**9,518**	13,674
Unallocated capital expenditure											**5,756**	11,730
											15,274	25,404
Depreciation	**7,715**	3,885	**605**	30	**8**	5	**7**	–	**58**	–	**8,393**	3,920
Unallocated depreciation											**2,457**	939
											10,850	4,859
Impairment of items of property, plant and equipment	**912**	–	**–**	–	**–**	–	**–**	–	**–**	–	**912**	–
Impairment of intangible assets	**15**	–	**–**	–	**–**	–	**–**	–	**–**	–	**15**	–
Amortisation of intangible assets	**95**	72	**37**	33	**8**	8	**79**	54	**177**	222	**396**	389
Recognition of prepaid land lease payments	**155**	111	**–**	–	**–**	–	**–**	–	**–**	–	**155**	111
Bad debt written off	**–**	1	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1
Intangible assets written off	**–**	17	**–**	–	**–**	7	**72**	82	**–**	–	**72**	106
Loss/(gain) on disposals/ write-offs of items of property, plant and equipment	**22**	515	**–**	(101)	**–**	–	**–**	–	**–**	–	**22**	414

3. SEGMENT INFORMATION *(Continued)*

(b) Business segments

The following tables present revenue and certain asset and expenditure information for the Group's business segments for the years ended 31 March 2006 and 2005.

	2006	2005
	HK$'000	HK$'000
Segment revenue:		
Sale to external customers:		
Retail	**383,627**	317,259
Wholesale	**34,647**	17,728
Franchise	**17,734**	7,739
	436,008	342,726
Other segment information:		
Segment assets:		
Retail	**147,146**	98,953
Wholesale	**11,938**	9,582
Franchise	**3,561**	777
	162,645	109,312
Corporate and other unallocated assets	**163,047**	85,632
Total assets	**325,692**	194,944
Capital expenditure:		
Retail	**8,805**	12,929
Wholesale	**539**	570
Franchise	**174**	175
	9,518	13,674
Corporate and other unallocated amounts	**5,756**	11,730
Total capital expenditure	**15,274**	25,404

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and sales tax during the year.

An analysis of revenue, other income and gains is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Revenue		
Sale of garment products and accessories	**436,008**	342,726
Other income		
Bank interest income	**3,011**	245
Others	**1,145**	830
	4,156	1,075
Gains		
Foreign exchange differences, net	**–**	426
	4,156	1,501

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Auditors' remuneration		**1,404**	1,005
Cost of inventories sold		**157,070**	123,109
Depreciation	13	**10,850**	4,859
Provision against/(write-back of provision for) slow-moving inventories, net		**1,676**	(342)
Rental expenses under operating leases in respect of land and buildings:			
Minimum lease payments		**72,216**	58,278
Contingent rents		**8,571**	6,149
		80,787	64,427
Employee benefits expense (excluding directors' remuneration (note 7)):			
Wages, salaries and other benefits		**75,654**	50,283
Pension scheme contributions*		**3,194**	2,012
		78,848	52,295
Recognition of prepaid land lease payments	14	**155**	111
Other expenses:			
Amortisation of intangible assets	15	**396**	389
Intangible assets written off	15	**72**	106
Impairment of items of property, plant and equipment	13	**912**	–
Impairment of intangible assets	15	**15**	–
Bad debts written off		**–**	1
Loss on disposals/write-offs of items of property, plant and equipment		**22**	414
Foreign exchange losses, net		**205**	–
		1,622	910

* At the balance sheet date, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years.

6. FINANCE COSTS

	Group 2006 HK$'000	2005 HK$'000
Interest expenses on bank loans wholly repayable within five years	**376**	195
Interest expenses on bank overdrafts	**15**	4
Interest expenses on finance leases	**–**	2
Others	**6**	–
	397	201

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2006 HK$'000	2005 HK$'000
Fees	**330**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**3,226**	4,890
Performance related bonuses*	**330**	559
Pension scheme contributions	**48**	48
	3,604	5,497
	3,934	5,497

* Certain executive directors of the Company are entitled to bonus payments which are determined based on the operating results of the Group.

7. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year are as follows:

	2006 HK$'000	2005 HK$'000
Mr. Chu To Ki	110	–
Mr. Mak Wing Kit	110	–
Dr. Wong Yun Kuen	110	–
	330	–

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Mr. Wong Yui Lam	–	880	–	12	892
Madam Tong She Man, Winnie	–	880	–	12	892
Madam Lee Yuk Ming	–	816	174	12	1,002
Mr. Yeung Yat Hang	–	650	156	12	818
	–	3,226	330	48	3,604
2005					
Mr. Wong Yui Lam	–	1,800	150	12	1,962
Madam Tong She Man, Winnie	–	1,800	150	12	1,962
Madam Lee Yuk Ming	–	722	140	12	874
Mr. Yeung Yat Hang	–	568	119	12	699
	–	4,890	559	48	5,497

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: four) executive directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2005: one) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**960**	667
Performance related bonuses	**2,140**	–
Pension scheme contributions	**24**	9
	3,124	676

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	–
	2	1

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions, in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The corporate income tax ("CIT") applicable to the three subsidiaries located in the Mainland China ranges from 15% to 18%. Two of these subsidiaries are entitled to tax holidays with the full exemption of CIT for the first two profit-making years, followed by a 50% reduction of CIT for the succeeding three years. One of these two subsidiaries is still loss-making while the tax holiday of the other one already expired in 1996.

Income tax for the subsidiary in Taiwan is calculated at the applicable tax rate of 25%. In addition, a further 10% income tax is charged on any undistributed earnings as at each calendar year end date for that subsidiary. However, no financial impact is resulted from this requirement as the Taiwan subsidiary is loss-making.

9. TAX *(Continued)*

No Macau profits tax has been provided as the Macau subsidiary of the Company is exempted from Macau Complementary Tax (2005: Nil).

Group	2006 HK$'000	2005 HK$'000
Current tax – Hong Kong		
Provision for the year	**10,091**	10,789
Underprovision/(overprovision) in prior years	**(323)**	1
Current tax – Elsewhere		
Provision for the year	**601**	–
Underprovision in prior years	**173**	109
Deferred tax credit (note 18)	**(345)**	(887)
Total tax charge for the year	**10,197**	10,012

A reconciliation of the tax expense applicable to profit before tax using the applicable rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group

2006

	Hong Kong HK$'000	Hong Kong %	Elsewhere HK$'000	Elsewhere %	Total HK$'000	Total %
Profit before tax	**56,271**		**4,787**		**61,058**	
Tax at the statutory or applicable tax rates	**9,847**	**17.5**	**817**	**17.1**	**10,664**	**17.5**
Adjustment in respect of current tax of previous periods	**(323)**	**(0.6)**	**173**	**3.6**	**(150)**	**(0.2)**
Income not subject to tax	**(527)**	**(0.9)**	**(1,357)**	**(28.3)**	**(1,884)**	**(3.1)**
Expenses not deductible for tax	**159**	**0.3**	**1,133**	**23.6**	**1,292**	**2.1**
Temporary differences not recognised	**1,182**	**2.1**	**(191)**	**(4.0)**	**991**	**1.6**
Tax losses utilised	**(716)**	**(1.3)**	**–**	**–**	**(716)**	**(1.2)**
Tax charge at the Group's effective rate	**9,622**	**17.1**	**575**	**12.0**	**10,197**	**16.7**

9. TAX *(Continued)*

Group

2005

	Hong Kong		Elsewhere		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	55,583		986		56,569	
Tax at the statutory or applicable tax rates	9,727	17.5	314	31.8	10,041	17.8
Adjustment in respect of current tax of previous periods	1	0.0	109	11.1	110	0.2
Income not subject to tax	(42)	(0.1)	–	–	(42)	(0.1)
Expenses not deductible for tax	20	0.0	–	–	20	0.0
Temporary differences not recognised	231	0.5	(87)	(8.8)	144	0.3
Tax losses utilised	(261)	(0.5)	–	–	(261)	(0.5)
Tax charge at the Group's effective rate	9,676	17.4	336	34.1	10,012	17.7

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 March 2006 dealt with in the financial statements of the Company, was HK$82,460,000 (2005: Nil) (note 26(b)).

11. DIVIDENDS

	Company	
	2006	2005
	HK$'000	HK$'000
Special interim – HK2.0 cents (2005: Nil) per ordinary share*	**7,013**	–
Interim – HK2.5 cents (2005: Nil) per ordinary share	**8,766**	–
Proposed final – HK2.6 cents (2005: Nil) per ordinary share**	**9,117**	–
Proposed special – HK3.65 cents (2005: Nil) per ordinary share**	**12,799**	–
	37,695	–

* The special interim dividend was distributed out of the contributed surplus of the Company arising as a result of the Group Reorganisation.

** The proposed final and proposed special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$50,861,000 (2005: HK$47,065,000) and the weighted average number of ordinary shares in issue during the year of 338,047,123 (2005: 246,000,000). The 2005 earnings per share was calculated based on the pro forma net profit from the ordinary activities attributable to shareholders of the Company and the shares deemed to have been in issue during that year.

Diluted earnings per share amounts have not been presented as no diluting events existed during the years ended 31 March 2005 and 2006.

13. PROPERTY, PLANT AND EQUIPMENT

Group

31 March 2006	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 March 2005 and at 1 April 2005:							
Cost	13,046	22,446	889	5,325	9,591	2,397	53,694
Accumulated depreciation	(186)	(12,936)	(89)	(3,209)	(5,487)	(2,187)	(24,094)
Net carrying amount	12,860	9,510	800	2,116	4,104	210	29,600
At 1 April 2005, net of accumulated depreciation	12,860	9,510	800	2,116	4,104	210	29,600
Additions	–	10,408	1,464	1,360	1,650	–	14,882
Depreciation provided during the year	(261)	(7,231)	(260)	(1,118)	(1,867)	(113)	(10,850)
Disposals	–	(53)	–	(23)	(23)	–	(99)
Impairment	–	(912)	–	–	–	–	(912)
Exchange realignment	–	1	11	2	–	–	14
At 31 March 2006, net of accumulated depreciation and impairment	12,599	11,723	2,015	2,337	3,864	97	32,635
At 31 March 2006:							
Cost	13,046	31,709	2,365	6,559	10,906	2,127	66,712
Accumulated depreciation and impairment	(447)	(19,986)	(350)	(4,222)	(7,042)	(2,030)	(34,077)
Net carrying amount	12,599	11,723	2,015	2,337	3,864	97	32,635

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

31 March 2005	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000 (Restated)
At 31 March 2004 and at 1 April 2004:							
Cost	7,486	13,677	–	4,269	6,206	2,375	34,013
Accumulated depreciation	–	(11,312)	–	(3,084)	(4,567)	(1,892)	(20,855)
Net carrying amount	7,486	2,365	–	1,185	1,639	483	13,158
At 1 April 2004, net of accumulated depreciation	7,486	2,365	–	1,185	1,639	483	13,158
Additions	5,560	9,672	631	1,721	3,611	22	21,217
Depreciation provided during the year	(186)	(2,292)	(89)	(748)	(1,249)	(295)	(4,859)
Acquisition of a subsidiary	–	135	258	–	225	–	618
Disposal	–	(370)	–	(42)	(125)	–	(537)
Exchange realignment	–	–	–	–	3	–	3
At 31 March 2005, net of accumulated depreciation	12,860	9,510	800	2,116	4,104	210	29,600
At 31 March 2005:							
Cost	13,046	22,446	889	5,325	9,591	2,397	53,694
Accumulated depreciation	(186)	(12,936)	(89)	(3,209)	(5,487)	(2,187)	(24,094)
Net carrying amount	12,860	9,510	800	2,116	4,104	210	29,600

At 31 March 2006, certain of the Group's buildings with net book value of approximately HK$6,885,000 (2005: HK$7,028,000) were pledged to secure general banking facilities and bank loans granted to the Group (note 24).

14. PREPAID LAND LEASE PAYMENTS

	Group 2006 HK$'000	Group 2005 HK$'000 (Restated)
Carrying amount at 1 April		
As previously reported	**–**	–
Effect of adopting HKAS 17 (note 2.2(a))	**7,639**	7,750
As restated	**7,639**	7,750
Recognised during the year	**(155)**	(111)
Carrying amount at 31 March	**7,484**	7,639
Current portion	**(155)**	(155)
Non-current portion	**7,329**	7,484

The leasehold land is held under a medium term lease and is situated in Hong Kong.

At 31 March 2006, certain of the Group's prepaid land lease payments with net carrying value of approximately HK$3,570,000 (2005: HK$3,686,000) were pledged to secure general banking facilities and bank loans granted to the Group (note 24).

15. INTANGIBLE ASSETS

Group

	Trademarks 2006 HK$'000	Trademarks 2005 HK$'000
At beginning of year:		
Cost	**2,102**	1,521
Accumulated amortisation	**(739)**	(447)
Net carrying amount	**1,363**	1,074
Cost at beginning of year, net of accumulated amortisation	**1,363**	1,074
Additions	**392**	784
Amortisation provided during the year	**(396)**	(389)
Write-off during the year	**(72)**	(106)
Impairment during the year	**(15)**	–
At end of year	**1,272**	1,363
At end of year:		
Cost	**2,396**	2,102
Accumulated amortisation and impairment	**(1,124)**	(739)
Net carrying amount	**1,272**	1,363

16. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**143,631**	–
Due from subsidiaries	**124,697**	–
Due to subsidiaries	**(63)**	–

The amounts due from and to subsidiaries are unsecured, interest-free and are repayable on demand. The carrying amounts of amounts due from and to subsidiaries approximate to their fair values at the balance sheet date.

The Company became the holding company of the subsidiaries on 21 April 2005 pursuant to the Group Reorganisation as set out in note 2.1 to the financial statements. Prior to the Group Reorganisation and as at 31 March 2005, the Company had not invested in these subsidiaries.

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Bauhaus Investments (BVI) Limited ("Bauhaus (BVI)")	British Virgin Islands	Ordinary US$200	100	–	Investment holding
Bauhaus Holdings Limited	Hong Kong	Non-voting deferred HK$2 and ordinary HK$2	–	100	Trading of garments and accessories
Tough Jeans Retail Limited	Hong Kong	Ordinary HK$2	–	100	Trading of garments and accessories
Tough Jeans Limited	Hong Kong	Non-voting deferred HK$5 and ordinary HK$2	–	100	Trading of garments and accessories

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Tough Jeans Macao Commercial Offshore Limited	Macau	Ordinary MOP100,000	–	100	Trading of garments and accessories
包豪氏企業有限公司	Taiwan	NT$500,000	–	100	Trading of garments and accessories
Kai Yip Manufactory Limited ("Kai Yip")	Hong Kong	Ordinary HK$300,000	–	100	Trading of garments and accessories
Wide World Development Limited	Hong Kong	Ordinary HK$1	–	100	Trading of garments and accessories
Eighty Twenty Products Limited	Hong Kong	Ordinary HK$1	–	100	Trading of garments and accessories
Eighty Twenty Retail Limited	Hong Kong	Ordinary HK$1	–	100	Trading of garments and accessories
包浩斯貿易(深圳)有限公司 (note)	The People's Republic of China ("PRC")/Mainland China	HK$950,000	–	100	Trading of garments and accessories
汕頭市包浩斯服飾製品有限公司 (note)	PRC/ Mainland China	RMB10,000,000	–	100	Manufacture of garments and accessories
Shan Tou Tat Yeung Leather & Plastic Co., Limited (note)	PRC/ Mainland China	RMB1,455,659	–	100	Manufacture of garments and accessories
Bauhaus Property Limited	Hong Kong	Ordinary HK$2	–	100	Property holding
Bauhaus Management Limited	Hong Kong	Ordinary HK$1,000,000	–	100	Provision for management services

16. INTERESTS IN SUBSIDIARIES *(Continued)*

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.

Note:

The tenure of the following subsidiaries incorporated in the PRC is as follows:

	Tenure (Year)	Commencement date
Shan Tou Tat Yeung Leather & Plastic Co., Limited	15	29 October 1991
汕頭市包浩斯服飾製品有限公司	15	14 November 2003
包浩斯貿易(深圳)有限公司	50	4 February 2005

These subsidiaries are registered as wholly-foreign-owned enterprises under the PRC law.

17. AVAILABLE-FOR-SALE FINANCIAL ASSET

	Group	
	2006	2005
	HK$'000	HK$'000
Time deposits, at fair value	**3,900**	–

During the year, no gain or loss of the Group's available-for-sale financial asset has been recognised directly in equity (2005: Nil).

The time deposit has a maturity date of 31 October 2008. Full principal amount of HK$3,900,000 will be repaid on maturity date, subject to early repayment at the bank's option or the Group's request. Upon the adoption of HKAS 39 as detailed in note 2.2 to these financial statements, time deposit of HK$3,900,000 (note 21) was designated as available-for-sale financial asset on 1 April 2005. Interest income is charged at 7% less two times LIBOR times the number of calendar days in the relevant period on which the LIBOR is within a pre-determined range. The fair value of the available-for-sale financial asset has been estimated using a valuation technique based on the prevailing market interest rate. The directors believe that the estimated fair value resulting from such valuation technique is reasonable. At the balance sheet date, the carrying amount of this available-for-sale financial asset approximates to its fair value.

18. DEFERRED TAX

Group

Deferred tax assets

	Decelerated tax depreciation HK$'000	Losses available for offsetting against future taxable profit HK$'000	Provision for unrealised profit on inventories HK$'000	Total HK$'000
At 1 April 2004	800	610	1,060	2,470
Acquisition of a subsidiary	23	–	–	23
Deferred tax credited to the income statement	87	290	690	1,067
At 31 March 2005 and at 1 April 2005	910	900	1,750	3,560
Deferred tax credited/(charged) to the income statement	729	(716)	590	603
At 31 March 2006	1,639	184	2,340	4,163

Deferred tax liabilities

	Accelerated tax depreciation HK$'000
At 1 April 2004	310
Deferred tax charged to the income statement	180
At 31 March 2005 and at 1 April 2005	490
Deferred tax charged to the income statement	258
At 31 March 2006	748
Net deferred tax credited to the consolidated income statement (note 9)	345

18. DEFERRED TAX *(Continued)*

At the balance sheet date, the Group had tax losses arising in Hong Kong of HK$1,218,000 (2005: HK$1,218,000) that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have been arisen in a subsidiary that has been loss-making for some time.

At the balance sheet date, there were no unrecognised deferred tax liabilities for taxes that would be payable on the undistributed earnings of certain of the Group's subsidiaries, as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

19. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**12,977**	13,995
Work in progress	**5,819**	3,216
Finished goods	**66,980**	47,239
	85,776	64,450

20. TRADE AND BILLS RECEIVABLES

Retail sales are made on cash terms or from credit card with very short credit terms. Wholesale sales are made to customers with general credit terms ranging from 30 days to 60 days, except for certain well-established customers with a long business relationship with the Group, where the terms are extended. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management of the Group. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group's bills receivables are normally settled on 30-day to 60-day terms. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet dates, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**10,658**	10,106
91 to 180 days	**257**	199
181 to 365 days	**416**	166
	11,331	10,471

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**76,491**	26,518	**1,232**	–
Non-pledged time deposits with maturity of less than three months	**63,169**	–	**53,113**	–
Non-pledged time deposit with maturity of over three months	**–**	3,900	**–**	–
	139,660	30,418	**54,345**	–

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$5,955,000 (2005: HK$2,344,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and bank balances and the non-pledged deposits approximate to their fair values.

As at 1 April 2005, upon the adoption of HKAS 39, the time deposit of HK$3,900,000 (note 17) was designated as available-for-sale financial asset.

22. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**6,279**	7,870
91 – 180 days	**40**	4
	6,319	7,874

The trade payables are non-interest-bearing and are normally settled on 30-day to 60-day terms.

23. DUE TO A RELATED COMPANY

The amount due to a related company of the Group is trading in nature and repayable under normal trading terms. This amount is unsecured and interest-free. The related company is a company in which a connected person has beneficial interests.

At 31 March 2005, the balance due to a related company of the Company represented the initial public offering expenses paid on behalf of the Company by these related companies, which subsequently became indirect wholly-owned subsidiaries of the Company after the Group Reorganisation as set out in note 2.1 to the financial statements.

24. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate per annum (%)	**Maturity**	**Group** **2006** **HK$'000**	2005 HK$'000
Current				
Bank overdrafts – unsecured	7.6	On demand	**–**	486
Trust receipt loans – secured	4.71–8.25	2006	**3,527**	887
Bank loans – secured	4.75–5.25	2006	**–**	5,003
			3,527	6,376
Non-current				
Bank loans – secured	5.25	2007	**–**	959
			3,527	7,335
Analysed into:				
Bank loans, trust receipt loans and overdrafts repayable:				
Within one year or on demand			**3,527**	6,376
In the second year			**–**	959
			3,527	7,335

All the borrowings are in Hong Kong dollars with terms at floating rates.

As at 31 March 2006, the Group's trust receipt loans were secured by certain of its buildings and prepaid land lease payments with net book value and carrying value of approximately HK$6,885,000 (2005: HK$7,028,000) (note 13) and HK$3,570,000 (2005: HK$3,686,000) (note 14), respectively.

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values.

25. SHARE CAPITAL

Shares

	Company 2006 HK$'000	Company 2005 HK$'000
Authorised:		
2,000,000,000 (2005: 1,000,000) ordinary shares of HK$0.1 each	**200,000**	100
Issued and fully paid:		
350,650,000 (2005: 200,000 at nil paid) ordinary shares of HK$0.1 each	**35,065**	–

The following changes in the Company's authorised and issued share capital took place during the period from 12 October 2004 (date of incorporation) to 31 March 2005 and for the year ended 31 March 2006:

	Notes	Number of ordinary shares of HK$0.1 each	Nominal value of ordinary shares HK'000
Authorised:			
Upon incorporation	(a)	1,000,000	100
Increase in authorised share capital	(c)(i)	1,999,000,000	199,900
As at 31 March 2005 and 2006		2,000,000,000	200,000

25. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

	Notes	Group and Company Number of ordinary shares of HK$0.1 each	Nominal value of ordinary shares HK'000
Issued:			
Upon incorporation		–	–
Allotted and issued nil paid	(b)	200,000	–
On acquisition of Bauhaus Investments (BVI) Limited			
– new issue of shares	(c)(i)	800,000	80
– nil paid shares credited as fully paid	(c)(i)	–	20
Capitalisation issue credited as fully paid and being conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public	(c)(ii)	245,000,000	–
Pro forma share capital as at 31 March 2005		246,000,000	100
New issue of shares	(c)(iii)	104,650,000	10,465
Capitalisation of the share premium account	(c)(ii)	–	24,500
As at 31 March 2006		350,650,000	35,065

Notes:

(a) Upon incorporation of the Company, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 shares.

(b) On 12 October 2004, an aggregate of 200,000 shares of HK$0.1 each were allotted and issued nil paid.

(c) Changes to the share capital during the year ended 31 March 2006 were as follows:

(i) Pursuant to the written resolutions passed on 21 April 2005, the authorised share capital of the Company was increased from HK$100,000 to HK$200,000,000 by the creation of 1,999,000,000 additional shares of HK$0.1 each. On the same day, (aa) an aggregate of 800,000 shares of HK$0.1 each were allotted and issued, credited and fully paid at par; and (bb) the 200,000 shares allotted and issued nil paid on 12 October 2004 were credited as fully paid at par, in consideration for the acquisition of a total of 1,000 shares of US$1 each in Bauhaus (BVI), the then intermediate holding company of the subsidiaries of the Group.

(ii) Pursuant to the written resolutions passed on 22 April 2005, a total of 245,000,000 shares of HK$0.1 each in the Company were allotted and issued as fully paid at par, by way of capitalisation of the sum of HK$24,500,000 standing to the credit of the share premium account of the Company. This allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (iii) below.

(iii) In connection with the Company's initial public offering, 104,650,000 shares of HK$0.1 each were issued at a price of HK$1.25 per share for a total cash consideration, before expenses, of HK$130,812,500.

25. SHARE CAPITAL *(Continued)*

Share options

On 22 April 2005, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultants, advisers, managers or officers of the Group, and the Company's shareholders. The Scheme will remain in force for 10 years from the date of its adoption.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the proposed grantee). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of a Share; (ii) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

As at the date of this report, no option has been granted or agreed to be granted pursuant to the Scheme.

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 37 of this annual report.

(b) Company

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Contributed surplus** HK$'000	Proposed dividends HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 April 2004, 31 March 2005 and at 1 April 2005		–	–	–	–	–	–
Net profit for the year		–	–	–	–	82,460	82,460
Total income and expenses for the year		–	–	–	–	82,460	82,460
Issue of shares upon incorporation	25	100	–	–	–	–	100
Effect of reorganisation		–	–	143,531	–	–	143,531
Issue of shares upon capitalisation		10,465	120,347	–	–	–	130,812
Capitalisation of the share premium account		24,500	(24,500)	–	–	–	–
Share issue expenses***		–	(18,400)	–	–	–	(18,400)
Interim dividend paid	11	–	–	–	–	(8,766)	(8,766)
Special interim dividend paid	11	–	–	(7,013)	–	–	(7,013)
Proposed final dividend	11	–	–	–	9,117	(9,117)	–
Proposed special dividend	11	–	–	–	12,799	(12,799)	–
At 31 March 2006		35,065	77,447*	136,518*	21,916	51,778*	322,724

* These reserve accounts comprise the reserves of HK$265,743,000 (2005: Nil) in the balance sheet of the Company.

** The Company's contributed surplus comprises the excess of the fair value of the shares of the subsidiary acquired pursuant to the Group Reorganisation as set out in note 2.1 which amounted to HK$143,631,000 and the nominal value of the Company's shares issued in exchange of HK$100,000; net of the distribution of a special dividend totalling HK$7,013,000 during the year ended 31 March 2006.

*** It represented share issue expenses which were incurred for the listing of the Company's shares on the Stock Exchange.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary

	2006 **HK$'000**	2005 HK$'000
Net assets acquired:		
Property, plant and equipment	–	618
Deferred tax assets	–	23
Rental deposits	–	165
Inventories	–	8,765
Trade receivables	–	36
Prepayments and other receivables	–	372
Due from related companies	–	2,042
Cash and bank balances	–	1,856
Trade payables	–	(1,268)
Tax payable	–	(39)
Accruals and other payables	–	(3,987)
Minority interests	–	(4,383)
	–	4,200
Satisfied by:		
Cash	–	4,200

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2006 **HK$'000**	2005 HK$'000
Cash consideration	–	(4,200)
Cash and bank balances acquired	–	1,856
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	–	(2,344)

On 1 February 2005, Firstcity Pacific Limited ("Firstcity"), a company now comprising part of the Group, acquired 51% equity interests in Kai Yip Manufactory Limited ("Kai Yip") from Bauhaus Partners Limited, a former associate of the Group, for a consideration of HK$4,200,000.

28. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**3,202**	3,484

The Company had no contingent liabilities at balance sheet date (2005: Nil).

29. COMMITMENTS

(i) Commitments under operating leases

The Group, as lessee, leases its retail shops and certain of its warehouses under operating lease arrangements with lease terms ranging from one to five years.

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**69,325**	61,624
In the second to fifth years, inclusive	**51,524**	46,036
	120,849	107,660

The operating lease rentals of certain retail shops are based on the higher of a fixed rental or contingent rent based on the sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these retail shops could not be estimated reliably, the relevant contingent rent has not been included above and only the minimum lease commitment has been included in the above table.

(ii) Other commitment

The Group had no significant commitment as at 31 March 2006. At 31 March 2005, the Group had entered into a foreign currency forward contract to buy Euro equivalent to approximately HK$3,000,000 for settlement of trade payables in Euro. The Group has settled the trade payables with the aforesaid foreign currency forward contract during the year ended 31 March 2006.

The Company had no commitment at the balance sheet date (2005: Nil).

30. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Transactions with Kai Yip:			
Sale of goods	(i)	–	2
Purchases of goods		–	43,102
Purchases of decoration materials		–	1,895
Rental expenses paid to a minority shareholder	(ii)	**81**	12
Purchases of computer equipment from a related company	(iii)	**1,079**	1,192
Computer system maintenance charges paid to a related company	(iv)	**1,275**	1,223

Notes:

(i) In prior year, the sales and purchases of goods with Kai Yip, in which two of the Company's directors previously had 51% interests prior to the Group's acquisition of Kai Yip, were made either at prices comparable to the prices offered by/to other independent third parties. Such transactions were discontinued as related party transactions when Kai Yip became a subsidiary of the Group during the year (note 16).

(ii) The rental expenses paid to a minority shareholder were determined between the parties with reference to the then prevailing market rent.

(iii) The purchases of computer equipment from a related company were made at prices and conditions with reference to those offered by major suppliers of the Group.

(iv) The computer system maintenance charges paid to a related company were determined between the parties.

The related company as set out in notes (iii) and (iv) above is a company in which a connected person has beneficial interests. The related party transactions in respect of items (iii) and (iv) also constitute the continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) **Outstanding balance with a related party:**

As disclosed in the consolidated balance sheet, the Group had outstanding advances payable to a related company of HK$180,000 (2005: HK$23,000), as at the balance sheet date. The balance is unsecured, interest-free and repayable under normal trading terms.

The related company is a company in which a connected person has beneficial interests.

(c) All compensation of key management personnel of the Group is included in the notes on directors' remuneration and five highest paid employees as set out in notes 7 and 8 to the financial statements.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, and cash and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations. It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

Interest rate risk

The Group's earnings are affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank deposits, available-for-sale financial asset, bank overdrafts and interest-bearing bank loans. The Group does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. As transactions denominated in currencies other than the functional currency are minimal, the exposure to foreign currency risk is not considered significant.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, and available-for-sale financial asset, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and interest-bearing bank loans.

32. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and comparative amounts have been reclassified and restated to conform with the the current year's presentation and accounting treatment.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 July 2006.