PEKING APPAREL INTERNATIONAL GROUP LIMITED

(Incorporated in Bermuda with limited liability)

Stock code : 761

2007 ANNUAL REPORT

Contents

Corporate Information

DIRECTORS

Executive Directors
Mr. Char On Man *(Chairman and Managing Director)*
Ms. So Choi Hing, Stella
Mr. Li Wing Tak
Mr. Chim Kim Lun, Ricky
(appointed on 30 April 2007)
Mr. Cheng Kwok Hing, Andy
(appointed on 30 April 2007)

Independent Non-executive Directors
Mr. Ho Wai Chi, Paul
Mr. Chen Yeh Ming, Steve
Mr. Kwok Chun Pong, Stephen
(appointed on 22 December 2006)
Mr. Woo, Michael
(resigned on 22 December 2006)

REGISTERED OFFICE

Clarendon House, 2 Church Street,
Hamilton HM 11, Bermuda

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Unit 1, Harbour Centre, Tower 1, 5/F.,
1 Hok Cheung Street, Hunghom,
Kowloon, Hong Kong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Li Wing Tak

AUDITORS

Li, Tang, Chen & Co., Certified Public Accountants
(Practising)

STOCK CODE & COMPANY'S WEBSITE

761
www.pekingapparel.com.hk

AUDIT COMMITTEE MEMBERS

Mr. Ho Wai Chi, Paul *(Chairman)*
Mr. Chen Yeh Ming, Steve
Mr. Kwok Chun Pong, Stephen
(appointed on 22 December 2006)
Mr. Woo, Michael
(resigned on 22 December 2006)

REMUNERATION COMMITTEE MEMBERS

Mr. Char On Man *(Chairman)*
Mr. Ho Wai Chi, Paul
Mr. Chen Yeh Ming, Steve

NOMINATION COMMITTEE MEMBERS

Mr. Char On Man *(Chairman)*
Mr. Chen Yeh Ming, Steve
Mr. Kwok Chun Pong, Stephen
(appointed on 22 December 2006)
Mr. Woo, Michael
(resigned on 22 December 2006)

PRINCIPAL BANKERS

The Bank of China (Hong Kong) Limited
Citibank, N.A.
Dah Sing Bank

HONG KONG BRANCH SHARE REGISTRAR & BRANCH TRANSFER OFFICE

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

Chairman's Statement

I am pleased to present the annual results of Peking Apparel International Group Limited ("Peking" together with its subsidiaries, collectively as the "Group") for the year ended 31 March 2007.

Results

Revenue for the year ended 31 March 2007 amounted to approximately HK$134,338,000 representing a decrease of about 4 per cent as compared to that of last year. Profit for the year attributable to ordinary equity holders of the parent amounted to approximately HK$4,714,000, as compared to HK$18,083,000 reported last year.

Business Review

During this year, the intensified market competition and of the warm winter affected the overall results of the Group. Only the revenue of fabric garments recorded improvement over the year. The overall decrease in gross profit was mainly due to specific provision provided for to write down the cost of fur raw material on hand. The general increase in overhead, the running cost of the mink farm and the increase in finance costs further reduced the profit of the Group over the year.

Prospect

Apart from maintaining good business relationship with existing customers especially on fabric garments production, the Group will monitor closely the market trend on fur and leather product. The Group believes that the fur and leather business will continue to face severe challenges in the coming year. However, opportunities will re-emerge when the raw materials prices fall to a reasonable price. In order to protect and to improve the shareholders' interests, the Group will consider re-structuring its short and long term business strategy. The Group is looking for opportunities to bring in new business hoping to improve the overall results of the Group.

Dividends

The Directors do not recommend the payment of a final dividend (2006: HK1.5 cents) per ordinary share for the year ended 31 March 2007. Together with the interim dividend of HK1.0 cent (2006: HK5.0 cents) per ordinary share makes out total dividend of HK1.0 cent (2006: HK6.5 cents) per share.

Acknowledgement

On behalf of the Board of Directors, I would like to express my heartfelt gratitude to our shareholders, investors and clients for their continuous support to and confidence in the Group. Furthermore, I would like to thank all the staff members for their dedication and exertions, as well as their valuable contribution to the Group's overall development.

Char On Man
Chairman

Hong Kong
27 July 2007

Management Discussion and Analysis

Financial and Business Review

During the year under review, sales of the Group's fur product and leather product decreased by about 20%, whereas, sales of fabric garments improved by more than 50%. The continued improvement of sales to Germany, the PRC and Spain were out-weighted by the 25% decrease in sales to the local markets. As a results, the overall sales decreased by about 4% over the year. With the effect of the post-year end Denmark fur pelt auction price, specific provision was made against the year end carrying value of fur raw materials on hand that has reduced the overall gross profit. If we factored out this specific provision, the gross profit margin remains about the same as last year. The reduction of other income, increase in administrative expenses and finance costs have reduced the profit before tax for the year.

Outlook

With severe market competition, the Group will continuous adopt aggressive but careful marketing strategies to seek for new trading partners. Appropriate resources will be allocated on our sub-contracting works. Production facilities and resources will be restructured so as to allocate more for the fabric garments production. It is believed that opportunities will re-emerge when the raw materials prices fall to a reasonable price, the management will keep abreast sales techniques hoping to improve the performance in raw materials sales. As part of the overall business plan, the Group will continue to adopt stringent control over the overhead and expenses.

Employees, Training and Remuneration Policy

As at 31 March 2007, the Group employed 597 full time employees, of which, 578 were in the PRC and 19 in Hong Kong. The Group continues to maintain and upgrade the capabilities of its workforce by providing them with training.

The Group's remuneration policies are based primarily on the prevailing market situation and the performance of individual employee, which are subject to annual review. Discretionary bonuses are awarded to employees based both on individual and Group performances. Other benefits include Mandatory Provident Fund retirement benefits scheme and other subsidies. In the PRC, the Group provides staff welfare and bonus to its employees with prevailing labour laws in China.

Capital Expenditure

During the year under review, other than the increased share capital injection into the mink farm in the PRC, there is no other material capital expenditure for business development. Saved as disclosed, as of today, there is no plan for any material investments or capital assets to be acquired.

Liquidity and Financial Resources

The Group continues to finance operations from internal cash flows and banking facilities provided by its bankers. The Group currently has aggregate composite banking facilities of approximately HK$80,050,000. All outstanding bank borrowings were for purpose of trade-finance and working capital and are mainly short term in nature.

As at 31 March 2007, the Group's net current assets is approximately HK$87,116,000 (2006: HK$93,225,000). Total cash and bank balances and pledged bank deposits decreased from HK$36,762,000 to HK$30,493,000 whereas, bank loan and bank overdrafts increased from HK$13,758,000 to HK$21,776,000. The net cash and bank balances decreased by HK$14,287,000 over the year. Inventories decreased from HK$73,119,000 to HK$68,783,000. Trade and bills receivables increased by approximately 75% to become HK$22,727,000; whereas, trade and bills payables also increased by approximately 21% to become HK$13,262,000, mainly due to seasonality of sales.

The Group's gearing ratio as at the year-end is 0.38 (2006: 0.27), which was calculated based on total liabilities of HK$46,236,000 (2006: HK$34,152,000) and shareholders' funds of HK$122,765,000 (2006: HK$125,705,000). With low gearing ratio and sound financial position, the management believes that the Group is well placed to avail itself to future expansion.

Financial Risk Management

It is our policy not to engage in speculative activities.

The Group's major transactions are primarily denominated in Hong Kong dollars, United States dollars ("USD") and Renminbi ("RMB"). Foreign exchange exposure of the Group is considered minimal as the exchange rate of RMB and USD against Hong Kong dollars were relatively stable during the year. No financial instrument has been used for hedging purposes.

Payment terms with customers are mainly on letter of credits, cash on delivery and on credit terms. In order to minimize the credit risk associated with trade debtors, the Group is very cautious in granting credits. Credit terms granted vary among individual customers.

Use of Proceeds from the Company's Initial Public Offering

The Group raised approximately HK$51.6 million, net of related expenses, from the issue of 64.75 million new shares in connection with the listing for the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 7 March 1997.

The application of the net proceeds from the new issue, as revised in 2001, have been applied as follows:

	Revised Planned Amount HK$'000	**Amount utilized up to 27 July 2007** HK$'000
– For repaying bank loans	10,000	10,000
– for upgrading the Group's manufacture facilities and office premises	3,000	3,000
– for setting up representative offices and showrooms in the PRC	7,000	3,848
– for additional working capital for the Group	31,600	31,600
	51,600	48,448

The balance of the proceeds of approximately HK$3,152,000 had been placed on fixed deposits with a bank.

The Company has complied with all the Code Provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the financial year ended 31 March 2007, except for the following deviations:

Code Provision A.2.1

This code provision stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Char On Man currently assumes the roles of both the Chairman and the Chief Executive Officer of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. As such, it is beneficial to the business prospects and management of the Company.

Code Provision A.4.1

The code A.4.1 non-executive directors should be appointed for a specific term, subject to re-election.

To ensure full compliance with the CG Code, in December 2006 the appointment of independent non-executive directors has been amended to be appointed for a specific term of no more than three years, but shall be eligible for re-appointment upon retirement.

Code Provision D.2

This code provision stipulates a Board Committee should be formed with specific written terms of reference which deal clearly the committee's authority and duties. In substance, all executive directors are members of the Board Committee and are assigned with specific roles and functions. Therefore, a Board Committee with specific written terms of reference which deal clearly with the committee's authority and duties has not been formed.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a new code of conduct regarding securities transactions by Directors of the Group on terms no less exacting than the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors of the Company, the directors confirmed that they have complied with the required standard as set out in the Model Code throughout the financial year ended 31 March 2007.

BOARD OF DIRECTORS

Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business of the Company and for the exercise of independent judgment.

The Board comprises the following directors:-

Executive directors:

Mr. Char On Man *(Chairman and Managing Director)*
Ms. So Choi Hing, Stella
Mr. Li Wing Tak
Mr. Chim Kim Lun, Ricky (appointed on 30 April 2007)
Mr. Cheng Kwok Hing, Andy (appointed on 30 April 2007)

Independent non-executive directors:

Mr. Ho Wai Chi, Paul
Mr. Chen Yeh Ming, Steve
Mr. Kwok Chun Pong, Stephen (appointed on 22 December 2006)
Mr. Woo, Michael (resigned on 22 December 2006)

There are no relationships among the member of the Board.

During the year ended 31 March 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at lease one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from all its independent non-executive directors of their independence pursuant to the requirements of the Listing Rules. Although Mr. Ho Wai Chi, Paul, the independent non-executive director, served the Board for more than nine years, the Board considers him to be independent since he has no business relationship to the Group.

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for providing leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies, internal control and risk management systems, material transactions, financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Executive Directors. The Executive Directors has the full support of the senior management to discharge their responsibilities.

Board and Board Committee Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operational performance, and considering and approving the overall strategies and policies of the Company.

During the year under review, regular Board meetings and other Committee meetings were held. Save for the executive Board meetings held between the executive directors during the normal course of business of the Company, the Board has had regular Board meetings in accordance with the CG Code. The individual attendance records of each director at the meetings are set out below:-

	Number of meetings attended/held during the financial year ended 31 March 2007			
Name of Directors	**Regular Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**
Mr. Char On Man	5/5	N/A	2/2	2/2
Ms. So Choi Hing, Stella	5/5	N/A	N/A	N/A
Mr. Li Wing Tak	5/5	N/A	N/A	N/A
Mr. Woo Michael	1/3	2/3	0/2	N/A
Mr. Ho Wai Chi, Paul	5/5	4/4	N/A	2/2
Mr. Chen Yeh Ming, Steve	5/5	4/4	2/2	2/2
Mr. Kwok Chun Pong, Stephen	2/2	1/1	N/A	N/A

Practices and Conduct of Meetings

All meeting schedules and draft agendas of Board and Board committee meetings are normally made available to directors' in advance. The Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members in advance.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

BOARD COMMITTEES

The Board has established 3 committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of the Remuneration and Nomination Committee are independent non-executive directors. All members of the Audit Committee are independent non-executive directors. The list of the chairman and members of the Remuneration Committee, the Nomination Committee and the Audit Committee is set out under "Corporate information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration Committee

The principal responsibilities of the Remuneration Committee include the making recommendations to the board of directors of the Company on the Company's policy and structure for all remuneration of directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing such policy, and reviewing the specific remuneration packages of all executive directors and senior management of the Company by reference to corporate goals and objectives resolved by the board of directors of the Company from time to time.

The Remuneration Committee met twice during the financial year ended 31 March 2007 and reviewed/ discussed/recommended the remuneration packages of the executive directors and senior management for the financial year ending 31 March 2008 for the Board's consideration. The Committee also reviewed the adequacy of non-executive Directors' remuneration. An ordinary resolution will be proposed at the 2007 Annual General Meeting for Shareholders to consider and if though fit, approve the remuneration of each of the non-executive Directors.

Nomination Committee

The principal responsibilities of the Nomination Committee include the making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors, and reviewing the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

Two meetings were held during the financial year ended 31 March 2007 to discuss/review the size and structure, the re-appointment of retiring directors and the replacement for the resignation of an independent non-executive Director. The Board recommended the re-appointment of these directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular to be dispatched to the shareholders of the Company contains detailed information of these directors standing for re-election.

Audit Committee

None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(b) To review the financial statements and reports and consider any significant or unusual items raised by external auditors before submission to the Board.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control systems and risk management system and associated procedures.

As mentioned above, the Audit Committee held 4 meetings during the financial year ended 31 March 2007 to review the financial results and reports, financial reporting and procedures, report on the Company's internal control and the re-appointment of the external auditors.

The Company's interim and annual results for the year ended 31 March 2007 have been reviewed by the Audit Committee. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2007.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on page 19 to 20.

The remuneration of the external auditors of the Group, Messrs. Li, Tang, Chen & Co., in respect of audit services and tax services for the year ended 31 March 2007 are HK$300,000 and HK$30,000 respectively.

INTERNAL CONTROLS

It is the responsibility of the Board to ensure that the Group maintains sound and effective internal controls to safeguard the shareholders' investments and the Group's assets.

The Board, with the assistance of an independent internal control and risk consulting company (Protiviti Hong Kong Co. Limited), assessed the effectiveness of the Group's internal control system and risk management system of the Group for the year ended 31 March 2007. The Board concluded that no material weakness was found that will affect the safeguarding of the shareholders' investment and the Group's assets. Apart from this, the independent internal control and risk consulting company also brought to the attentions of the Board some suggested plans to improve further the internal controls of the Group.

The purpose of the Company's internal control is to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems so that the Company's objective can be achieved.

COMMUNICATION WITH SHAREHOLDERS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceeding of meetings. When voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

The general meetings of the Company provide an opportunity for dialogue and interaction between the shareholders and the Board. The Chairman of the Board and chairman of the Board committees or, in their absence, another member of the relevant committee, are normally available to answer questions at the annual general meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

To promote effective communication, the Company also maintains a website at www.pekingapparel.com.hk, where information and updates on the Company's developments and operations, financial information and other information are posted.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2007.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 March 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 59.

An interim dividend of HK1.0 cent per ordinary share was paid to the shareholders whose names appear on the Company's register of members on 17 January 2007. The directors do not recommend the payment of a final dividend for the year ended 31 March 2007.

Summary financial information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 60. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

Share capital and share options

Details of the Company's share capital and share options are set out in notes 28 and 29 to the financial statements, respectively.

Pre-emptive rights

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

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries 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 set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 March 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981, amounted to HK$38,195,000. In addition, the Company's share premium account, in the amount of HK$49,586,000 may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 52% of the total sales for the year and sales to the largest customer included therein amounted to 30%. Purchases from the Group's five largest suppliers accounted for 23% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Directors

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

Executive directors:

Mr. Char On Man	
Ms. So Choi Hing, Stella	
Mr. Li Wing Tak	
Mr. Chim Kim Lun, Ricky	(Appointed on 30.4.2007)
Mr. Cheng Kwok Hing, Andy	(Appointed on 30.4.2007)

Independent non-executive directors:

Mr. Ho Wai Chi, Paul	
Mr. Chen Yeh Ming, Steve	
Mr. Kwok Chun Pong, Stephen	(Appointed on 22.12.2006)
Mr. Woo, Michael	(Resigned on 22.12.2006)

In accordance with the Company's bye-laws, Ms. So Choi Hing, Stella and Mr. Chen Yeh Ming, Steve will retire by rotation and Mr. Kwok Chun Pong, Stephen, Mr. Chim Kim Lun, Ricky and Mr. Cheng Kwok Hing, Andy who were appointed as a Director after the Last Annual General Meeting will retire, and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The Company has received annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and, as at the date of this report, the Company still considers them to be independent.

Director's service contracts

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' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Directors' interests in contracts

No director had a material interest, either directly or indirectly, 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' interests and short positions in shares

At 31 March 2007, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company 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 Issuers (the "Model Code"), were as follows:

(1) Long positions in ordinary shares of the Company:

	Number of shares held, capacity and nature of interest			
Name of director	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Char On Man	57,065,000	79,832,000 (Note)	136,897,000	43.2%
So Choi Hing, Stella	2,885,000	–	2,885,000	0.9%

(2) Long positions in shares of associated corporations:

(a) Peking Fur Factory (Hong Kong) Limited, the Company's subsidiary

Name of director	**Capacity and nature of interest**	**Type of shares held**	**Number of shares held**	**Percentage of shareholding in respective class of shares**
Char On Man	Directly beneficially owned	Non-voting deferred	11,444	95.3%

Directors' interests and short positions in shares (continued)

(2) Long positions in shares of associated corporations: (continued)

(b) Wellglow Investments Limited, the Company's major shareholder

Name of director	Number of shares held, capacity and nature of interest: Directly beneficially owned	Through spouse or minor children	Total	Percentage of shareholding in respective class of shares
Char On Man	674	100	774	89.5%
So Choi Hing, Stella	60	–	60	6.9%

Note:

These shares are held through Wellglow Investments Limited, a company in which Char On Man has total interests of 89.5%.

Save as disclosed above, as at 31 March 2007, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares or debentures

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 their respective spouse or minor children, 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 to acquire such rights in any other body corporate.

Substantial shareholders' interests and short positions in shares

At 31 March 2007, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	**Capacity and nature of interest**	**Number of shares held**	**Percentage of the Company's issued share capital**
Wellglow Investments Limited	Directly beneficially owned	79,832,000	25.2%
Char On Man	Directly beneficially owned	57,065,000	18.0%
Golden Mount Limited	Directly beneficially owned	28,000,000	8.8%

Other than Golden Mount Limited's interests in the Company, the above interests has also been disclosed as an interest of Char On Man under the section headed "Directors' interests and short positions in shares" above.

Save as disclosed above, as at 31 March 2007, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Biographical details of directors and senior management

Executive directors
Mr. Char On Man, aged 54, is the Chairman and Managing Director since August 1978. He is also the founder of the Group. Mr. Char is responsible for the strategic planning, corporate policy and overall management. He is also responsible for the procurement and trading of fur pelts as well as the overall operations of the fur product business. He has over 30 years of experience in the leather and fur business. He is now a director of the Hong Kong Fur Federation as well as the Shenzhen Leather Trades Association.

Ms. So Choi Hing, Stella aged 53, is the director of sales of the Group. She is responsible for the sales and marketing of leather and fabric garments and for the Group's overall administrative operations. She has been with the Group since September 1981.

Mr. Li Wing Tak, aged 49, is the director of finance, Company Secretary and Qualified Accountant of the Group. He holds a bachelor's degree in economics with a major in Accounting from Macquarie University in Australia. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. He has more than 20 years of experience in auditing, finance and accounting. Prior to joining the Group in March 1994, Mr. Li served as the regional financial controller for two overseas listed multinational corporations.

Biographical details of directors and senior management (continued)

Executive directors (continued)
Mr. Chim Kim Lun, Ricky, aged 37, holds a Bachelor degree in Arts from the University of British Columbia in Canada and has over 10 years of commercial and industrial experiences and of experience in investment. He is also an executive director of China Rich Holdings Limited and China Fair Land Holdings Limited which are listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Chim is the son of Mr. Chim Pui Chung, who is the shareholder of Golden Mount Limited, the single largest shareholder of the Company. He joined the Group as a director on 30 April 2007.

Mr. Cheng Kwok Hing, Andy, aged 36, has over 15 years of experience in accounting and administrative fields. Mr. Cheng is an executive director of Kanstar Environmental Paper Products Holdings Limited, which is listed on the Growth Enterprise Market of Stock Exchange and an independent non-executive director of Northern International Holdings Limited and China Rich Holdings Limited, both are listed on the main board of the Stock Exchange. Mr. Cheng is also currently a director of a Hong Kong private limited company which is principally engaged in the manufacturing and sale of Chinese medical herbs in Hong Kong and the People's Republic of China and of another Hong Kong private limited company which is principally engaged in the manufacturing and sale of paper products. He joined the Group as a director on 30 April 2007.

Independent non-executive directors
Mr. Ho Wai Chi, Paul, aged 56, is the sole proprietor of Paul W. C. Ho & Company, Certified Public Accountants (Practising), and is an associate member of the Institute of Chartered Accountants in England and Wales, the United Kingdom and a fellow member of the Hong Kong Institute of Certified Public Accountants. He also holds directorships as independent non-executive director of companies listed on the Main Board of the Stock Exchange which included China Star Entertainment Limited, Ngai Hing Hong Company Limited and Riche Multi-Media Holdings Limited. He joined the Group as a director in February 1997.

Mr. Chen Yeh Ming, Steve, aged 58, holds directorships in companies engaging in various businesses such as investment holding, trading and manufacturing. He is the managing director of Broadway Fur & Fashion Limited. He was the chairman of the Hong Kong Fur Federation. He joined the Group as a director on 16 September 2004.

Mr. Kwok Chun Pong, Stephen, aged 37, holds the Bachelor of Applied Science in Electrical Engineering and Master of Business Administration degrees. He is currently the principal and supervisor of a private education institute and the managing director of an investment company in Hong Kong. He joined the Group as a director on 22 December 2006.

Mr. Woo, Michael, aged 62, is the managing director of Europe Fur Co., Ltd., Europe Fashions Ltd., Dongguan Mayfair Fashions Ltd. and Mayfur Canada Inc. He was the chairman of the Hong Kong Fur Federation and is currently its honorary advisor. He joined the Group as a director in August 1996 and resigned on 22 December 2006.

Biographical details of directors and senior management (continued)

Senior management
Mr. Au Hung, aged 52, is the general manager of the Group's factory in the People's Republic of China (the "PRC"). He has more than 30 years' experience in the leather and fur industries and has in-depth knowledge of the manufacturing, distribution and trading of leather and fur products in the PRC market. He joined the Group in October 1975.

Mr. Choi Hing Yee, aged 49, is the assistant general manager of the Group in the PRC. He joined the Group in August 1991. He has over 20 years' experience in the marketing of fur and leather products. He is responsible for the Group's manufacturing and trading of fur products.

Mr. Chan Ching Kwan, aged 55, is the manager of the Group's factory in the PRC. He joined the Group in March 1988 and has more than 30 years' experience in the production of leather garments. He is responsible for the Group's manufacturing operations of leather garments.

Miss Char, Danielle, aged 26, is the marketing manager and is responsible for the overall marketing and design of the Group. She was promoted to become a director of Peking Fur Factory (Hong Kong) Limited ("Peking Fur"), a subsidiary of the Company, in June 2005. Miss Char graduated from the University of Michigan in the United States with a Bachelor of Science degree in Architecture. She joined the Group in July 2003 and is the daughter of Mr. Char On Man.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditors

Messrs. Ernst & Young, resigned as auditors of the Company on 5 March 2007 while Messrs. Li, Tang, Chen & Co., were appointed by the Board to fill the casual vacancy.

Apart from the foregoing, there were no other changes in auditors of the Company in any of the preceding three years.

Messrs. Li, Tang, Chen & Co., retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Char On Man
Chairman and Managing Director

Hong Kong, 27 July 2007

李湯陳會計師事務所
LI, TANG, CHEN & CO.
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

TO THE SHAREHOLDERS OF
PEKING APPAREL INTERNATIONAL GROUP LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Peking Apparel International Group Limited set out on pages 21 to 59, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Li, Tang, Chen & Co.
Certified Public Accountants (Practising)
10/F., Sun Hung Kai Centre,
30 Harbour Road,
Wanchai,
Hong Kong

27 July 2007

Consolidated Income Statement

For the year ended 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000
REVENUE	8	**134,338**	139,682
Cost of sales		**(109,878)**	(105,652)
Gross profit		**24,460**	34,030
Other income and gains		**1,498**	2,633
Selling and distribution costs		**(5,750)**	(5,130)
Administrative expenses		**(14,051)**	(12,028)
Other expenses		**(79)**	(10)
Finance costs	9	**(1,126)**	(641)
PROFIT BEFORE TAX	10	**4,952**	18,854
Tax	13	**(238)**	(771)
PROFIT FOR THE YEAR ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY		**4,714**	18,083
DIVIDENDS	15		
Interim		**3,170**	15,852
Proposed final		**–**	4,755
		3,170	20,607
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic	16	**1.49 cents**	5.70 cents

CONSOLIDATED BALANCE SHEET

As at 31 March 2007

	Note	**2007** **HK$'000**	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**40,513**	35,379
Livestock	18	**2,520**	–
Available-for-sale equity investments	20	**–**	–
Total non-current assets		**43,033**	35,379
CURRENT ASSETS			
Inventories	21	**68,783**	73,119
Trade and bills receivables	22	**22,727**	13,010
Other receivables, prepayments and deposits		**3,965**	1,587
Pledged bank deposits	23	**29,514**	29,433
Cash and bank balances	23	**979**	7,329
Total current assets		**125,968**	124,478
CURRENT LIABILITIES			
Trade and bills payables	24	**13,262**	10,962
Other payables and accruals	25	**5,476**	5,357
Amount due to a minority shareholder	34(b)	**1,562**	–
Interest-bearing bank borrowings	26	**17,376**	13,758
Tax payable		**1,176**	1,176
Total current liabilities		**38,852**	31,253
NET CURRENT ASSETS		**87,116**	93,225
Total assets less current liabilities		**130,149**	128,604
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	**4,400**	–
Deferred tax liabilities	27	**2,984**	2,899
Total non-current liabilities		**7,384**	2,899
Net assets		**122,765**	125,705
EQUITY			
Issued capital	28	**31,704**	31,704
Reserves	30(a)	**91,061**	89,246
Proposed final dividend	15	**–**	4,755
Total equity		**122,765**	125,705

Char On Man
Director

So Choi Hing, Stella
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Note	Issued share capital HK$'000	Share premium account HK$'000	Land and buildings revaluation reserve HK$'000	Reserve funds HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total equity HK$'000
At 1 April 2005 as previously reported		31,704	49,586	19,348	173	(633)	25,311	3,170	128,659
Adjustment of deferred tax liabilities on revaluation of land and buildings	37	–	–	(3,007)	–	–	–	–	(3,007)
As restated		31,704	49,586	16,341	173	(633)	25,311	3,170	125,652
Exchange realignment		–	–	–	–	298	–	–	298
Revaluation surplus not recognised in the income statement		–	–	586	–	–	–	–	586
Deferred tax liabilities arising on revaluation of land and buildings		–	–	(109)	–	–	–	–	(109)
Total income and expense recognised directly in equity		–	–	477	–	298	–	–	775
Profit for the year		–	–	–	–	–	18,083	–	18,083
Total income and expense for the year		–	–	477	–	298	18,083	–	18,858
Final 2005 dividend declared		–	–	–	–	–	–	(3,170)	(3,170)
Transfer upon disposal		–	–	(1,229)	–	–	1,446	–	217
Interim 2006 dividend	15	–	–	–	–	–	(15,852)	–	(15,852)
Proposed 2006 final dividend	15	–	–	–	–	–	(4,755)	4,755	–
At 31 March 2006 and 1 April 2006		31,704	49,586*	15,589*	173*	(335)*	24,233*	4,755	125,705
Exchange realignment		–	–	–	–	(157)	–	–	(157)
Revauation surplus not recognised in the income statement		–	–	513	–	–	–	–	513
Deferred tax liabilities arising on revaluation of land and buildings		–	–	(85)	–	–	–	–	(85)
Total income and expense recognised directly in equity		–	–	428	–	(157)	–	–	271
Profit for the year		–	–	–	–	–	4,714	–	4,714
Total income and expense for the year		–	–	428	–	(157)	4,714	–	4,985
Final 2006 dividend declared		–	–	–	–	–	–	(4,755)	(4,755)
Interim 2007 dividend	15	–	–	–	–	–	(3,170)	–	(3,170)
At 31 March 2007		**31,704**	**49,586***	**16,017***	**173***	**(492)***	**25,777***	**–**	**122,765**

* These reserve accounts comprise the consolidated reserves of HK$91,061,000 (2006: HK$89,246,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,952**	18,854
Adjustments for:			
Finance costs	9	**1,126**	641
Bank interest income	10	**(1,052)**	(783)
Depreciation	10	**1,605**	1,493
Revaluation surplus on land and buildings	10	**(191)**	(455)
Gain on disposal of partial interest in a subsidiary	10	**–**	(10)
Gain on disposal of items of property, plant and equipment	10	**–**	(685)
Operating profit before working capital changes		**6,440**	19,055
Increase in livestock		**(2,520)**	–
Decrease/(increase) in inventories		**4,336**	(4,908)
Increase in trade and bills receivables		**(9,717)**	(1,523)
Increase in other receivables, prepayments and deposits		**(2,378)**	(917)
Increase in trade and bills payables		**2,300**	7,765
Increase in amount due to a minority shareholder		**1,562**	–
Increase in other payables and accruals		**119**	395
Cash generated from operations		**142**	19,867
Overseas taxes paid		**(238)**	(221)
Net cash (outflow)/inflow from operating activities		**(96)**	19,646
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,052**	783
Purchases of items of property, plant and equipment	17	**(6,035)**	(959)
Proceeds from disposal of items of property, plant and equipment		**–**	2,983
Increase in pledged bank deposits		**(81)**	(63)
Net cash (outflow)/inflow from investing activities		**(5,064)**	2,744
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from disposal of partial interest in a subsidiary		**–**	10
Capital element of hire purchase contract payments		**–**	(144)
New bank borrowings raised		**7,884**	–
Repayment of bank borrowings		**(1,013)**	–
Interest paid		**(1,126)**	(641)
Dividends paid		**(7,925)**	(19,022)
Net cash outflow from financing activities		**(2,180)**	(19,797)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2007

	Note	**2007**	2006
		HK$'000	HK$'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(7,340)**	2,593
Cash and cash equivalents at beginning of year		**(6,429)**	(8,705)
Effect of foreign exchange rate changes, net		**(157)**	(317)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**(13,926)**	(6,429)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**979**	7,329
Bank overdrafts, secured	26	**(14,905)**	(13,758)
		(13,926)	(6,429)

BALANCE SHEET

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	19	**119,780**	128,535
CURRENT ASSETS			
Bank balances	23	**8**	2
CURRENT LIABILITIES			
Other payables and accruals	25	**(303)**	(206)
Net current liabilities		**(295)**	(204)
Net assets		**119,485**	128,331
EQUITY			
Issued capital	28	**31,704**	31,704
Reserves	30(b)	**87,781**	91,872
Proposed final dividend	15	**–**	4,755
Total equity		**119,485**	128,331

Char On Man
Director

So Choi Hing, Stella
Director

1. CORPORATE INFORMATION

Peking Apparel International Group Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company is located at Unit 1, 5th Floor, Harbour Centre, Tower 1, 1 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- trading of tanned leather
- trading of fur pelts
- manufacture and sale of leather garments
- manufacture and sale of fur garments
- manufacture and sale of fabric garments
- mink farm operation

The financial statements are presented in Hong Kong dollars which is the same as the functional currency of the Company. All values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

2. 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 ("HKICPA"), 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 land and buildings and livestock, which have been measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 6.

2. BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements included the financial statements of the Company and its subsidiaries for the year ended 31 March 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated to all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group. The Group has adopted the new and revised HKFRSs below, which are relevant to its operations in the preparation of the financial statements.

– Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions, which allows the designation of an intragroup transaction as a hedged item when the foreign currency risk of the transaction would affect the consolidated financial statements.

– Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – The Fair Value Option, which amends the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category.

– Amendment to HKAS 39 Financial Instruments: Recognition and Measurement & HKFRS 4 Insurance Contracts – Financial Guarantee Contracts, which requires the recognition of issued financial guarantees at fair value irrespective of the legal form.

– HKFRS-Int 4 Determining whether an Arrangement contains a Lease, which requires application of lease accounting in accordance with HKAS 17 "Leases" on all arrangements that convey the right to use specific assets irrespective of their legal form.

The adoption of these new and revised HKFRSs has no material effect on the Group's results and financial position for the current or prior accountings periods reflected in these financial statements.

4. 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:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
Amendment to HKAS 1	Presentation of Financial Statements – Capital Disclosures	1 January 2007
HK(IFRIC)-Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK(IFRIC)-Int 12	Service Concession Arrangements	1 January 2008
HKFRS 8	Operating Segments	1 January 2008
HKAS 23 (Revised)	Borrowing Costs	1 January 2009

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries*:*
A subsidiary is an entity controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently exercisable are taken into account.

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 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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets: (continued)
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 is arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 a member of the key management personnel of the Group or its parent;

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

(d) 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 (b) or (c).

Property, plant and equipment and depreciation:
Property, plant and equipment, other than construction in progress, are stated at cost or valuation 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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

5. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Property, plant and equipment and depreciation: (continued)
Depreciation is calculated on the straight-line basis to write off the cost or valuation 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:

Leasehold land	Over the lease terms
Buildings	2% to 4.5%
Leasehold improvements	18% to 20%
Plant and machinery	9% to 20%
Furniture and equipment	10% to 18%
Motor vehicles and vessels	9% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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.

Construction in progress represents a mink farm under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct cost of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Livestock:
Livestock is stated at fair value less estimated point-of-sale costs, except where the fair value cannot be measured reliably, in which case it is stated at cost less accumulated amortisation and any impairment losses. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit.

Net increments or decrements in the fair value of livestock are included in the consolidated income statement, determined as:

(a) the difference between the total fair value of the livestock recognised at the beginning of the financial year and the total fair value of the livestock recognised at the end of the financial year; and

(b) the cost incurred during the financial year to acquire and breed livestock.

5. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Leased assets:
Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. 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. 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.

Investments and other financial assets:
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.

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 in listed and unlisted equity securities 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.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

5. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Impairment of financial assets:
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.

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.

Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets:
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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets: (continued)
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.

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.

Derecognition of financial liabilities:
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories:
Inventories are stated at the lower of cost and net realisable value. Cost is determined on the specific identification basis and, in the case of 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.

5. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Financial guarantee contracts:
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Provision and contingencies:
A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recongised but is disclosed in the note on the financial statements. When a change in the probability of an outflow occurs so the outflow is probable, it will then be recognised as a provision.

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. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future 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.

5. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Income tax: (continued)
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.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

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

(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. 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 years. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year and prior years 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 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 contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension schemes
The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong for those employees 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension schemes (continued)
The employees of the Group's subsidiaries which operate in the People's Republic of China ("Mainland China" or the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to make contributions based on a percentage of the payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs:
Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends:
Final dividends proposed by the directors are classified as a separate allocation of retained profits or contributed surplus 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 Company's bye-laws 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 the 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.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollars. 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 the exchange fluctuation reserve. 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.

6. SUMMARY ACCOUNTING JUDGMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect in 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.

Provision for obsolete inventories:
The management regularly reviews the aging analysis of inventories of the Group and indentifies obsolete and slow-moving inventory items. The management estimates the net realisable value for such inventories based primarily on the latest market conditions and makes provision to write down the cost of the obsolete and slow-moving inventories to estimated net realisable value.

Impairment of available-for-sale equity investments:
The Group has to exercise judgment in determining whether the available-for-sale equity investments are impaired, particularly in assessing the net present value of estimated future cash flows.

7. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the fur segment engages in the trading of fur pelts, and the manufacture and sale of fur garments and mink farm operation;

(b) the leather segment engages in the trading of tanned leather, and the manufacture and sale of leather garments;

(c) the fabric garments segment engages in the manufacture and sale of fabric garments; and

(d) the corporate and others segment comprises corporate income and expense items, and the trading of other products.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

7. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables presents revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2007 and 2006.

Group

	Fur		Leather		Fabric garments		Corporate and others		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	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	**66,813**	84,364	**20,253**	25,381	**46,963**	29,556	**309**	381	**134,338**	139,682
Segment results	**(861)**	19,360	**4,409**	5,732	**15,539**	5,553	**(14,061)**	(11,933)	**5,026**	18,712
Bank interest income									**1,052**	783
Finance costs									**(1,126)**	(641)
Profit before tax									**4,952**	18,854
Tax									**(238)**	(771)
Profit for the year									**4,714**	18,083
Assets and liabilities:										
Segment assets	**97,001**	92,309	**15,625**	15,525	**22,730**	12,026	**4,131**	10,564	**139,487**	130,424
Unallocated assets									**29,514**	29,433
Total assets									**169,001**	159,857
Segment liabilities	**9,953**	7,815	**2,588**	523	**1,424**	2,323	**6,335**	5,658	**20,300**	16,319
Unallocated liabilities									**25,936**	17,833
Total liabilities									**46,236**	34,152
Other segment information:										
Depreciation	**641**	590	**522**	490	**401**	373	**41**	40	**1,605**	1,493
Surplus on revaluation recognised directly in the income statement	**(86)**	(205)	**(58)**	(136)	**(47)**	(114)	**–**	–	**(191)**	(455)
(Surplus)/deficits on revaluation recognised directly in equity	**(213)**	(289)	**(163)**	(163)	**(128)**	(147)	**(9)**	13	**(513)**	(586)
Capital expenditure	**5,880**	880	**83**	43	**60**	31	**12**	5	**6,035**	959

7. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 March 2007 and 2006.

Group

	Hong Kong		Mainland China		Germany		Other countries		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	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	**42,521**	56,723	**29,807**	26,083	**44,960**	38,052	**17,050**	18,824	**134,338**	139,682
Other segment information:										
Segment assets	**60,306**	69,529	**64,625**	56,313	**13,842**	4,015	**714**	567	**139,487**	130,424
Unallocated assets									**29,514**	29,433
Total assets									**169,001**	159,857
Capital expenditure:	**6**	30	**6,029**	929	**–**	–	**–**	–	**6,035**	959

8. REVENUE

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

9. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	HK$'000
Interest on bank overdrafts and bills	**1,061**	637
Interest on a hire purchase contract	**–**	4
Interest on term loan	**65**	–
	1,126	641

10. *PROFIT BEFORE TAX*

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

	Note	**2007** **HK$'000**	2006 HK$'000
Cost of inventories sold (including inventory provision)		**109,878**	101,116
Provision/(write-back) for slow-moving inventories included in cost of inventories sold*		**10,955**	(6,384)
Depreciation	17	**1,605**	1,493
Auditors' remuneration		**324**	683
Minimum lease payments under operating leases in respect of land and buildings		**317**	417
Employee benefits expense (including directors' remuneration – note 11):			
Wages and salaries		**16,629**	15,172
Pension scheme contributions		**351**	395
Total staff costs		**16,980**	15,567
Gain on disposal of items of property, plant and equipment		**–**	(685)
Gain on disposal of partial interest in a subsidiary		**–**	(10)
Revaluation surplus on land and buildings		**(191)**	(455)
Loss arising from changes in fair value less estimated point-of-sale costs of livestock		**541**	–
Foreign exchange differences, net		**556**	(121)
Bank interest income		**(1,052)**	(783)

* The write-back mainly relates to goods which were sold during the year.

11. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Excharge") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Fees	**103**	60
Other emoluments:		
Salaries, allowances and benefits in kind	**3,464**	3,419
Pension scheme contributions	**36**	36
	3,500	3,455
	3,603	3,515

(a) Independent non-executive directors

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

	2007	2006
	HK$'000	HK$'000
Ho Wai Chi, Paul	**30**	20
Chen Yeh Ming, Steve	**30**	20
Woo, Michael	**43**	20
	103	60

There was no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

11. *DIRECTORS' REMUNERATION (continued)*

(b) Executive directors

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007			
Char On Man	**1,585**	**12**	**1,597**
So Choi Hing, Stella	**846**	**12**	**858**
Li Wing Tak	**1,033**	**12**	**1,045**
	3,464	**36**	**3,500**
2006			
Char On Man	1,573	12	1,585
So Choi Hing, Stella	839	12	851
Li Wing Tak	1,007	12	1,019
	3,419	36	3,455

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

12. *FIVE HIGHEST PAID EMPLOYEES*

The five highest paid employees during the year included three (2006: three) directors, details of whose remuneration are set out in note 11 above. Details of the remuneration of two (2006: two) non-directors, highest paid employees are as follows:

	Group	
	2007 HK$'000	2006 HK$'000
Salaries, allowances and benefits in kind	**520**	497
Pension scheme contributions	**23**	22
	543	519

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

	Number of individuals	
	2007	2006
Nil to HK$1,000,000	**2**	2

13. *TAX*

No provision for Hong Kong profits tax has been made as the Group has available tax losses brought forward from prior years to offset the assessable profits generated during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2007	2006
	HK$'000	HK$'000
Current tax charge in Mainland China	**238**	771

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Group – 2007

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit/(loss) before tax	**12,788**		**(7,836)**		**4,952**	
Tax at the statutory tax rate	**2,238**	**17.5%**	**(2,586)**	**33%**	**(348)**	**N/A**
Lower tax rate for specific provinces or local authority	**–**		**467**		**467**	
Income not subject to tax	**(1,473)**		**–**		**(1,473)**	
Expenses not deductible for tax	**178**		**2,357**		**2,535**	
Tax losses utilised from previous periods	**(1,108)**		**–**		**(1,108)**	
Tax losses not recognised	**165**		**–**		**165**	
Tax charge at the Group's effective rate	**–**		**238**		**238**	

Group – 2006

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	19,233		(379)		18,854	
Tax at the statutory tax rate	3,366	17.5	(125)	33.0	3,241	17.2
Lower tax rate for specific provinces or local authority	–		16		16	
Income not subject to tax	(127)		–		(127)	
Expenses not deductible for tax	176		784		960	
Tax losses utilised from previous periods	(3,418)		–		(3,418)	
Tax losses not recognised	3		96		99	
Tax charge at the Group's effective rate	–		771		771	

14. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The (loss)/profit from ordinary activities attributable to ordinary equity holders of the Company for the year ended 31 March 2007 dealt with in the financial statements of the Company was loss of HK$921,000 (2006: profit of HK$21,844,000) (note 30(b)).

15. DIVIDENDS

	Group and Company	
	2007	2006
	HK$'000	HK$'000
Interim – HK 1.0 cent (2006: HK5.0 cents) per ordinary share	**3,170**	15,852
Proposed final – HKNil cent (2006: HK1.5 cents) per ordinary share	**–**	4,755
	3,170	20,607

16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company of HK$4,714,000 (2006: HK$18,083,000) and 317,035,700 ordinary shares in issue during the years.

Diluted earnings per share amounts for the years ended 31 March 2007 and 2006 have not been disclosed as no diluting events existed during these years.

17. *PROPERTY, PLANT AND EQUIPMENT*

Group

	Leasehold land and buildings HK$'000	**Leasehold improvements** HK$'000	**Plant and machinery** HK$'000	**Furniture and equipment** HK$'000	**Motor vehicles and vessels** HK$'000	**Construction in progress** HK$'000	**Total** HK$'000
31 March 2007							
At 1 April 2006:							
Cost or valuation	33,025	3,533	6,026	1,920	3,093	771	48,368
Accumulated depreciation	–	(3,119)	(5,489)	(1,823)	(2,558)	–	(12,989)
Net carrying amount	33,025	414	537	97	535	771	35,379
At 1 April 2006, net of accumulated depreciation	33,025	414	537	97	535	771	35,379
Additions	–	–	66	1,043	174	4,752	6,035
Surplus on revaluation	704	–	–	–	–	–	704
Depreciation provided during the year	(967)	(103)	(94)	(184)	(257)	–	(1,605)
Reclassification	–	(32)	(211)	243	–	–	–
At 31 March 2007, net of accumulated depreciation	32,762	279	298	1,199	452	5,523	40,513
At 31 March 2007:							
Cost or valuation	32,762	3,533	4,303	4,752	3,266	5,523	54,139
Accumulated depreciation	–	(3,254)	(4,005)	(3,553)	(2,814)	–	(13,626)
Net carrying amount	32,762	279	298	1,199	452	5,523	40,513
Analysis of cost or valuation:							
At Cost	–	3,533	4,303	4,752	3,266	5,523	21,377
At 31 March 2007 valuation	32,762	–	–	–	–	–	32,762
	32,762	3,533	4,303	4,752	3,266	5,523	54,139

17. *PROPERTY, PLANT AND EQUIPMENT (continued)*

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles and vessels HK$'000	Construction in progress HK$'000	Total HK$'000
31 March 2006							
At 1 April 2005:							
Cost or valuation	34,641	3,493	5,776	1,911	2,999	–	48,820
Accumulated depreciation	–	(2,979)	(5,197)	(1,790)	(2,316)	–	(12,282)
Net carrying amount	34,641	514	579	121	683	–	36,538
At 1 April 2005, net of accumulated depreciation	34,641	514	579	121	683	–	36,538
Additions	–	–	96	9	83	771	959
Disposals	(2,298)	–	–	–	–	–	(2,298)
Surplus on revaluation	1,041	–	–	–	–	–	1,041
Depreciation provided during the year	(962)	(106)	(153)	(33)	(239)	–	(1,493)
Exchange realignment	603	6	15	–	8	–	632
At 31 March 2006, net of accumulated depreciation	33,025	414	537	97	535	771	35,379
At 31 March 2006:							
Cost or valuation	33,025	3,533	6,026	1,920	3,093	771	48,368
Accumulated depreciation	–	(3,119)	(5,489)	(1,823)	(2,558)	–	(12,989)
Net carrying amount	33,025	414	537	97	535	771	35,379
Analysis of cost or valuation:							
At Cost	–	3,533	6,026	1,920	3,093	771	15,343
At 31 March 2006 valuation	33,025	–	–	–	–	–	33,025
	33,025	3,533	6,026	1,920	3,093	771	48,368

17. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land and buildings included above are held under the following lease terms:

	2007 HK$'000	2006 HK$'000
Hong Kong:		
Medium term leases	**14,943**	14,740
Mainland China:		
Long term leases	**2,509**	2,570
Medium term leases	**15,310**	15,715
At valuation	**32,762**	33,025

The Group's leasehold land and buildings were revalued individually at 31 March 2007 by Chung, Chan & Associates, independent professionally qualified valuers, on an open market value, existing use basis. Had the leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts at 31 March 2007 would have been HK$17,377,000 (2006:HK$18,041,000).

Certain of the Group's leasehold land and buildings with net book value of approximately HK29,116,000 (2006: HK$28,710,000) were pledged to secure general banking facilities granted to the Group (note 26).

18. LIVESTOCK

	Group	
	2007 HK$'000	2006 HK$'000
Livestock at fair value	**2,520**	–
	Number of minks	
Physical quantity of breeder minks	**10,088**	–

The Group's livestock comprises breeder minks owned by a subsidiary. The breeder minks are held to produce progeny minks which are raised for sale. The fair value was determined based on the Denmark auction average selling prices approximating to those at the year end.

18. LIVESTOCK (continued)

	Group 2007 HK$'000	Group 2006 HK$'000
Reconciliation of carrying amounts of mink livestock		
Carrying amount at 1 April 2006	**–**	–
Increases due to purchases	**3,061**	–
Loss arising from changes in fair value less estimated point-of-sale costs	**(541)**	–
Carrying amount at 31 March 2007	**2,520**	–

19. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$'000	Company 2006 HK$'000
Unlisted shares, at cost	**104,256**	104,256
Impairment	**(29,569)**	(29,569)
	74,687	74,687
Due from a subsidiary	**45,093**	53,848
	119,780	128,535

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from a subsidiary approximates to its fair value.

19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Peking Fur and Leather Limited	British Virgin Islands/ Hong Kong	Ordinary US$1,000	100	–	Investment holding
Peking Fur Factory (Hong Kong) Limited	Hong Kong	Ordinary HK$200 Deferred HK$1,200,000#	–	100	Design and sale of leather garments, fur garments and other garments and the trading of tanned leather and fur pelts
Gangjing Fur & Leather Factory (Shenzhen) Limited.^	PRC	RMB7,600,000	–	100	Design, manufacture and sale of leather garments, fur garments and other garments
Jiayi Fashion (Shenzhen) Co., Ltd.^	PRC	HK$2,000,000	–	100	Manufacture and sale of leather garments and other garments
Peking Leather Factory Limited	Hong Kong	Ordinary HK$100,000	–	90	Investment holding
Laiwu C and D Mink Farm Limited^	PRC	HK$13,000,000	–	90	Mink farm operation and trading of minks
K and K Fur Creation Limited	Hong Kong	Ordinary HK$200,000	–	100	Investment holding

@ Unless otherwise stated, the place of operations is the place of incorporation or registration.

The non-voting deferred shares carry practically no rights to dividends, to receive notice of or to attend or vote at any general meeting of the company, or to participate in any distribution on winding-up.

^ Registered as wholly-foreign-owned enterprises under PRC law.

20. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted equity investments, at cost	**3,364**	3,364
Less: Provision for impairment	**(3,364)**	(3,364)
	–	–

The unlisted equity investments of the Group are not stated at fair value, but at cost less any accumulated impairment losses because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

21. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**64,784**	69,270
Finished goods	**3,846**	3,849
Fodder	**153**	–
	68,783	73,119

22. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. 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. Trade receivables are non-interest-bearing. The carrying amounts of trade and bills receivables approximate to their fair values.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within 3 months	**17,020**	11,992
4 to 6 months	**5,162**	925
7 to 12 months	**404**	74
Over 1 year	**141**	19
	22,727	13,010

23. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$585,000 (2006: HK$6,727,000). 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 deposits rates. The carrying amounts of the cash and bank balances and the pledged bank deposits approximate to their fair values.

24. TRADE AND BILLS PAYABLES

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within 3 months	**8,397**	10,338
4 to 6 months	**1,916**	425
7 to 12 months	**2,372**	11
Over 1 year	**577**	188
	13,262	10,962

The trade and bills payables are non-interest-bearing and are normally settled within 30 to 90 days. The carrying amounts of trade and bills payables approximate to their fair values.

25. OTHER PAYABLES AND ACCRUALS

Other payables and accruals of the Group and the Company are non-interest-bearing, have no fixed terms of repayment and are expected to be settled within one to three months. The carrying amounts of other payables and accruals approximate to their fair values.

26. INTEREST-BEARING BANK BORROWINGS

			Group	
			2007	2006
	Effective interest rate	**Maturity**	**HK$'000**	HK$'000
Bank overdrafts, secured	4.56071% per annum	On demand	**14,905**	13,758
Bank loan, secured	5.25% per annum	14/12/08	**4,900**	–
Bank loan, secured	6.435% per annum	19/6/07	**529**	–
Bank loan, secured	6.435% per annum	6/7/07	**1,442**	–
			21,776	13,758

26. INTEREST-BEARING BANK BORROWINGS (continued)

	Group	
	2007	2006
	HK$'000	HK$'000
Borrowings are repayable as follows:		
Within one year or on demand	**17,376**	13,758
More than one year but not exceeding two years	**4,400**	–
	21,776	13,758
Less: Amount repayable with one year and shown under current liabilities	**(17,376)**	(13,758)
Amount due after one year	**4,400**	–

Notes:

(a) The banking facilities of the Group were secured by the Group's bank deposits and certain leasehold land and buildings with carrying value of HK$29,514,000 (2006: HK$29,433,000) and HK$29,116,000 (2006: HK$28,710,000) (note 17), respectively, and guarantees given by the company.

(b) The carrying amounts of the Group's borrowings approximate to their fair values.

27. DEFERRED TAX

The movement in deferred tax liabilities during the year is as follows:

	Revaluation of properties	
	2007	2006
	HK$'000	HK$'000
At 1 April	2,899	3,007
Transfer upon disposal	–	(217)
Charged to equity	85	109
At 31 March	2,984	2,899

The effect of other temporary differences in respect of accelerated depreciation allowances are insignificant.

The Group has unrecognised tax losses arising in Hong Kong of HK$963,000 (2006: HK$2,071,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the utilisation of these losses is uncertain. The tax losses do not expire under current tax legislation.

28. SHARE CAPITAL

	2007 HK$'000	2006 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
317,035,700 ordinary shares of HK$0.10 each	**31,704**	31,704

29. SHARE OPTION SCHEME

On 29 August 2002, a share option scheme (the "Scheme") was adopted by the shareholders of the Company. The Scheme will remain in force for 10 years from the date of adoption.

The purpose of the Scheme is to provide incentives or rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the "Invested Entity"). Eligible participants of the Scheme include employees and directors of the Group or the Invested Entity, suppliers and customers of the Group and the Invested Entity, any person or entity that provides research, development or other technological support to the Group or the Invested Entity, and shareholders of the Group or the Invested Entity.

The maximum number of shares issuable under share options currently permitted to be granted under the Scheme is 31,703,570, representing 10% if the issued shares of the Company. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. 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 may commence on the date of the offer and shall end no later than 10 years from the date of the offer.

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. 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 or with an aggregate value (based on the 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 subscription price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of the options; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of the options; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share options were granted during the year and there no share options outstanding at the balance sheet date.

30. 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 23 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries which are registered in the PRC has been transferred to reserve funds which are restricted as to use.

(b) Company

	Note	**Share premium account** HK$'000	**Contributed surplus** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 April 2005		49,586	94,071	(53,022)	90,635
Profit for the year		–	–	21,844	21,844
Interim 2006 dividend	15	–	(15,852)	–	(15,852)
Proposed 2006 final dividend	15	–	(4,755)	–	(4,755)
At 31 March 2006 and 1 April 2006		49,586	73,464	(31,178)	91,872
Loss for the year		–	–	(921)	(921)
Interim 2007 dividend	15	–	(3,170)	–	(3,170)
At 31 March 2007		**49,586**	**70,294**	**(32,099)**	**87,781**

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired under the Group reorganization at the time of the Company's listing over the nominal value of the Company's shares issued in exchange therefore. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus in certain circumstances.

31. CONTINGENT LIABILITIES

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

(i) The Group had a contingent liability in respect to possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1,995,000 (2006: HK$1,947,000) as at 31 March 2007, as further explained under the heading "Employee benefits" in note 5 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(ii) The Company had given guarantees to banks in connection with banking facilities granted to a subsidiary amounting to HK$87,930,000 (2006: HK$81,930,000), of which HK$26,669,000 (2006: HK$20,439,000) was utilised at the balance sheet date.

(iii) The Company has not recognised any deferred income in respect of the guarantee as their fair values cannot be reliably measured and their transaction prices were HK$ Nil (2006: HK$ Nil)

32. OPERATING LEASE ARRANGEMENTS

The Group leased certain of its staff quarters and land for mink farm under operating lease arrangements with leases negotiated for original terms ranging from 1 to 20 years.

At 31 March 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**261**	23
In the second to fifth years, inclusive	**86**	85
After five years	**312**	334
	659	442

33. *CAPITAL COMMITMENTS*

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted, but not provided for in respect of construction in progress	**359**	1,775

34. *RELATED PARTY TRANSACTIONS*

(a) Compensation of key management personnel of the Group:

	2007	2006
	HK$'000	HK$'000
Short term employee benefits	**4,352**	4,311
Post-employment benefits	**71**	77
Total compensation paid to key management personnel	**4,423**	4,388

Further details of directors' emoluments are included in note 11 to the financial statements.

(b) The amount due to a minority shareholder is unsecured, non-interest bearing and has no fixed terms of repayment. The carrying amount of the amount due to a minority shareholder approximates to its fair value.

35. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES*

The Group's principal financial instruments comprise interest-bearing bank overdrafts and cash and bank 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 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 cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Cash flow interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations. The Group does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk
The Group's major transactions are primarily denominated in Hong Kong dollars, United States dollars ("US$") and RMB. Foreign exchange exposure of the Group is considered minimal as the exchange rate of RMB and US$ against Hong Kong dollars were relatively stable during the year. No financial instruments have been used for hedging purposes.

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.

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

The Group places its cash deposits with major international banks in Hong Kong and state-owned banks in Mainland China. This investment policy limits the Group's exposure to concentrations of credit risk.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts. In addition, banking facilities have been obtained for contingency purpose.

36. FINANCIAL RISK MANAGEMENT STRATEGIES RELATING TO LIVESTOCK

The Group is exposed to financial risks arising from changes in fur prices. The Group does not anticipate that fur prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in fur prices. The Group reviews its outlook for fur prices regularly in considering the need for active financial risk management.

37. COMPARATIVE AMOUNTS

In the current year, the Group recognised the deferred tax liabilities arising from revaluation of land and buildings. Retrospective adjustments had been applied and the comparative amounts had been restated.

The effect of the above mentioned adjustment was to decrease the land and buildings revaluation reserve with the corresponding increase in deferred tax liabilities as at 31 March, 2005 and 2006 by HK$3,007,000 and HK$2,899,000 respectively.

38. POST BALANCE SHEET EVENT

On 20 June 2007, the Company placed 63,000,000 new ordinary shares at a price of HK$0.68 per share to placees. The placing shares represent approximately 19.87% of the existing issued share capital of the Company. The net proceeds of approximately HK$41,943,000, which were received on 9 July 2007, were used as additional working capital.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 July 2007.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial year, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**134,338**	139,682	115,315	89,636	90,078
Profit/(loss) for the year attributable to ordinary equity holders of the company	**4,714**	18,083	12,307	2,565	(2,379)

ASSETS AND LIABILITIES

	As at 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**169,001**	159,857	151,240	122,024	128,945
Total liabilities	**(46,236)**	(34,152)	(25,588)	(8,831)	(17,078)
	122,765	125,705	125,652	113,193	111,867