C Y Foundation Group Limited

(Incorporated in Bermuda with limited liability)
Stock code : 1182

Annual Report **2006/2007**

Contents

Corporate Information

BOARD OF DIRECTORS

Executive:

CHENG Chee Tock Theodore *(Chairman)*
POH Po Lian
WOELM Samuel *(CEO)*

Non-executive:

WU Chuang John
CAO Dongxin

Independent Non-executive:

SZE Tsai Ping Michael
CHOW Steven
WANG Shan Chuan

AUDIT COMMITTEE

SZE Tsai Ping Michael *(chairman)*
CHOW Steven
WU Chuang John

REMUNERATION COMMITTEE

CHENG Chee Tock Theodore *(chairman)*
SZE Tsai Ping Michael
CHOW Steven

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
LGT Bank in Liechtenstein Limited

AUDITORS

CCIF CPA Limited

QUALIFIED ACCOUNTANT

HO Koon Man, *FCCA, CPA (Practising)*

COMPANY SECRETARY

KWOK Oi Kuen Joan Elmond, *FCIS*

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

17/F The Sun's Group Centre
200 Gloucester Road
Wanchai
Hong Kong

REGISTRARS AND TRANSFER OFFICE (HONG KONG)

Secretaries Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

1182

CONTACTS

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Business Review and Outlook

During the financial year under review, there was a change in both the controlling shareholder and the management of the Group. The new management has shifted the Group's core business to the operation of online games and electronic tournaments in China. The new core business has yet to contribute revenues or profits since the change occurred late in the financial year.

Subsequent to the financial year end, the Company changed its name from Foundation Group Limited to C Y Foundation Group Limited to reflect the strong partnership with Communist Youth League of China (CYL).

The financials covered by the Annual Report represent mainly the business performance of the prior core business and does not reflect the latest online gaming and electronic tournament business performance under the direction of the new management.

Business Review – Old Businesses

The continuing operations including apparel trading and retailing business segment recorded a turnover of HK$77.63 million and a net loss of HK$24.15 million. The downturn in financial results is mainly attributed to increased competition and high operating costs.

The Group ceased operation of the securities trading business before the financial year-end. This business recorded a turnover of HK$55,000 and a net loss of HK$16.32 million. The portfolio of the securities trading was liquidated before the balance sheet date.

Further to the cessation of the securities business, the Group will continue to access the viability of the apparel business while focusing all its resources developing its online games and electronic tournaments.

New Course – Online Gaming

Subsequent to the change in the controlling shareholder, the new management has raised more than HK$715 million in net proceeds for its new core business of online gaming space in the PRC. Through its PRC subsidiaries and its strategic partner, CYL, the Group is committed to providing "green" internet cafes in China and its national electronic tournament platform to develop the online tournament gaming market.

The Group's core business is to organise and manage nationwide player-to-player (P2P) online game tournaments. Players from all over China will participate in online tournaments that will feature casual games such as mahjong, doudizhu, Texas Hold'em poker, tuolaji, and animated entertainment games. The winners of the tournaments will be eligible for a wide range of prizes. The Group will operate and manage the online tournaments via a proprietary tournament platform that will include membership, prize distribution and payment systems and allow for the integration of third party software brands. The Group will install and operate online tournament platform in internet cafes and community centres across China.

Currently, there are an estimated 120,000 licensed internet cafes across China serving 27 million visitors a day. The online gaming market currently has over 36 million players and an estimated 26% Compound Annual Growth Rate. The Group maintains a first mover advantage in the online tournament market and aims to develop nationwide brand recognition for its online tournament platform by the end of year 2008.

The Group will further support the online game business with its owner/operated flagship entertainment centre. The entertainment centres will have a mixed range of entertainment including digital cinemas and P2P gaming area. The Group plans to operate these centres in the cities of Shanghai, Shenzhen, Chengdu and Beijing.

Business Review and Outlook

Prospects

The Group is highly positive on the growth potential of the new business based on the market size of China's online gaming market and its fast growth rate. The Group plans to work closely with CYL to utilise its vast resources such as its 75 million membership base and relationships with over 20,000 internet cafes across China to maximize the market position of its online tournament platform.

Recently the Group announced a strategic acquisition of T-Matrix Culture Company Limited to increase the roll out speed of its online tournament platform. T-Matrix has over 1,000 internet cafe franchisees and allied internet cafe partners in over 9 provinces across China. The Group will begin operating online tournaments throughout the T-Matrix network beginning in early August 2007. T-Matrix is one of only 7 active license owners authorised by the PRC's Ministry of Culture to franchise internet cafes nationwide in China. Internet cafes in this T-Matrix group will be able to line to the Group's online tournament platform and hold nationwide tournaments. As the Group grows, it will look for additional strategic investment opportunities suitable for the continuous expansion of the Group's core business.

The Group is committed to building one of the largest online gaming communities with superior software products from its strategic partners and by bridging the gap between the online and offline worlds. Players will be able to engage in fun online tournaments with great software and will meet new friends offline at the internet cafes. Players will initially sign up for the excitement of winning a prize and will keep coming back for the online/offline social experience.

The Group will report its new page of business development in its next financial report.

Financial Review

For the year ended 31 March 2007, the Group recorded a turnover of HK$77.69 million as compared to HK$91.89 million for the previous year. The decrease was due to the competitive conditions of the apparel trading business as well as the Group's new focus on online gaming. The Group also reported a net loss attributable to shareholders of HK$40.48 million as compared to loss of HK$22.79 million in the previous year. The deterioration was mainly attributable to the loss from the discontinued operation – securities trading. The increase in the operating costs of the apparel business as well as the corporate overheads incurred in the last quarter during the fund raising activities also contributed to the increased loss.

At the balance sheet date, the shareholders' equity of the Group was HK$47.33 million as compared to HK$43.92 million at the end of the previous year. The net increase was mainly due to the new funds raised during the last quarter of the year less the loss of the year. Before the balance sheet date, deposits of about HK$715 million ("Subscription Money"), being new funds to be capitalised by issue of further 600,000,000 new shares was received by the Company. At the balance sheet date, the Group maintained a substantially improved liquidity with total cash and cash equivalents plus fiduciary deposit of aggregate of HK$788.85 million as compared to HK$14.62 million of the previous year.

The gearing ratio of interest bearing borrowing (net of the zero coupon rate convertible note) against the total equity at the balance sheet date was at 53.6% versus 21.5% of the previous year. All borrowings were made at comparable to the market interest rate. The Group's exposure to exchange risk was not significant. Subsequent to the year end and after the completion of the capitalisation of the Subscription Money upon the issue of the new shares, the gearing ratio of the Group was improved significantly.

Short term loan was secured by the Group's equity interest in a subsidiary and a charge on loan due by this subsidiary. An aggregate bank balance of HK$0.50 million was pledged to secure banking facilities granted to the Group.

During the year, the Group had held listed securities for investment purpose which contributed investment loss of HK$13.29 million for the financial year (gain of HK$0.16 million for the previous year). The portfolio of the investment had been fully liquidated before the period end. During the year, save for the disposal of the securities trading arm, the Group had not made material acquisition or disposal of subsidiaries or associated companies.

The Group has not committed nor has any plan to commit for any material investment or capital assets.

Directors' Profile

Executive Directors

CHENG Chee Tock Theodore, aged 58, joined the Group as Director in February 2007. He was educated in electronic and electrical engineering disciplines with The Hong Kong Polytechnic University. Mr Cheng has over 25 years of working experience involving high technology products trading, venture capital, structure financing and credit enhancement. Currently, Mr Cheng is also the chairman, a director and the controlling shareholder of Sino Strategic International Limited, a company listed on the Australian Stock Exchange, whose principal business is gaming, internet, mobile media, pharmaceutical and investment services. He has been engaged in the lottery gaming business in the PRC for years. Mr Cheng is the Chairman of the Group and is responsible for the Group's strategy planning and to steer the Group's development direction. Mr Cheng is also a member and the chairman of the Remuneration Committee of the Company.

POH Po Lian, aged 49, joined the Group as Director in February 2007. He has started his career as an entrepreneur in hospitality and leisure business in Singapore since 1977. Over the past 30 years, Dato Poh has acquired extensive knowledge in a number of gaming management roles in Asia, including Singapore, Malaysia, Vietnam, the Philippines and Cambodia. He has extensive experience in providing gaming machines solution in Cambodia, Vietnam and the Philippines. Dato Poh also participated in building the Rendang Beach Resort in Malaysia and the Hainan Wenchang Golf Club in Hainan Province of the PRC. He is also the founder and the chairman of a private company which is a manufacturer and distributor of slot machines, progressive jackpot link system, electronic table games and trilling games. Dato Poh participates in the development direction of the Group. He is a substantial shareholder of the Company.

WOELM Samuel, aged 40, joined the Group as Director in May 2007. He graduated Summa-Cum Laude Japanese and Chinese Studies from the University of Minnesota. Since 1991, Mr Woelm has been residing in Japan, Hong Kong and China fulfilling senior sales and marketing positions for international enterprises. He has acquired extensive experience in marketing and business development as well as developed corporate relationships with various international conglomerates. Mr Woelm has extensive hands on business experience in China and is proficient in Japanese and Chinese. Mr Woelm is the CEO of the Group and is responsible for the Group's overall business development and execution.

Non-executive Directors

WU Chuang John, aged 58, joined the Group as Director in May 2007. He graduated with a Bachelor Degree in Business Administration with emphasis in Accounting and a Master Degree in International Economics from the University of San Francisco. Mr Wu has over 25 years experience in management and financing business in the United States, the PRC and Hong Kong. Currently, he is also a non-executive director of Sino Strategic International Limited, an Australian Stock Exchange listed company. Mr Wu is also a member of the Audit Committee of the Company.

CAO Dongxin, aged 56, joined the Group in July 2007. He graduated from the Politics stream of Shijiazhuang Senior Troops College of the People's Liberation Army of China. He had many years of participation in various divisions of the Communist Youth League of China. Currently, Mr Cao is an officer of Network Movie Centre of the Communist Youth League of China. He is also holding senior positions in various organizations and investment vehicles of the Communist Youth League of China, as well as the managing director and legal representative of C Y Foundation Culture Company Limited, an 80% variable interest entity of the Company established in China.

Directors' Profile

Independent Non-executive Directors

SZE Tsai Ping Michael, aged 62, joined the Group as Independent Non-executive Director in May 2007. Mr Sze has over 30 years of experience in the financial and securities field. He graduated with a Master of Laws (LLM) Degree from the University of Hong Kong. Mr Sze is currently a member of the Disciplinary Appeals Committee of the Hong Kong Stock Exchange. He was a former council member, member of the Main Board Listing Committee of the Hong Kong Stock Exchange, member of the Cash Market Consultative Panel of the Hong Kong Exchanges & Clearing and member of the Securities & Futures Appeals Panel. He is a fellow of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, as well as a fellow of the Hong Kong Institute of Directors. Currently, Mr Sze is the vice chairman of a local corporate finance advisory house. Mr Sze is also a member and the chairman of the Audit Committee and a member of the Remuneration Committee of the Company.

CHOW Steven, aged 62, joined the Group as Independent Non-executive Director in May 2007. Dr Chow has obtained a Bachelor Degree of Science from Bishop's University, a Master Degree in Business Administration and a PhD in Economics from Boston University. He is a licensed investment advisor and has over 30 years of experience in banking and investment. Currently, Dr Chow is a senior representative for an European bank as well as a managing director of its local company providing wealth management services for high net worth clients in Asia. Dr Chow is also a member of each of the Audit Committee and the Remuneration Committee of the Company.

WANG Shan Chuan, aged 62, joined the Group as Independent Non-executive Director in May 2007. Mr Wang holds a Bachelor Degree in English from Foreign Languages Institute of People's Liberation Army. He had served various commissions of the State Council, including as the director-general of Foreign Affairs Bureau of the State-owned Assets Supervision and Administration Commission, and the deputy director-general of Foreign Affairs Department of State Economic and Trade Commission.

Directors' Report

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

PRINCIPAL ACTIVITIES

The current principal activities of the Group are acting as an interactive media entertainment company focused on providing quality entertainment across China, and apparel trading. During the year under review, the business activities of the Group were apparel trading, securities trading and strategic investments.

RESULTS AND DIVIDEND

The results of the Group for the financial year under review are set out in the consolidated income statement on page 24 of this Annual Report.

The Directors recommended no dividend to be paid in respect of the financial year under review (2006: Nil).

FIVE YEAR FINANCIAL SUMMARY

A summary of the audited results and the assets and liabilities of the Group for the past five financial years including the financial year under review is set out on pages 77-78 of this Annual Report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the financial year under review are set out in note 32 to the financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company during the financial year under review are set out in note 33 to the financial statements.

As at the end of the financial year under review, the Company had no reserves available for distribution to shareholders, and the Company's share premium available for distribution in the form of fully paid bonus shares was HK$27,000,000.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 35 to the financial statements. No option has been granted under the share option scheme since its adoption.

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 existing shareholders.

PROPERTY, PLANT AND EQUIPMENT

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

Directors' Report

ISSUE OF SHARES, CONVERTIBLE NOTE AND WARRANT, AND USE OF PROCEEDS

1. On 22 December 2006, the Company announced the following proposed issues:

    (a) subscription by Luck Continent Limited ("Luck Continent"), a company wholly owned by Mr Poh Po Lian, a current substantial shareholder and Executive Director of the Company, 3,000,000,000 new ordinary shares of HK$0.001 each in the Company at an issue price of HK$0.01 per share;

    (b) issue to Luck Continent a warrant attached with subscription right of HK$6,000,000 to subscribe ordinary shares of HK$0.001 each in the Company at HK$0.01 per share within 3 years from the date of issue;

    (c) subscription at par value by Super Bonus Management Limited, a company wholly owned by Mr Cheng Chee Tock Theodore, the current Chairman of the Company, convertible note of total principal amount of HK$24,000,000 with conversion right to convert into ordinary shares of HK$0.001 each in the Company at HK$0.01 per share within 3 years from the date of issue.

    The latest closing price before the announcement of the above proposed issues was HK$0.63. The purpose of the above issues was to raise funds to settle the repayment of a short-term loan and to improve the financial position of the Group. The net proceeds from the above issues were estimated at about HK$54 million.

    On 31 January 2007, the above 3,000,000,000 new shares and the warrant were issued. On 21 March 2007, convertible note of principal amount of $4,000,000 was issued, and on 13 April 2007, convertible note of the balance principal amount of HK$20,000,000 was issued. None of the issued warrant and convertible note had been exercised or converted by the end of the financial year under review. The funds raised were applied as general working capital of the Group.

2. On 21 March 2007, the Company announced for, among other things, (a) the completion of the placedown obligation of Luck Continent to maintain the public float of the Company, being a placedown of 900,000,000 ordinary shares in the Company at HK$1.28 each, and (b) a proposed subscription of 600,000,000 top up ordinary shares in the Company at HK$1.28 each by Luck Continent. The net subscription money raised was estimated at about HK$715 million. The subscription constituted a connected transaction of the Company in view of Luck Continent (a company wholly owned by Mr Poh Po Lian, a substantial shareholder and Executive Director of the Company) being a connected person of the Company. The transaction was subject to shareholders' approval which was obtained subsequent to the balance sheet date on 21 May 2007. The said top up shares was issued on 25 May 2007.

    The latest closing price before the announcement of the above proposed issue was HK$2.50. The purpose of the issue of the new shares was to enlarge the Company's capital base, strengthen the Group's financial position and provide immediate additional funding to the Company to deploy its business plan.

    The fund raised was intended to be used as to HK$650 million to finance the Company's plan to expand into online game and electronic tournament game market in the PRC and the remaining balance as general working capital of the Group.

Directors' Report

CONNECTED TRANSACTION

During the financial year under review, the Company had a connected transaction as set out in item 2 under "Issue of shares, convertible note and warrant, and use of proceeds".

MAJOR CUSTOMERS AND SUPPLIERS

In the financial year under review, the Group's turnover attributable to the five largest customers accounted for less than 30% of the total turnover of the Group.

In the financial year under review, the Group's purchases attributed to the five largest suppliers accounted for less than 30% of the total purchases of the Group.

To the best of the Directors' knowledge, none of the Directors, their associates or any shareholder who owns more than 5% of the Company share capital had an interest in any of the major customers or suppliers above.

DIRECTORS

The Directors of the Company during the financial year under review and up to the date of this Annual Report were as follows:

Executive Directors:

CHENG Chee Tock Theodore *(Chairman)*	(appointed on 15 February 2007)
POH Po Lian	(appointed on 15 February 2007)
WOELM Samuel *(CEO)*	(appointed on 9 May 2007)
WONG Ching Ping Alex *(Chairman)*	(resigned on 28 February 2007)
LIM Direk	(resigned on 21 March 2007)

Non-executive Directors:

WU Chuang John	(appointed on 9 May 2007 as Executive Director and was redesigned on 1 June 2007 as Non-executive Director)
CAO Dongxin	(appointed on 6 July 2007)

Independent Non-executive Directors:

SZE Tsai Ping Michael	(appointed on 9 May 2007)
CHOW Steven	(appointed on 9 May 2007)
WANG Shan Chuan	(appointed on 9 May 2007)
CHU Kar Wing	(resigned on 9 May 2007)
CHOW King Wai	(resigned on 9 May 2007)
TANG Yiu Wing	(resigned on 9 May 2007)

In accordance with Bye-laws 86(2) of the Company's Bye-laws, all current Directors shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory obligation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 39 to the financial statements, during the financial year under review, no Director had a material interest in any significant contract of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' INTERESTS IN SECURITIES

As at the end of the financial period under review, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

1. Long position in the shares

		Number of shares	
Name	Capacity of interest	Corporate interest	Shareholding *(%)*
Poh Po Lian *(Note)*	Interest of a controlled corporation	2,046,264,127	66.28

Note: The shares were held by Luck Continent which is wholly owned by Mr Poh.

2. Long position in the underlying shares – warrant

Name	Subscription period	Subscription price *(HK$)*	Amount of subscription right *(HK$)*	Number of underlying shares	Percentage to issued shares at end of financial year under review *(%)*
Poh Po Lian *(Note)*	2007/01/31 – 2010/01/30	0.01	6,000,000	600,000,000	19.43

Note: The warrant was held by Luck Continent which is wholly owned by Mr Poh.

Directors' Report

3. Long position in the underlying shares – convertible note

Name	Conversion period	Conversion price *(HK$)*	Convertible amount *(HK$)*	Number of underlying shares	Percentage to issued shares at end of financial year under review *(%)*
Cheng Chee Tock Theodore *(Note)*	2007/03/21 – 2010/03/20	0.01	4,000,000	400,000,000	12.96

Note:

(a) The convertible note was held by Copernicus Trading Limited which was wholly owned by Mr Cheng.

(b) Super Bonus Management Limited (a company wholly owned by Mr Cheng) remained to have right to subscribe another HK$20,000,000 convertible note which bear the same conversion price.

Save as disclosed above, as at the end of the financial year under review, none of the Directors, chief executive or their associates had any personal, family, corporate or other beneficial interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

As at the end of the financial period under review, there was no person/company, other than a Director or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO as having an interest of 5% or more or short positions of the issued share capital of the Company.

EMPLOYEE INFORMATION

At the end of the financial year under review, the Group employed 135 permanent employees, including 65 employees in Hong Kong and 70 in the PRC. The Group continued to review the remuneration packages of employees with reference to the level and composition of pay, general market condition and individual performance. Staff benefits include contribution to Mandatory Provident Fund Scheme and discretionary bonus, share option scheme, medical allowance and hospitalisation scheme and housing allowance.

Directors' Report

REMUNERATION POLICY

The remuneration of the employees and the holding of offices of the Group were based on internal equity factors and external market conditions and will be reviewed from time to time.

The remuneration of the employees including Executive Directors generally consists of:

- fixed monthly salary/allowance – which is set in accordance to the duties, responsibilities, skills, experiences and market influences;
- pension – which is based on the local Mandatory Provident Fund Contribution Scheme;
- short term variable incentive – which may include discretionary cash bonus depending on the achievement of short-term corporate objectives and/or personal targets;
- long term variable incentive – which may include share options designed to encourage long-term commitment;
- other benefits in kind – which may include accommodation, company car and related services.

The remuneration of each of the Non-executive Directors and the Independent Non-executive Directors was at a fixed annual/monthly payment.

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 38 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the financial year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this Annual Report, the Company has maintained sufficient public float of not less than 25% of its shares in the hands of the public throughout the financial year under review and up to the date of this Annual Report, except during the period from 31 January 2007 (the date of the issue of 3,000,000,000 new shares by the Company to the current substantial shareholder) until 21 March 2007 (the date the completion of the placedown obligation of the substantial shareholder of the Company took place).

EVENTS AFTER BALANCE SHEET DATE

Details of the Group's significant events after balance sheet date are set out in note 40 to the financial statements.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report of this Annual Report.

Directors' Report

CONFIRMATION OF INDEPENDENCE

The Company has received a written confirmation in respect of independence from each of the current Independent Non-executive Director of the Company in compliance with rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange, and the Company still considers that each of them to be independent.

AUDITORS

The financial statements of the Company for the financial years ended 31 March 2007 and 2006 were audited by CCIF CPA Limited, and that ended 31 March 2005 and 2004 were audited by RSM Nelson Wheeler who resigned as auditors of the Company on 10 March 2006. A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint CCIF CPA Limited as auditors of the Company.

On behalf of the Board
Cheng Chee Tock Theodore
Chairman

Hong Kong, 24 July 2007

Corporate Governance Report

This corporate governance report ("CG Report") presents the corporate governance matters during the period from the beginning of the financial year commencing 1 April 2006 up to the date of the Annual Report to which this CG Report is attached ("CG Period") required to be disclosed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), in particular, the required compliance matters set out in Code on Corporate Governance Practices ("CG Code") and the Model Code for Securities Transactions by Directors of Listed Issuers ("Securities Code") contained in the Listing Rules.

CHANGES IN BOARD MEMBERS

Shortly before and subsequent to the end of the financial year under review, there were changes in the members of the Board subsequent to the change in the controlling shareholding which took place in early 2007. The changes caused replacement of all former Directors. Accordingly, most of the corporate governance matters during the financial year under review were carried out under the supervision of the former Directors.

COMPLIANCE OF AND DEVIATION FROM CG CODE AND SECURITIES CODE

Throughout the CG Period, the Securities Code had been taken as the Company's code of conduct regarding Directors' securities trading. The Board had also made specific enquiry to each current and former Director during the CG Period in respect of the due compliance of the Securities Code.

During the CG Period, the CG Code and the Securities Code had been duly complied with except for the deviations summarised as follows:

CG Code	Deviation
A.2.1 Segregated roles of chairman and CEO	• Before 9 May 2007, the Group did not maintain a CEO in the Board and the Chairman assumed the general duties of a CEO. • On 9 May 2007, a CEO was appointed to the Board.
A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election	• Throughout the financial year under review and until 9 May 2007, all Independent Non-executive Directors ("INED(s)") were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Company's Bye-laws. • With effect from 9 May 2007, all INEDs and Non-executive Directors ("NED(s)") shall retire but be eligible for re-election at every annual general meeting of the Company.
B.1.1 A remuneration committee should be set up with majority members to be INEDs	• During the period from 9 May 2007 until 31 May 2007, the Remuneration Committee was not composed of a majority of INEDs due to the resignation of all former INEDs from the Board and/or the Remuneration Committee. • On 1 June 2007, 2 new INEDs were appointed as the new members of the Remuneration Committee fulfilling the requirement.

Save for the above, the Company has been in compliance with the CG Code and the Securities Code throughout the CG Period.

Corporate Governance Report

BOARD OF DIRECTORS

Details of the composition of the Board during the CG Period is set out in the Directors' Report of the Annual Report.

The Board monitors the development and financial performance and sets strategic directions of the Group's business. Matters including material investment decisions, approving financial accounts, declaration of dividend, are reserved to the Board. Resolutions on operation matters are reserved to the Board of Executive Directors ("ED(s)"). Commencing from 9 May 2007, matters involving nomination and removal of Directors has been delegated to the Board of EDs. The management implements the Board's decisions, makes investment proposals and reports to the Board on the overall performance of the Group. Daily operations of the business are also delegated to the management.

During the CG Period, the Board had held 8 full Board meetings. Out of the above 8 full Board meetings, 1 meeting was to discuss and approve a connected transaction of the Company.

During the CG Period, the attendances of each of the Directors at the above Directors' meetings are presented as follows:

Director	Capacity	Attendance
Current		
Cheng Chee Tock Theodore	ED & Chairman	3/3
Poh Po Lian	ED	1/3
Woelm Samuel	ED & CEO	1/1
Wu Chuang John	NED	1/1
Cao Dongxin	NED	0/1
Sze Tsai Ping Michael	INED	1/1
Chow Steven	INED	1/1
Wang Shan Chuan	INED	1/1
Resigned		
Wong Ching Ping Alex	ED & Chairman	5/5
Lim Direk	ED	3/7
Chu Kar Wing	INED	7/7
Chow King Wai	INED	7/7
Tang Yiu Wing	INED	7/7

During the CG Period, none of the Directors above has or maintained any financial, business, family or other material/relevant relationship with any of the other Directors.

All the resigned Directors were not subject to a specific term of appointment except that they were subject to retirement by rotation and re-election in accordance with the Company's Bye-laws including the retirement by rotation at least once every 3 years.

The terms of the appointments of the current NEDs and INEDs are subject to retirement and re-election every year at every next annual general meeting of the Company.

Corporate Governance Report

REMUNERATION COMMITTEE

Throughout the CG Period, the Company had maintained a Remuneration Committee as required under the CG Code, except during the period from 9 May 2007 to 31 May 2007, the Remuneration Committee was not composed of a majority of INEDs following the resignation of all the former INEDs from the Board and the Remuneration Committee subsequent to the change in the controlling shareholding.

The role and function of the Remuneration Committee included the follows:

- to make recommendation to the Board on the Group's remuneration policy and structure for the remuneration of the Directors and senior management officers;
- to have the delegated responsibility to determine the specific remuneration packages of all Directors and senior management, including benefits in kind, pension rights and compensation payments;
- to review and approve the compensation payable to EDs and key senior management officers in connection with any loss or termination of their office or appointment;
- to ensure that no Director is involved in deciding his own remuneration.

During the CG Period, the Remuneration Committee had held 2 physical meetings for the purpose of considering the remuneration of the Directors and senior management officers.

The composition of the Remuneration Committee, and the respective attendances of the members are presented as follows:

Member	Date of appointment/resignation to the committee	Attendance
Current		
Cheng Chee Tock Theodore *(chairman of committee)*	appointed on 28 February 2007	1/1
Sze Tsai Ping Michael	appointed on 1 June 2007	1/1
Chow Steven	appointed on 1 June 2007	1/1
Resigned		
Wong Ching Ping Alex *(chairman of committee)*	resigned on 28 February 2007	0/1
Chu Kar Wing	resigned on 9 May 2007	1/1
Chow King Wai	resigned on 9 May 2007	1/1

The summary of the work performed by the Remuneration Committee for the CG Period included:

- endorsement to the remuneration policy for the Directors;
- review and approval of the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable.

Corporate Governance Report

DIRECTORS' REMUNERATION

The remuneration paid to and/or entitled by each of the Directors for the financial year under review is set out in note 12 to the financial statements in the Annual Report.

NOMINATION OF DIRECTORS

The Board shall be composed of members with mixed skills and experience with appropriate weights necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. Each member of the Board shall possess, be recognised for and be able to exhibit high and professional standard of a set of core criteria of competence.

The Board has not set up a nomination committee. Since 9 May 2007, the functions of nomination and removal of Directors have lain with the EDs who are responsible for assessing the qualification, experience as well as integrity of any potential candidate to be appointed as new Director.

During the CG Period, 5 meeting were held by the Directors in resolving for the acceptance of the resignation of ex-Director(s) and the appointment of new Director(s). The attendances of the Directors were as follows:

Director	Capacity	Attendance
Current		
Cheng Chee Tock Theodore	ED & Chairman	4/4
Poh Po Lian	ED	4/4
Woelm Samuel	ED & CEO	1/1
Wu Chuang John	NED	0/0
Cao Dongxin	NED	0/0
Sze Tsai Ping Michael	INED	0/0
Chow Steven	INED	0/0
Wang Shan Chuan	INED	0/0
Resigned		
Wong Ching Ping Alex	ED & Chairman	1/2
Lim Direk	ED	0/2
Chu Kar Wing	INED	1/4
Chow King Wai	INED	1/4
Tang Yiu Wing	INED	0/4

Corporate Governance Report

AUDIT COMMITTEE

Throughout the CG Period, the Company had maintained an Audit Committee as required under the Listing Rules, except during the period from 9 May 2007 to 31 May 2007, the Audit Committee was vacated following the resignation of all the former INEDs from the Board and the Audit Committee subsequent to the change in the controlling shareholding.

The major role and function of the Audit Committee included the follows:

- to consider the appointment of the external auditors, the audit fees and any questions of resignation or dismissal of the external auditors of the Group;
- to discuss with the external auditors the nature and scope of the audit;
- to review the interim and annual financial statements before submission to the Board;
- to discuss problems and reservations arising from the interim review and final audit, and any matters the external auditors may wish to discuss;
- to review the external auditors' management letters and management's response;
- to review the Group's internal control systems;
- to consider the major findings of internal investigations and management's response.

During the CG Period, the Audit Committee had held 4 physical meetings for discussing and/or approving the periodic financial results of the Group.

The composition of the Audit Committee, and the respective attendances of the members are presented as follows:

Member	Date of appointment/resignation to the committee	Attendance
Current		
Sze Tsai Ping Michael *(chairman of committee)*	appointed on 1 June 2007	1/1
Chow Steven	appointed on 1 June 2007	1/1
Wu Chuang John	appointed on 1 June 2007	1/1
Resigned		
Chu Kar Wing *(chairman of committee)*	resigned on 9 May 2007	3/3
Chow King Wai	resigned on 9 May 2007	3/3
Tang Yiu Wing	resigned on 9 May 2007	3/3

Corporate Governance Report

For the financial year ended 31 March 2007, the Audit Committee had performed the following duties:

- reviewed and commented on the half yearly and the annual financial report of the Group of the financial year under review before submission to the Board for adoption and publication;
- endorsed the policy on the engagement of external auditors for non-audit service;
- met with the auditors to discuss the financial matters of the Group that arose during the course of the audit process, and reviewed the findings, recommendations and representations of the auditors;
- reviewed and approved of the remuneration and the terms of engagement of the auditors for both audit service and non-audit service for the financial year under review;
- reviewed the Company's group policy and scope of work on internal control.

Based on the reviews and discussions performed by the Audit Committee, the Audit Committee had:

- recommended to the Board for the approval of the unaudited interim financial statements of the financial year under review before the announcement of the interim results;
- recommended to the Board for the approval of the audited financial statements of the financial year under review together with the Auditor's Report there attached, before the announcement of the annual results; and
- recommended to the Board for the proposal for the re-appointment of CCIF CPA Limited as the auditors of the Company for the ensuing year in the forthcoming annual general meeting of the Company.

AUDITORS' REMUNERATION

The auditors' remuneration for the financial year under review is presented as follows:

	HK$'000
Audit service	498
Non-audit service	
– Preparation of accountants' report for the composite document of the Company issued in relation to the general offer by Luck Continent	20
Total	518

The non-audit service arose from the requirement of accounting performance required under the Listing Rules for the corporate transaction of the Group which took place during the financial year under review.

Corporate Governance Report

ACKNOWLEDGEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the accounts of the Group. In preparing the accounts for the financial year under review, the Directors have:

- based on a going concern basis;
- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were prudent, fair and reasonable.

REVIEW OF INTERNAL CONTROL

During the financial year under review, the Directors had arranged the scope of a review over the effectiveness of the internal control system of the Group including functions of financial, operation, compliance and risk management. The Board has not been aware of any internal control deficiencies. The scope of review and group policy had been reported to/reviewed by the Audit Committee.

On behalf of the Board
Cheng Chee Tock Theodore
Chairman

Hong Kong, 24 July 2007

Independent Auditor's Report

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
C Y FOUNDATION GROUP LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of C Y Foundation Group Limited ("Company") set out on pages 24 to 76, 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 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers 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.

Independent Auditor's Report

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 consolidated 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 loss 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.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 24 July 2007

Fung Pui Cheung
Practising Certificate Number P00755

Consolidated Income Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000 (Restated)
CONTINUING OPERATIONS			
TURNOVER	6	77,634	86,887
Cost of sales		(42,962)	(41,814)
Gross profit		34,672	45,073
Other revenue	8	1,658	637
Selling and distribution costs		(33,944)	(38,780)
Administrative expenses		(25,668)	(21,358)
Other operating expenses	9	–	(84)
Written back for loan receivables		–	211
Impairment loss of goodwill arising on acquisition of subsidiaries		–	(6,433)
LOSS FROM OPERATIONS	10	(23,282)	(20,734)
Finance costs	11	(869)	(1,924)
Gain on disposal of subsidiaries		–	2,327
LOSS BEFORE INCOME TAX		(24,151)	(20,331)
Income tax	14	–	–
LOSS FROM CONTINUING OPERATIONS		(24,151)	(20,331)
DISCONTINUED OPERATION			
Loss from discontinued operation	15	(16,324)	(2,456)
LOSS FOR THE YEAR	13	(40,475)	(22,787)
LOSS PER SHARE	16		
Basic			
– Continuing operations		(4.16) cents	(48.23) cents
– Discontinued operation		(2.81) cents	(5.83) cents
		(6.97) cents	(54.06) cents
Diluted		N/A	N/A

Consolidated Balance Sheet

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	17	730	2,534
Interests in an associate	20	–	–
Available-for-sale financial assets	21	–	2,807
		730	5,341
Current assets			
Inventories	22	17,206	38,073
Trade and other receivables	23	15,231	13,535
Held-for-trading investments	24	–	44
Pledged bank deposits	25	497	1,736
Bank fiduciary deposit	26	328,276	–
Cash and cash equivalents	27	460,573	14,621
		821,783	68,009
Current liabilities			
Trade and other payables	28	745,830	19,029
Short term loan, secured	29	25,380	9,443
		771,210	28,472
Net current assets		50,573	39,537
Total assets less current liabilities		51,303	44,878
Non-current liabilities			
Convertible note	30	3,016	–
Provision for long service payments	31	959	959
		3,975	959
NET ASSETS		47,328	43,919
Capital and reserves			
Share capital	32	3,087	1,748
Reserves		44,241	42,171
TOTAL EQUITY		47,328	43,919

CHENG Chee Tock Theodore
Director

WOELM Samuel
Director

Balance Sheet

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current asset			
Interests in subsidiaries	19	–	–
Current assets			
Other receivables		1,217	98
Bank fiduciary deposit	26	328,276	–
Cash and cash equivalents	27	417,469	32
		746,962	130
Current liability			
Other payables	28	726,884	1,436
Net current assets/(liabilities)		20,078	(1,306)
Total assets less current liabilities/(Excess of current liabilities over total assets)		20,078	(1,306)
Non-current liability			
Convertible note	30	3,016	–
NET ASSETS/(LIABILITIES)		17,062	(1,306)
Capital and reserves			
Share capital	32	3,087	1,748
Reserves	33	13,975	(3,054)
TOTAL EQUITY		17,062	(1,306)

CHENG Chee Tock Theodore
Director

WOELM Samuel
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Share capital HK$'000	Share premium HK$'000	Fair value reserve HK$'000 (Note (a))	Capital reserve HK$'000 (Note 30)	Translation reserve HK$'000	Capital redemption reserve HK$'000	Reserve funds HK$'000 (Note (b))	Accum-ulated losses HK$'000	Total HK$'000
As at 1 April 2005	437	681,589	–	–	9	1,190	135	(633,155)	50,205
Reserve realised upon disposal of subsidiaries	–	–	–	–	(9)	–	–	–	(9)
Change in fair value of available-for-sale financial assets	–	–	(12,845)	–	–	–	–	–	(12,845)
Open offer *(Note 32(a))*	1,311	28,044	–	–	–	–	–	–	29,355
Loss for the year	–	–	–	–	–	–	–	(22,787)	(22,787)
As at 31 March 2006 and 1 April 2006	1,748	709,633	(12,845)	–	–	1,190	135	(655,942)	43,919
Exchange realignment	–	–	–	–	47	–	–	–	47
Capital and share premium reduction *(Note 32(b))*	(1,661)	(709,633)	–	–	–	–	–	711,294	–
Issue of new shares *(Note 32(d))*	3,000	27,000	–	–	–	–	–	–	30,000
Equity component of convertible note issued *(Note 30)*	–	–	–	992	–	–	–	–	992
Reserve realised upon disposal of available-for-sale financial assets	–	–	12,845	–	–	–	–	–	12,845
Loss for the year	–	–	–	–	–	–	–	(40,475)	(40,475)
As at 31 March 2007	3,087	27,000	–	992	47	1,190	135	14,877	47,328

Notes:

(a) The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the balance sheet date and is dealt with in accordance with the accounting policy set out in note 3(f).

(b) Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), a portion of the profit of the Group's subsidiary in the PRC has been transferred to reserve funds which are restricted as to use.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	2007 *HK$'000*	2006 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from continuing and discontinued operations before income tax	(40,475)	(22,787)
Adjustments for:		
Depreciation	2,007	1,696
Interest income	(786)	(38)
Interest expenses	859	1,929
Gain on disposal of subsidiaries	–	(2,400)
Loss on disposal of property, plant and equipment	474	47
Impairment loss of goodwill arising on acquisition of subsidiaries	–	6,433
Written back for loan receivables	–	(211)
(Reversal of)/Impairment loss for bad and doubtful debts, net	(262)	84
Write down of inventories to net realisable value	2,967	–
Write back of provision for slow-moving inventories	–	(5,195)
Unrealised gain on held-for-trading investments	–	(13)
Loss on disposal of available-for-sale financial assets	13,288	–
Imputed interest on convertible note	8	–
Operating loss before changes in working capital	(21,920)	(20,455)
Decrease in inventories	17,900	7,850
Increase in trade and other receivables	(1,680)	(1,549)
Decrease in other investments	–	1,134
Decrease/(Increase) in held-for-trading investments	44	(31)
Increase in trade and other payables	726,801	4,369
Cash generated from/(used in) operations	721,145	(8,682)
Interest paid	(859)	(2,144)
Net cash generated from/(used in) operating activities	720,286	(10,826)

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		786	38
Purchase of property, plant and equipment		(802)	(2,847)
Proceeds from disposal of property, plant and equipment		50	–
Proceeds from disposal of a subsidiary attributable to discontinued operation	36(a)	321	–
Proceeds from disposal of subsidiaries	36(b)	–	598
Acquisition of available-for-sale financial assets		(1,566)	(15,653)
Proceeds from disposal of available-for-sale financial assets		3,930	–
Decrease in loan receivables		–	706
Decrease in pledged bank deposits		1,239	989
Increase in bank fiduciary deposit		(328,276)	–
Net cash used in investing activities		(324,318)	(16,169)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares		30,000	–
Proceeds from open offer, net of expenses		–	29,355
Proceeds from issue of convertible note		4,000	–
New short term loan		18,060	17,650
Repayment of short term loan		(2,123)	(24,641)
Net cash generated from financing activities		49,937	22,364
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		445,905	(4,631)
CASH AND CASH EQUIVALENTS AS AT 1 APRIL		14,621	19,252
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		47	–
CASH AND CASH EQUIVALENTS AS AT 31 MARCH		460,573	14,621
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at bank and in hand		147,272	14,621
Short-term bank deposit		313,301	–
		460,573	14,621

Notes to the Financial Statements

For the year ended 31 March 2007

1. GENERAL

The Company was incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Its ultimate holding company is Luck Continent Limited ("Luck Continent") (incorporated in the British Virgin Islands) at 31 March 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

The principal activities of the Company and its subsidiaries ("Group") are investment holding, apparel trading and strategic investments. The Group was also engaged in securities trading, which was discontinued in the current year (Note 15).

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC)-Int 12	Service Concession Arrangements[7]

1	Effective for annual periods beginning on or after	1 January 2007
2	Effective for annual periods beginning on or after	1 January 2009
3	Effective for annual periods beginning on or after	1 May 2006
4	Effective for annual periods beginning on or after	1 June 2006
5	Effective for annual periods beginning on or after	1 November 2006
6	Effective for annual periods beginning on or after	1 March 2007
7	Effective for annual periods beginning on or after	1 January 2008

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, except for financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

All significant inter-company transactions, balances and unrealised gains on transactions within the Group are eliminated on consolidation.

(b) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5. Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

A subsidiary is a company controlled by the Company. A subsidiary is considered to be controlled if the Company has the power directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision for impairment loss, if necessary. The results of subsidiaries are accounted for by the Company to the extent of dividends received and receivable during the year.

(d) Associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results, assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in consolidated income statement.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

(f) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted in respect of each category of financial assets are set out below.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial instruments *(Continued)*

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, loan receivable and other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement. Any impairment losses on available-for-sale financial assets are recognised in income statement. Impairment losses on available-for-sale equity investments will not reverse in income statement in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial instruments *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables, accruals and deposits received and short term loan are subsequently measured at amortised cost, using the effective interest method.

Convertible notes

Convertible notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (capital reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in capital reserve until the conversion option is exercised (in which case the balance stated in capital reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in capital reserve will be released to the retained profits. No gain or loss is recognised in income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible notes using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

For financial liabilities, they are removed from the Group's balance sheet when, and only when, they are extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in income statement.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	10% – 50% or over the remaining unexpired terms of the leases whichever is shorter
Furniture, fixtures and equipment	$12\frac{1}{2}\%$ – $33\frac{1}{3}\%$

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Company.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement in the year in which the asset is derecognised.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value is determined on the basis of anticipated sales proceeds less estimated cost of completion and estimated selling expenses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(k) Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(l) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Retirement benefits costs

Payments to the defined contribution retirement benefit plans are charged as an expense as they fall due.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Employee benefits *(Continued)*

(iii) Share-based payment expenses

The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense in the income statement on a straight-line basis over the vesting period, with a corresponding increase in equity (capital reserve).

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity (capital reserve) in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction cost, are credited to share capital and share premium accounts when the share options are exercised. When the share options are still not exercised at the expiry date, the amount previously recognised in capital reserve will be transferred to retained profits.

(m) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 31 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Income tax *(Continued)*

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(n) Provision and contingent liabilities

A provision is recognised when there is a present obligation, legal or constructive, as a result of past event and it is probable (i.e. more likely than not) 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.

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

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related tax.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Royalty income is recognised on a time proportion basis in accordance with the terms and condition of the royalty agreement.

Dividend income is recognised when the shareholders' right to receive payment has been established.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such exchange differences are recognised in consolidated income statement in the period in which the foreign operation is disposed of.

(q) Borrowing costs

Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Related party

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

Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are controlled or under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

4. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and foreign exchange risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and bank fiduciary deposit. At the balance sheet date, the Group had a certain concentration of credit risk as approximately 96% (2006: Nil) of the total trade and other receivables was due from a foreign bank as detailed in note 26 to the financial statements. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet.

(b) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term. Also, the directors are of the opinion that adequate financial support is available from the ultimate holding company to meet the Group's liabilities as they fall due.

(c) Interest rate risk

The Group's exposure to changes in interest rate relates primarily to the Group's cash and cash equivalents, bank deposits and short term loan. The Group does not use financial derivatives to hedge against the interest rate risk. The Group monitors the interest rate risk exposure on a continuous basis and adjust the portfolio of borrowings where necessary.

(d) Foreign exchange risk

The Group mainly operates in Hong Kong and the PRC with most of the transactions settled in Hong Kong dollars and Renminbi ("RMB"). Also, certain receivables and deposits with bank of the Group are denominated in foreign currencies which expose it to foreign currency risk. The Group did not have a foreign currency hedging policy as at the balance sheet date. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(e) Fair value

All financial instruments are carried at amounts not materially different from their fair values as at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 March 2007

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Trade receivables

The aged debt profile of trade receivables is reviewed on a regular basis to ensure that the trade receivables are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade receivables are called into doubts, specific impairment loss for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivables and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect the Group's results of operations.

(b) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(c) Inventories

Inventories are measured at lower of cost and net realisable value. The Group reviews the carrying amount of inventories at each balance sheet date, and makes allowance for inventory items identified, if any, to be carried at lower recoverable value through estimation of the expected selling prices under the current market conditions.

6. TURNOVER

	2007 *HK$'000*	2006 *HK$'000* (Restated)
Continuing operations		
Apparel trading	**77,634**	86,887
Discontinued operation *(Note 15)*		
Securities trading	**55**	5,004
	77,689	91,891

Notes to the Financial Statements

For the year ended 31 March 2007

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group comprised the following main business segments:

(a) apparel trading
(b) strategic investments and others
(c) securities trading

Further details of the discontinued operation under the securities trading segment are set out in note 15 to the financial statements.

There were no significant inter-segment sales and transfers during the current and prior years.

An analysis of the Group's turnover, contribution to loss from operations for the years ended 31 March 2007 and 2006 and certain assets, liabilities and expenditure information regarding business segments are as follows:

	Continuing operations			Discontinued operation	
	Apparel trading	Strategic investments and others	Sub-total	Securities trading	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 March 2007					
Turnover	77,634	–	77,634	55	77,689
Segment results	(11,628)	–	(11,628)	(3,036)	(14,664)
Interest income			786		786
Group overheads			(12,440)		(12,440)
Loss from operations			(23,282)		(26,318)
Finance costs			(869)		(869)
Loss on disposal of available-for-sale financial assets	–	–	–	(13,288)	(13,288)
Loss before income tax			(24,151)		(40,475)
Income tax			–		–
Loss from continuing operations			(24,151)		
Loss for the year					(40,475)

Notes to the Financial Statements

For the year ended 31 March 2007

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

	Continuing operations		Discontinued operation	
	Apparel trading *HK$'000*	Strategic investments and others *HK$'000*	Securities trading *HK$'000*	Consolidated *HK$'000*
As at 31 March 2007				
ASSETS				
Segment assets	57,523	321	–	57,844
Unallocated corporate assets				764,669
Consolidated total assets				822,513
LIABILITIES				
Segment liabilities	16,894	–	–	16,894
Unallocated corporate liabilities				758,291
Consolidated total liabilities				775,185
OTHER INFORMATION				
Capital expenditure	780	5	17	802
Depreciation	1,972	–	35	2,007

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

	Continuing operations			Discontinued operation	
	Apparel trading *HK$'000*	Strategic investments and others *HK$'000*	Sub-total *HK$'000*	Securities trading *HK$'000*	Consolidated *HK$'000*
For the year ended 31 March 2006 (Restated)					
Turnover	86,887	–	86,887	5,004	91,891
Segment results	(11,735)	–	(11,735)	(2,524)	(14,259)
Interest income			38		38
Group overheads			(2,815)		(2,815)
Written back for loan receivables	–	211	211	–	211
Impairment loss of goodwill arising on acquisition of subsidiaries	(6,433)	–	(6,433)	–	(6,433)
Loss from operations			(20,734)		(23,258)
Finance costs			(1,924)	(5)	(1,929)
Gain on disposal of subsidiaries	–	2,327	2,327	73	2,400
Loss before income tax			(20,331)		(22,787)
Income tax			–		–
Loss from continuing operations			(20,331)		
Loss for the year					(22,787)

Notes to the Financial Statements

For the year ended 31 March 2007

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

	Continuing operations		Discontinued operation	
	Apparel trading *HK$'000*	Strategic investments and others *HK$'000*	Securities trading *HK$'000*	Consolidated *HK$'000*
As at 31 March 2006 (Restated)				
ASSETS				
Segment assets	68,820	–	4,401	73,221
Interests in an associate	–	–	–	–
Unallocated corporate assets				129
Consolidated total assets				73,350
LIABILITIES				
Segment liabilities	15,596	–	2	15,598
Unallocated corporate liabilities				13,833
Consolidated total liabilities				29,431
OTHER INFORMATION				
Capital expenditure	2,751	–	96	2,847
Impairment loss of goodwill arising on acquisition of subsidiaries	6,433	–	–	6,433
Depreciation	1,679	–	17	1,696
Gain on disposal of subsidiaries	–	2,327	73	2,400

Notes to the Financial Statements

For the year ended 31 March 2007

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

The Group's operations are principally located in the PRC and Hong Kong.

An analysis of the Group's turnover and contribution to loss from operations by geographical market, irrespective of the origin of the goods/services is as follows:

Turnover by geographical market

	2007			2006		
	Continuing operations *HK$'000*	Discontinued operation *HK$'000*	Consolidated *HK$'000*	Continuing operations *HK$'000* (Restated)	Discontinued operation *HK$'000* (Restated)	Consolidated *HK$'000* (Restated)
The PRC	23,574	–	23,574	27,819	–	27,819
Hong Kong	54,060	55	54,115	59,068	5,004	64,072
	77,634	55	77,689	86,887	5,004	91,891

Contribution to loss from operations

	2007			2006		
	Continuing operations *HK$'000*	Discontinued operation *HK$'000*	Consolidated *HK$'000*	Continuing operations HK$'000 (Restated)	Discontinued operation HK$'000 (Restated)	Consolidated HK$'000 (Restated)
The PRC	9,477	–	9,477	2,638	–	2,638
Hong Kong	(21,105)	(3,036)	(24,141)	(14,373)	(2,524)	(16,897)
	(11,628)	(3,036)	(14,664)	(11,735)	(2,524)	(14,259)
Interest income			786			38
Group overheads			(12,440)			(2,815)
Written back for loan receivables			–			211
Impairment loss of goodwill arising on acquisition of subsidiaries			–			(6,433)
Loss from operations			(26,318)			(23,258)

Notes to the Financial Statements

For the year ended 31 March 2007

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments *(Continued)*

An analysis of the carrying amount of segment assets and additions to property, plant and equipment, by geographical areas is as follows:

Carrying amount of segment assets

	2007			2006		
	Continuing operations *HK$'000*	Discontinued operation *HK$'000*	Consolidated *HK$'000*	Continuing operations HK$'000 (Restated)	Discontinued operation HK$'000 (Restated)	Consolidated HK$'000 (Restated)
The PRC	24,649	–	24,649	9,932	–	9,932
Hong Kong	797,864	–	797,864	59,017	4,401	63,418
	822,513	–	822,513	68,949	4,401	73,350

Additions to property, plant and equipment

	2007			2006		
	Continuing operations *HK$'000*	Discontinued operation *HK$'000*	Consolidated *HK$'000*	Continuing operations HK$'000 (Restated)	Discontinued operation HK$'000 (Restated)	Consolidated HK$'000 (Restated)
The PRC	774	–	774	1,180	–	1,180
Hong Kong	11	17	28	1,571	96	1,667
	785	17	802	2,751	96	2,847

Notes to the Financial Statements

For the year ended 31 March 2007

8. OTHER REVENUE

	2007 *HK$'000*	2006 *HK$'000* (Restated)
Continuing operations		
Interest income	**786**	38
Royalty income	**–**	205
Sundry income	**368**	394
Exchange gain	**242**	–
Reversal of impairment loss for bad and doubtful debts, net	**262**	–
	1,658	637
Discontinued operation *(Note 15)*		
Dividend from held-for-trading investments	**–**	16
Unrealised gain on held-for-trading investments	**–**	13
	–	29
	1,658	666

9. OTHER OPERATING EXPENSES

	2007 *HK$'000*	2006 *HK$'000*
Continuing operations		
Impairment loss for bad and doubtful debts, net	**–**	84

Notes to the Financial Statements

For the year ended 31 March 2007

10. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging/(crediting):

	2007 *HK$'000*	2006 *HK$'000* (Restated)
Continuing operations		
Cost of sales		
Apparel trading	39,995	41,814
Write down of inventories to net realisable value	2,967	–
	42,962	41,814
Auditors' remuneration		
Audit fee		
Current year	503	450
(Over)/Under provision for prior years	(5)	6
	498	456
Non-audit fee	20	–
	518	456
Depreciation	1,972	1,679
Loss on disposal of property, plant and equipment	474	47
Operating lease rentals in respect of land and buildings	6,666	6,618
Royalty expenses	3,272	3,377
Staff salaries and other benefits	13,792	17,432
Staff retirement benefits scheme contributions, net of forfeited contributions of HK$Nil (2006: HK$Nil)	786	1,603
Total staff costs including directors' emoluments	14,578	19,035
Write back of provision for slow-moving inventories	–	(5,195)
Discontinued operation		
Cost of sales		
Securities trading	59	4,844
Depreciation	35	17
Operating lease rentals in respect of land and buildings	773	448
Staff salaries and other benefits	734	737

Notes to the Financial Statements

For the year ended 31 March 2007

11. FINANCE COSTS

	2007 HK$'000	2006 HK$'000 (Restated)
Continuing operations		
Interests on short term loan wholly repayable within 5 years	859	1,924
Imputed interest on convertible note *(Note 30)*	8	–
Other finance charges	2	–
	869	1,924
Discontinued operation *(Note 15)*		
Interests on short term loan wholly repayable within 5 years	–	5
	869	1,929

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) Directors' emoluments

The remuneration of every director of the Company for the years ended 31 March 2007 and 2006, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is analysed as follows:

	Directors' fee		Salaries and other allowances		Share-based payment		Retirement benefits scheme contribution		Total	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Executive directors										
Wong Ching Ping Alex	55	60	562	558	–	–	–	–	617	618
Lim Direk	58	60	–	–	–	–	–	–	58	60
Independent non-executive directors										
Chu Kar Wing	60	60	–	–	–	–	–	–	60	60
Chow King Wai	60	60	–	–	–	–	–	–	60	60
Tang Yiu Wing	60	60	–	–	–	–	–	–	60	60
Non-executive director										
Wan Choi Ha	–	57	–	–	–	–	–	–	–	57
	293	357	562	558	–	–	–	–	855	915

12. DIRECTORS' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

During the year, no emolument or incentive payments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2006: Nil). None of the directors has waived any emoluments during the year.

(b) Employees' emoluments

The five highest paid individuals of the Group include one (2006: one) director, details of whose emoluments are set out in note (a) above. The total amount of the emoluments of the remaining four (2006: four) individuals during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other allowances	**2,610**	2,053
Retirement benefits scheme contributions	**48**	45
Share-based payment	**–**	–
	2,658	2,098

The emoluments of the remaining four (2006: four) individuals fell within the following band:

	Number of individuals	
	2007	2006
Emolument band		
Nil – HK$1,000,000	**4**	4

During the year, no emolument or incentive payments were paid or payable to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2006: Nil).

13. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of HK$12,624,000 (2006: HK$72,386,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the year ended 31 March 2007

14. INCOME TAX

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profits for the current and prior years.

Pursuant to a notice dated 7 March 2005 issued by Shanghai Local Tax Bureau Xu Hui Branch, 上海歐裝貿易有限公司 ("上海歐裝"), a subsidiary of the Group, is exempted from PRC enterprise income tax ("EIT") for the period from 1 May 2004 to 31 December 2006. No provision has been made for上海歐裝for the three months ended 31 March 2007 as 上海歐裝 sustained a loss for taxation purpose during the period.

No provision for EIT has been made for other subsidiaries operating in the PRC as they did not generate any assessable profits during the year.

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

	2007 *HK$'000*	2006 *HK$'000*
Loss from continuing and discontinued operations before income tax	**(40,475)**	(22,787)
Tax credit at domestic income tax rate of 17.5% (2006: 17.5%)	**(7,083)**	(3,988)
Tax effect of estimated tax losses not recognised	**2,905**	3,308
Tax effect of income not taxable for tax purpose	**(28)**	(9,640)
Tax effect of expenses not deductible for tax purpose	**4,206**	10,320
Income tax	**–**	–

15. DISCONTINUED OPERATION

On 21 March 2007, the Group disposed of the entire equity interest in a subsidiary, Gold Venture Corporation Limited ("Gold Venture"), and the amount due from Gold Venture to the Group at a total consideration of approximately HK$321,000. Gold Venture was principally engaged in securities trading.

The loss from the discontinued operation is analysed as follows:

	From 1 April 2006 to 21 March 2007 *HK$'000*	For the year ended 31 March 2006 *HK$'000*
Gain on disposal *(Note 36(a))*	**–**	–
Loss from operation of Gold Venture	**(16,324)**	(2,456)
	(16,324)	(2,456)

Notes to the Financial Statements

For the year ended 31 March 2007

15. DISCONTINUED OPERATION *(Continued)*

The results of Gold Venture for the period from 1 April 2006 to 21 March 2007 are as follows:

	From 1 April 2006 to 21 March 2007 *HK$'000*	For the year ended 31 March 2006 *HK$'000*
Turnover	55	5,004
Cost of sales	(59)	(4,844)
Gross (loss)/profit	(4)	160
Other revenue	–	29
Administrative expenses	(3,032)	(2,713)
Loss from operation	(3,036)	(2,524)
Finance costs	–	(5)
Gain on disposal of a subsidiary	–	73
Loss on disposal of available-for-sale financial assets	(13,288)	–
Loss before income tax	(16,324)	(2,456)
Income tax	–	–
Loss for the period/year	(16,324)	(2,456)

During the period/year, Gold Venture paid the Group's net operating cash flows by HK$3,443,000 (2006: contributed HK$14,961,000) and contributed HK$2,348,000 (2006: paid HK$15,733,000) in respect of investing activities.

No tax charge arose on the disposal of Gold Venture.

The carrying amounts of the assets and liabilities of Gold Venture at the date of disposal have been disclosed in note 36(a).

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For the year ended 31 March 2007

16. LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share is based on the following data:

Weighted average number of ordinary shares

	2007	2006
	'000	*'000*
		(Restated)
Issued ordinary shares at 1 April	**1,748,433**	437,108
Effect of issue of shares by open offer *(Note 32(a))*	**–**	405,972
Effect of share consolidation *(Note 32(c))*	**(1,661,011)**	(800,926)
Effect of issue of new shares *(Note 32(d))*	**493,150**	–
Weighted average number of ordinary shares at 31 March	**580,572**	42,154

(i) *From continuing and discontinued operations*

The calculation of basic loss per share is based on the loss of HK$40,475,000 (2006: HK$22,787,000) and the weighted average number of 580,572,000 ordinary shares (2006: 42,154,000 ordinary shares (restated)) in issue during the year.

(ii) *From continuing operations*

The calculation of basic loss per share is based on the loss of HK$24,151,000 (2006: HK$20,331,000 (restated)) and the weighted average number of 580,572,000 ordinary shares (2006: 42,154,000 ordinary shares (restated)) in issue during the year.

(iii) *From discontinued operation*

The calculation of basic loss per share is based on the loss of HK$16,324,000 (2006: HK$2,456,000 (restated)) and the weighted average number of 580,572,000 ordinary shares (2006: 42,154,000 ordinary shares (restated)) in issue during the year.

(b) Diluted loss per share

Diluted loss per share for the year ended 31 March 2007 has not been disclosed as the potential ordinary shares outstanding during the year had an anti-dilutive effect on the basic loss for the year. Diluted loss per share was not presented for the year ended 31 March 2006 as there were no dilutive potential shares in issue during the prior year.

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For the year ended 31 March 2007

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements, furniture, fixtures and equipment *HK$'000*
Cost	
As at 1 April 2005	2,783
Additions	2,847
Disposals	(332)
As at 31 March 2006 and 1 April 2006	5,298
Additions	802
Disposal of a subsidiary attributable to discontinued operation *(Note 36(a))*	(117)
Disposals	(957)
As at 31 March 2007	5,026
Accumulated depreciation	
As at 1 April 2005	1,353
Charge for the year	1,696
Disposals	(285)
As at 31 March 2006 and 1 April 2006	2,764
Charge for the year	2,007
Disposal of a subsidiary attributable to discontinued operation *(Note 36(a))*	(42)
Disposals	(433)
As at 31 March 2007	4,296
Net book value	
As at 31 March 2007	730
As at 31 March 2006	2,534

18. GOODWILL

	Group
	HK$'000
Cost	
As at 1 April 2005	9,215
Elimination of aggregate amortisation upon application of HKFRS 3	(2,782)
As at 31 March 2006, 1 April 2006 and 31 March 2007	6,433
Aggregate amortisation and impairment losses	
As at 1 April 2005	2,782
Elimination of aggregate amortisation upon application of HKFRS 3	(2,782)
Impairment loss	6,433
As at 31 March 2006, 1 April 2006 and 31 March 2007	6,433
Net book value	
As at 31 March 2007	–
As at 31 March 2006	–

The goodwill arose on the acquisition of Hamlet Profits Limited ("Hamlet Profits") and its subsidiaries, which are principally engaged in apparel trading. The receivable amounts for the cash generating units given above were determined based on value-in-use estimation of the cash generating units by the directors of the Company. The Group fully impaired the goodwill during the year ended 31 March 2006 as the directors assessed the carrying value of the goodwill based on results projections to determine the estimated goodwill recoverable amount at a discount rate of 9%. In view of the poor financial performance and unfavourable business prospect of Hamlet Profits and its subsidiaries, the directors considered that it was appropriate to provide full impairment for the goodwill generated from the acquisition.

19. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	**109,705**	109,055
	109,705	109,055
Less: Impairment losses	**(109,705)**	(109,055)
	–	–

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, no demand for repayment will be made by the Company in the next twelve months. Accordingly, the amounts are shown as non-current.

In view of the poor financial performance of the subsidiaries, the directors considered that it was appropriate to make full impairment for the investment costs and amounts due from the subsidiaries.

Particulars of the principal subsidiaries of the Company as at the balance sheet dates are as follows:

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group 2007	2006	Principal activities
Interests held directly:					
Highsharp Investments Limited	British Virgin Islands/ Hong Kong	US$1	**100%**	–	Investment holding
Value Place Investments Limited	British Virgin Islands/ Hong Kong	US$1	**100%**	100%	Investment holding
Interests held indirectly:					
Century Lead Limited	Hong Kong	HK$2	**100%**	100%	Apparel trading
CYC Investments Limited	Hong Kong	HK$100	**100%**	–	Investment holding
Euro Fashion Trading Company Limited ("Euro Fashion")	Hong Kong	HK$1	**100%**	100%	Apparel trading

Notes to the Financial Statements

For the year ended 31 March 2007

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Group 2007	2006	Principal activities
Full Ahead Limited ("Full Ahead")	British Virgin Islands/ Hong Kong	US$1	**100%**	100%	Investment holding
Gainwell Corporation Limited	Hong Kong	HK$2	**100%**	100%	Apparel trading
Gold Stock Resources Limited	Samoa/ the PRC	US$1	**100%**	100%	Apparel trading
Gold Venture	Hong Kong	HK$2	**–**	100%	Securities trading and management services
Goldgain Services Limited	Samoa/ the PRC	US$1	**100%**	100%	Apparel trading
Hamlet Profits	British Virgin Islands/ Hong Kong	US$1	**100%**	100%	Investment holding
Welloff Group Limited	British Virgin Islands	US$1	**100%**	100%	Apparel trading
廣州歐裝貿易有限公司	The PRC *	RMB500,000	**100%**	100%	Apparel trading
上海歐裝	The PRC *	RMB500,000	**100%**	100%	Apparel trading
海南寶瀛實業有限公司	The PRC **	US$6,000,000	**100%**	–	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

* private limited liability company

** wholly foreign owned enterprise

Notes to the Financial Statements

For the year ended 31 March 2007

20. INTERESTS IN AN ASSOCIATE

	Group 2007 HK$'000	Group 2006 HK$'000
Share of net liabilities	–	(212)
Goodwill	–	212
	–	–

Particulars of the associate held by the Group as at the balance sheet dates are as follows:

Name	Place of incorporation or registration/ operations	Business structure	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group 2007	Percentage of equity attributable to the Group 2006	Principal activities
Global Institute, Inc ("Global Institute")	British Virgin Islands/ Hong Kong	Corporate	US$50,000	–	49%	Investment holding (which together with its wholly-owned subsidiary, is engaged in the business of co-ordinating academic training programs)

Note: Under the equity method of accounting, the Group's shares of losses of its associate is discontinued when the carrying amount of the interests in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate. The Group's share of certain associate's losses exceeded its carrying amount of the interests in an associate and accordingly, the losses of the associate were not equity accounted for.

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For the year ended 31 March 2007

20. INTERESTS IN AN ASSOCIATE *(Continued)*

The movements of goodwill arising on acquisition of an associate are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Cost		
As at 1 April	**53,725**	53,725
Disposal	**(53,725)**	–
As at 31 March	**–**	53,725
Aggregate amortisation and impairment losses		
As at 1 April	**53,513**	53,513
Disposal	**(53,513)**	–
As at 31 March	**–**	53,513
Net book value		
As at 31 March	**–**	212

On 31 March 2007, the Group disposed of the Group's entire interest in Global Institute to an independent third party for a consideration of HK$8, resulting in a gain on disposal of HK$8 which represented the difference between the net proceeds of HK$8 and the attributable share of net assets disposed of HK$Nil.

The Group's share of loss of Global Institute for the year, amounted to HK$36,000.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Listed equity securities in Hong Kong	**–**	2,807
Market value of listed securities	**–**	2,807

Notes to the Financial Statements

For the year ended 31 March 2007

22. INVENTORIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Merchandise goods for sales		
Apparel	**17,206**	38,073

23. TRADE AND OTHER RECEIVABLES

	Group	
	2007	2006
	HK$'000	*HK$'000*
		(Restated)
Trade receivables	**18,249**	19,967
Less: Provision for impairment loss	**(11,427)**	(11,689)
	6,822	8,278
Deposits and prepayments	**5,288**	5,053
Other receivables	**7,421**	21,304
Less: Provision for impairment loss	**(4,300)**	(21,100)
	3,121	204
	15,231	13,535

An ageing analysis of trade receivables, net of impairment losses for bad and doubtful debts, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 60 days	**6,820**	7,824
61 – 90 days	**–**	58
91 – 180 days	**–**	137
181 – 365 days	**–**	116
Over 1 year	**2**	143
	6,822	8,278

The Group allows a credit period normally ranging from cash on delivery to 60 days (2006: 120 days) to its trade customers.

Notes to the Financial Statements

For the year ended 31 March 2007

24. HELD-FOR-TRADING INVESTMENTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Listed equity securities in Hong Kong	**–**	44
Market value of listed securities	**–**	44

25. PLEDGED BANK DEPOSITS

The amounts were pledged to banks for banking facilities granted to the Group.

26. BANK FIDUCIARY DEPOSIT

	Group and Company	
	2007	2006
	HK$'000	*HK$'000*
Balance as at year end	**328,276**	–

The Group's bank fiduciary deposit at 31 March 2007 represents the cash deposit in LGT Bank in Liechtenstein Ltd ("LGT Bank"). According to the agreement between the Company and LGT Bank, the Company instructed LGT Bank to place capital investments in the form of money market investments in the name of LGT Bank by using the fiduciary deposit, but for the account and exclusive risk of the Company with foreign banks. LGT Bank shall act at its discretion and act as the agent of the Company.

The first time a placement is made it shall be executed according to instructions received from the Company. Subsequently, LGT Bank shall be empowered to extend/renew and increase/reduce the sum of the investment with the same or another foreign bank at conditions it shall stipulate, provided it does not receive contrary instructions from the Company not later than two working days before the deposit falls due. Such fiduciary placements may only be made up to the limit of the Company's own funds. In no circumstances may the LGT Bank, in making such discretionary placements, make use of credit facilities available to the Company. All risks of any type connected with such placements shall be exclusively for the account of the Company.

On 27 March 2007, the Company deposited USD42,000,000 in LGT Bank as fiduciary deposit and LGT Bank made a placement with a foreign bank Rabobank Nederland Utrecht (the credit rating of Rabobank Nederland Utrecht is estimated to be AAA, guided by the Standard and Poor's rating methodology). The balance is stated at amortised cost, unsecured, interest bearing at 5.25% per annum and due on 27 April 2007. Subsequent to the balance sheet date on 27 April 2007, the amount was refunded by way of renewing the sum of the investment with another foreign bank, BayernLB Muenchen (the credit rating of BayernLB Muenchen is estimated to be A, guided by the Standard and Poor's rating methodology). As at 24 July 2007, the fiduciary deposit is still kept in LGT Bank.

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For the year ended 31 March 2007

27. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**147,272**	14,621	**104,168**	32
Short-term bank deposit	**313,301**	–	**313,301**	–
	460,573	14,621	**417,469**	32

Included in cash and cash equivalents in the balance sheet are mainly the following amounts denominated in a currency other than the functional currency of the Group to which they relate:

	Group	
	2007	2006
	'000	*'000*
Renminbi	**RMB20,136**	RMB3,482
United States Dollars	**USD50,107**	USD–

28. TRADE AND OTHER PAYABLES

		Group		Company	
		2007	2006	**2007**	2006
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	*(a)*	**1,427**	2,791	**–**	–
Bills payable		**336**	853	**–**	–
Deposits received		**4,539**	2,722	**579**	–
Accruals		**7,122**	2,302	**6,172**	1,046
Other payables		**3,992**	4,872	**390**	390
Value added tax payables		**8,671**	5,489	**–**	–
Due to the ultimate holding company	*(b)*	**719,743**	–	**719,743**	–
		745,830	19,029	**726,884**	1,436

Notes to the Financial Statements

For the year ended 31 March 2007

28. TRADE AND OTHER PAYABLES *(Continued)*

(a) An ageing analysis of trade payables is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 60 days	**183**	1,505
61 – 90 days	**–**	38
91 – 180 days	**–**	3
181 – 365 days	**–**	1
Over 1 year	**1,244**	1,244
	1,427	2,791

(b) The balance is unsecured, interest free and repayable on demand. Subsequent to the balance sheet date on 25 May 2007, the balance was settled by the issue of 600,000,000 shares in the Company at HK$1.28 each to the ultimate holding company (Note 40(a)).

(c) Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the Group and the Company to which they relate.

	Group	
	2007	2006
	'000	*'000*
Renminbi	**RMB12,425**	RMB8,107
Unite States Dollars	**USD92,085**	USD–

29. SHORT TERM LOAN, SECURED

	Group	
	2007	2006
	HK$'000	*HK$'000*
Secured loan	**25,380**	9,443

As at 31 March 2007, the loan is interest bearing at 2% (2006: 1%) per annum below (2006: over) the bank's best lending rate. The loan is secured by a pledge of all the issued share capital in and the shareholder loan due from Full Ahead, a wholly-owned subsidiary of the Company. Full Ahead is the holding company of the subsidiaries which are mainly engaged in apparel trading.

On 25 October 2006, the short term loan was further extended to 31 March 2007. Subsequent to the balance sheet date on 13 July 2007, the amount has been fully settled.

30. CONVERTIBLE NOTE

On 29 January 2007, a resolution was passed at a special general meeting of the Company pursuant to which a zero-coupon convertible note in an aggregate principal amount of HK$24,000,000 ("Convertible Note") would be issued to Super Bonus Management Limited ("Super Bonus") in which Mr Cheng Chee Tock Theodore, a director of the Company, held 100% interest. The Convertible Note has a maturity date of the third anniversary of the date of the issue of the Convertible Note. The noteholder has the right to convert the Convertible Note into ordinary shares in the Company at any time during the period from the date of the issue of the Convertible Note to the third anniversary of the date of the issue of the Convertible Note at an initial conversion price of HK$0.01 per share, subject to adjustment. On the maturity date, the outstanding Convertible Note will be redeemed at par in cash.

On 21 March 2007, the Company issued a zero-coupon convertible note in an aggregate principal amount of HK$4,000,000 ("First Convertible Note") to Super Bonus. On the same date, the First Convertible Note was transferred to Copernicus Trading Limited, a company wholly owned by Mr Cheng Chee Tock Theodore. The First Convertible Note has a maturity date of 20 March 2010 and had not been converted during the year ended 31 March 2007.

Further, subsequent to the balance sheet date on 13 April 2007, the Company issued a zero-coupon convertible note in an aggregate principal amount of HK$20,000,000 ("Second Convertible Note") to Super Bonus. The Second Convertible Note has a maturity date of 12 April 2010.

The convertible notes were split into liability and equity components of HK$3,008,000 and HK$992,000, respectively upon initial recognition by recognising the liability component at its fair value and attributing to the equity component the residual amount. The liability component is subsequently carried at amortised cost and the equity component is recognised in the capital reserve.

The Convertible Note recognised in the balance sheet is calculated as follows:

	Group and Company	
	2007	2006
	HK$'000	*HK$'000*
Principal amount of Convertible Note issued on 21 March 2007	**4,000**	–
Equity component *(Note 33)*	**(992)**	–
Liability component on initial recognition on 21 March 2007	**3,008**	–
Interest expense *(Note 11)*	**8**	–
Liability component at 31 March	**3,016**	–

Interest expense on the Convertible Note is calculated using the effective interest method by applying the effective interest rate of 9.97% per annum to the liability component of the Convertible Note.

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31. PROVISION FOR LONG SERVICE PAYMENTS

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

The amount recognised in respect of the probable future long service payments expected to be made is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
As at 1 April	**959**	959
Provision made during the year	**–**	–
Provision utilised during the year	**–**	–
As at 31 March	**959**	959

32. SHARE CAPITAL

	Number of shares	
	'000	*HK$'000*
Authorised:		
As at 31 March 2006 and 2007: Ordinary shares of HK$0.001 each	300,000,000	300,000
Issued and fully paid:		
As at 1 April 2005	437,108	437
Open offer *(Note (a))*	1,311,325	1,311
As at 31 March 2006 and 1 April 2006	1,748,433	1,748
Capital reduction *(Note (b))*	–	(1,661)
Consolidation of every twenty shares into one share *(Note (c))*	(1,661,011)	–
Issue of new shares *(Note (d))*	3,000,000	3,000
As at 31 March 2007	3,087,422	3,087

32. SHARE CAPITAL *(Continued)*

Notes:

(a) Open offer

On 25 November 2005, 1,311,324,786 ordinary shares ("Offer Shares") of HK$0.001 each were issued at HK$0.023 per share through an open offer ("Open Offer") to the then shareholders of the Company. The Offer Shares rank pari passu in all respects with the then existing shares in the Company. The premium arose from the issue of the Offer Shares of HK$28,849,000, net of share issuing expenses of HK$805,000, was credited to the share premium account (Note 33). The Company used the net proceeds from the Open Offer of HK$29,355,000 for the Group's general working capital and investment purposes.

(b) Capital and share premium reduction

On 26 April 2006, the issued capital of the Company was reduced by HK$0.00095 per issued share by cancelling an equivalent amount of paid-up capital per issued share so that the nominal value of each issued share was reduced from HK$0.001 to HK$0.00005. Accordingly, based upon 1,748,433,048 shares in issue as at the date of the announcement, the issued share capital of the Company of HK$1,748,000 would be reduced by HK$1,661,000 to HK$87,000.

On the same date, the share premium of the Company of HK$709,633,000 was cancelled. The credit arising from the capital reduction and the share premium reduction respectively was transferred to the contributed surplus account of the Company where it was utilised by the directors in accordance with the Bye-laws of the Company and all applicable laws to apply such credit to set-off against the accumulated losses of the Company.

(c) Share consolidation

On 26 April 2006, the share consolidation was implemented whereby every 20 shares of HK$0.00005 each resulting from the capital reduction were consolidated into one consolidated share of HK$0.001.

(d) Issue of new shares

On 31 January 2007, 3,000,000,000 new share of HK$0.001 each in the Company was subscribed by Luck Continent at a subscription price of HK$0.01 per share. The new shares rank pari passu in all respects with the then existing shares in the Company. The premium arose from the issue of the new shares of HK$27,000,000 was credited to the share premium account (Note 33). The Company used the net proceeds as general working capital of the Group.

(e) Issue of warrant

After considering the number of shares to be subscribed by Luck Continent as mentioned in note (d) above, on 31 January 2007, the Company issued by way of bonus to Luck Continent an unlisted warrant ("Warrant") which confers rights to subscribe up to HK$6,000,000 in aggregate in cash for shares in the Company at an initial subscription price of HK$0.01 per share, subject to adjustment.

The subscription rights attaching to the Warrant may be exercised in whole or in part within the period from the date of the issue of the Warrant to the third anniversary of the date of the issue of the Warrant. Up to the date of the report, no warrant has been exercised.

33. RESERVES

Company

	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000 (Note 30)	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 April 2005	681,589	129,298	–	1,190	(770,789)	41,288
Premium arising from open offer, net of expenses *(Note 32(a))*	28,044	–	–	–	–	28,044
Dissolution of subsidiaries	–	(129,298)	–	–	129,298	–
Loss for the year	–	–	–	–	(72,386)	(72,386)
As at 31 March 2006 and 1 April 2006	709,633	–	–	1,190	(713,877)	(3,054)
Capital and share premium reduction *(Note 32(b))*	(709,633)	–	–	–	711,294	1,661
Issue of new shares *(Note 32(d))*	27,000	–	–	–	–	27,000
Equity component of convertible note issued *(Note 30)*	–	–	992	–	–	992
Loss for the year	–	–	–	–	(12,624)	(12,624)
As at 31 March 2007	27,000	–	992	1,190	(15,207)	13,975

The contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of Oriental Union Strategies Limited and the value of net assets of the underlying subsidiaries acquired at 31 August 1994, net of HK$100,000 applied in paying up in full at par the 1,000,000 nil paid shares.

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

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

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 31 March 2007 and 2006, the Company had no reserves available for distribution to shareholders.

Notes to the Financial Statements

For the year ended 31 March 2007

34. DEFERRED TAXATION

As at the balance sheet date, the following unused tax losses and deductible temporary differences have not been recognised as deferred tax assets:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unused tax losses	**70,404**	46,400	**12,683**	8,068
Deductible temporary differences	**987**	5,023	**–**	–
	71,391	51,423	**12,683**	8,068

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group and the Company can utilise the benefits. Included in the above unused tax losses are losses of HK$4,348,000 (2006: HK$576,000) that will expire after five years from the year of assessment they relate to. Other unused tax losses may be carried forward indefinitely.

As at 31 March 2007, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain Group's subsidiaries and associate (2006: Nil).

35. SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 30 August 2002 ("Share Option Scheme"), the board of directors ("Board") of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares in the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board at its absolute discretion, but in any event shall not be less than the higher of the nominal value for the time being of each share in the Company, the average closing price of the shares in the Company as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date on which the relevant option is granted and the closing price of the shares in the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of share in respect of which options may be granted under the Share Option Scheme and any other schemes of the Company must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

The Share Option Scheme became effective for a period of ten years commenced on 26 September 2002.

No option under the Share Option Scheme had been granted to any person since its adoption.

Notes to the Financial Statements

For the year ended 31 March 2007

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of a subsidiary attributable to discontinued operation

As explained in note 15, the Group disposed of Gold Venture on 21 March 2007 and the net liabilities of Gold Venture at the date of disposal were as follows:

	2007 HK$'000	2006 HK$'000
Net liabilities disposed of:		
Property, plant and equipment *(Note 17)*	75	–
Trade and other receivables	246	–
Amount due to the Group	(57,976)	–
	(57,655)	–
Assignment of amount due from a subsidiary	57,976	–
	321	–
Gain on disposal of a subsidiary attributable to discontinued operation	–	–
Consideration	321	–
Satisfied by:		
Cash	321	–
Net inflow of cash and cash equivalents arising on the disposal of subsidiary attributed to discontinued operation:		
Cash consideration	321	–
Cash and cash equivalents of the subsidiary disposed of	–	–
	321	–

The impact of Gold Venture on the Group's results and cash flows in the current and prior years has been disclosed in note 15.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of subsidiaries

	2007	2006
	HK$'000	*HK$'000*
Net assets/(liabilities) disposed of:		
Trade and other receivables	–	644
Cash and cash equivalents	–	4
Trade and other payables	–	(2,437)
Amounts due to the Group	**(23,669)**	(701,977)
	(23,669)	(703,766)
Amounts due from subsidiaries written off	–	701,977
Assignment of amounts due from subsidiaries	**23,669**	–
Translation reserve realised	–	(9)
Gain on disposal of subsidiaries	–	2,400
Total consideration – satisfied by cash	–	602
Net inflow of cash and cash equivalents arising on disposal of subsidiaries:		
Cash consideration	–	602
Cash and cash equivalents disposed of	–	(4)
Net inflow of cash and cash equivalents	–	598

The results of the subsidiaries disposed of during the years ended 31 March 2007 and 2006 have no significant impact on the Group's turnover or loss from operations before income tax for the years ended 31 March 2007 and 2006.

Notes to the Financial Statements

For the year ended 31 March 2007

37. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating lease commitments

At 31 March 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of leased premises which fall due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**2,553**	7,038
In the second to fifth year inclusive	**659**	6,247
	3,212	13,285

The leases are negotiated for terms ranging from 1 to 4 years. The operating lease rentals of certain outlets are leased on the higher of the minimum guaranteed rental and the sales level leased rental, ranging from 10% to 15% on the sales level. The minimum guaranteed rental has been used to arrive at the above commitments.

The Company had no significant operating lease commitments as at the balance sheet date.

(b) Capital commitments

	Group	
	2007	2006
	HK$'000	*HK$'000*
Capital expenditure contracted but not provided for:		
Acquisition of properties in Malaysia	**–**	105,281
Additions of plant and equipment	**–**	79
	–	105,360

As at 31 March 2006, in the opinion of the directors, no demand for payments of the above amount will be made by the counterparties in the coming year as the counterparties failed to complete the construction work.

The Company had no significant capital commitments as at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 March 2007

37. COMMITMENTS AND CONTINGENT LIABILITIES

(c) Other commitments

As at the balance sheet date, the Group had entered into certain licensing and technical assistance arrangements. The future minimum licensing and technical assistance payments committed by the Group in respect of the arrangements are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Licensing arrangement		
Within one year	**3,610**	3,610
In the second to fifth year inclusive	**1,560**	5,170
	5,170	8,780

The licensing arrangement is contracted for a term up to 31 December 2008. Apart from the guaranteed royalty as disclosed above, if, at any time and during the contractual period, the Group's cumulated net sales are in excess of the sales level bases as referred to in the relevant license agreement, the Group will pay additional royalty to the licensor, at 5% on the cumulated net sales exceeding the sales level base.

The Company had no significant other commitments as at the balance sheet date.

(d) Contingent liabilities

(i) In 2003, Total Resources Limited ("Total Resources") claimed against the Company in a High Court action for HK$1,064,000 being damages for repudiation of a service agreement relating to the provision of company secretary.

A settlement was made between the parties on 4 July 2006, pursuant to which the Company has paid a sum of HK$930,000 in full and final settlement of the claim of Total Resources.

(ii) In August 2005, Orient Rise Limited ("Orient Rise") initiated a legal action against French Trade Marketing Limited and Euro Fashion, two wholly-owned subsidiaries of the Group for a breach of the terms of sublicence causing loss and damages to Orient Rise.

Up to the date of this report, based on the legal advice obtained, the directors believed that there is no ground for Orient Rise to make the claim and therefore, no provision has been made in the financial statements.

Notes to the Financial Statements

For the year ended 31 March 2007

38. RETIREMENT BENEFITS SCHEMES

Hong Kong

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000 and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The PRC

The Group also participates in a defined contribution retirement scheme organised by the government in the PRC. The Group is required to contribute a specified percentage of the payroll of its employees to the retirement scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

39. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group did not have any significant related party transaction during the year.

Remuneration for key management personnel of the Company paid during the year is disclosed in note 12 to the financial statements.

40. EVENTS AFTER BALANCE SHEET DATE

(a) On 21 May 2007, a special resolution was passed at a special general meeting of the Company pursuant to which 600,000,000 shares of the Company would be issued to Luck Continent at HK$1.28 per share.

(b) On 6 June 2007, the Company announced for its conditional acquisition of T-Matrix Culture Company Limited (a PRC company whose principal business is operating and franchising for operation of internet cafe across PRC) at a total consideration of not more than RMB22,378,000 which will be settled as to not more than RMB7,378,000 in cash and not more than RMB15,000,000 by issue of shares in the Company at HK$1.375 per share.

41. COMPARATIVE FIGURES

Certain comparative figures have been restated or re-classified as a result of the presentation of discontinued operation and conformation with the current year's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 24 July 2007.

Five Year Financial Summary

For the year ended 31 March

	2007		2006		2005		2004		2003	
	Continuing operations HK$'000	Discontinued operation HK$'000	Continuing operations HK$'000 (Restated)	Discontinued operation HK$'000 (Restated)	Continuing operations HK$'000 (Restated)	Discontinued operations HK$'000 (Restated)	Continuing operations HK$'000 (Restated)	Discontinued operations HK$'000 (Restated)	Continuing operations HK$'000	Discontinued operations HK$'000
Turnover	**77,634**	**55**	86,887	5,004	90,948	63,004	76,008	47,514	–	43,104
(Loss)/Profit from operations	**(23,282)**	**(3,036)**	(20,734)	(2,524)	(11,056)	(3,234)	(18,631)	862	(28,773)	(3,186)
Finance costs	**(869)**	**–**	(1,924)	(5)	(1,230)	(12)	(4,876)	(2)	–	–
Gain on disposal of subsidiaries attributable to discontinued operations	**–**	**–**	–	–	–	21,574	–	–	–	–
Loss on disposal of partial interest in a subsidiary	**–**	**–**	–	–	–	–	–	–	–	(10,237)
Share of results of associates	**–**	**–**	–	–	14	–	135	–	(2,999)	(10)
Loss on disposal of available-for-sale financial assets	**–**	**(13,288)**	–	–	–	–	–	–	–	–
Other non-operating items	**–**	**–**	2,327	73	(1,423)	–	18,189	(22)	(250,618)	–
(Loss)/Profit from ordinary activities before income tax	**(24,151)**	**(16,324)**	(20,331)	(2,456)	(13,695)	18,328	(5,183)	838	(282,390)	(13,433)
Income tax	**–**	**–**	–	–	–	–	(53)	(603)	–	610
(Loss)/Profit before minority interests	**(24,151)**	**(16,324)**	(20,331)	(2,456)	(13,695)	18,328	(5,236)	235	(282,390)	(12,823)
Minority interests	**–**	**–**	–	–	–	(35)	–	(42)	–	93
Net (loss)/profit for the year	**(24,151)**	**(16,324)**	(20,331)	(2,456)	(13,695)	18,293	(5,236)	193	(282,390)	(12,730)

Five Year Financial Summary

	As at 31 March									
	2007		2006		2005		2004		2003	
	Continuing operations *HK$'000*	Discontinued operation *HK$'000*	Continuing operations *HK$'000* (Restated)	Discontinued operation *HK$'000* (Restated)	Continuing operations *HK$'000* (Restated)	Discontinued operations *HK$'000* (Restated)	Continuing operations *HK$'000*	Discontinued operations *HK$'000*	Continuing operations *HK$'000*	Discontinued operations *HK$'000*
Total assets	822,513	–	68,949	4,401	83,882	2,188	101,130	76,244	2,560	85,899
Total liabilities	(775,185)	–	(29,429)	(2)	(35,865)	–	(77,046)	(46,540)	(2,172)	(47,946)
Minority interests	–	–	–	–	–	–	–	5,683	–	3,544
Shareholders' funds	47,328	–	39,520	4,399	48,017	2,188	24,084	35,387	388	41,497

Comparative figures have been restated as a result of the presentation of discontinued operation and conformation with the current year's presentation.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of C Y Foundation Group Limited ("Company") will be held at 17/F The Sun's Group Centre, 200 Gloucester Road, Wanchai, Hong Kong on 23 August 2007, Thursday, at 11:00 am for the following purposes:

1. To receive and consider the financial statements, the directors' report and the auditor's report of the Company for the year ended 31 March 2007.

2. To re-elect the retiring directors of the Company ("Directors") for the ensuing year, to determine 12 as the maximum number of Directors, to authorise the Directors to appoint additional Directors up to the maximum number and to authorise the board of Directors to fix the Directors' remuneration.

3. To re-appoint CCIF CPA Limited as auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.

4. To consider and, if thought fit, to pass the following resolutions, with or without amendments, as ordinary resolutions:

   (A) **THAT**

   (a) subject to paragraph A(c), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph A(a) shall authorise the Directors during the Relevant Period (as defined hereinafter) to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to the approval in paragraph A(a), otherwise than pursuant to a Rights Issue (as hereinafter defined) or any option scheme or similar arrangement for the time being adopted for the grant or issue to participants of the Company, its subsidiaries, and its ultimate holding company (if any) which is also listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and its subsidiaries, of shares or right to acquire shares in the Company shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(d) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).

(B) THAT

(a) subject to paragraph B(b), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase issued shares in the capital of the Company on the Stock Exchange or on any other stock exchange on which the shares in the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of The Rules Governing the Listing of Securities on the Stock Exchange or on any other stock exchange as amended from time to time be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares in the Company to be repurchased or agreed conditionally or unconditionally to be repurchased by the Company pursuant to the approval in paragraph B(a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the said approval be limited accordingly; and

Notice of Annual General Meeting

(c) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

(C) **THAT** conditional upon resolutions number 4(A) and 4(B) above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in resolution number 4(B) above be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to resolution number 4(A) above.

5. To consider and, if thought fit, to pass the following resolution, with or without amendments, as ordinary resolution:

THAT conditional on the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the shares in the Company to be issued pursuant to the exercise of any options ("Options") to be granted under the existing share option scheme and any other share option scheme(s) of the Company, the Directors be and are hereby authorised, at their absolute discretion, to grant Options to the extent that the shares in the Company issuable upon the full exercise of all Options shall not be more than 10% of the issued share capital of the Company as at the date of this resolution.

Notice of Annual General Meeting

6. To consider and, if thought fit, to pass the following resolution, with or without amendments, as special resolution:

   THAT, subject to compliance with section 46(2)(b) of the Companies Act 1981 of Bermuda, with effect from the date of passing of this resolution, the share premium account of the Company as at the date of this resolution be reduced by an amount of HK$15,207,930 and such amount be transferred to the contributed surplus account of the Company where it may be utilised in accordance with the bye-laws of the Company and all applicable laws, including to set off the accumulated losses of the Company as at 31 March 2007 and the Directors be and are hereby authorised generally to do all such acts, deeds and things as they shall, in their absolute discretion, deem fit or appropriate in order to effect and implement the foregoing.

By order of the board
Kwok Oi Kuen Joan Elmond
Company Secretary

Hong Kong, 31 July 2007

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy must be deposited at the principal place of business of the Company in Hong Kong at 17/F The Sun's Group Centre, 200 Gloucester Road, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.

3. The biographical details of all retiring Directors proposed to be re-elected at the forthcoming annual general meeting, are provided in the circular of the Company dated 31 July 2007.