1. CORPORATE INFORMATION

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

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

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for land and buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

2.2 *IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS*

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 33, 36, 37 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is required to be separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is required to be reclassified from property, plant and equipment to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

In the opinion of the directors, the lease payments of the Group cannot be allocated reliably between the land and buildings elements and, therefore, the entire lease payments are included in the cost of land and buildings. This change in accounting policy has had no material impact on the financial statements.

(b) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses, on an individual investment basis. Upon the adoption of HKAS 39, these securities held by the Group at 1 April 2005 were designated as available-for-sale investments under the transitional provisions of HKAS 39. As these available-for-sale investments do not have a quoted market price in an active market and their fair values cannot be reliably measured, they are measured at cost less any accumulated impairment losses.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity securities.

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

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

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

The HKAS 1 Amendment, HK(IFRIC)-Int 6, HK(IFRIC)-Int 7, HK(IFRIC)-Int 8 and HK(IFRIC)-Int 9 shall be applied for annual periods beginning on or after 1 January 2007, 1 December 2005, 1 March 2006, 1 May 2006 and 1 June 2006, respectively.

HKAS 1 Amendment will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

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

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18. The adoption of the amendments to HKAS 39 regarding financial guarantee contracts is expected to result in the recognition of a financial liability in the Company's balance sheet in respect of corporate guarantees given by the Company in connection with banking facilities granted to a subsidiary in the year of initial application.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets
Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets
Applicable to the year ended 31 March 2005:
The Group classified its equity investments, other than subsidiaries, as long term investments.

Long term investments
Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. They are stated at cost less any impairment losses, on an individual investment basis.

Applicable to the year ended 31 March 2006:
Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Impairment of financial assets (applicable to the year ended 31 March 2006)
The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (applicable to the year ended 31 March 2006) (continued)
Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets (applicable to the year ended 31 March 2006)
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities (applicable to the year ended 31 March 2006)
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

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

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

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Employment Ordinance long service payments
Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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

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

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

3. ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

3. ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2006 and 2005.

Group

	Fur		Leather		Fabric garments		Corporate and others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**84,364**	73,400	**25,381**	24,058	**29,556**	17,052	**381**	805	**139,682**	115,315
Segment results	**19,360**	15,002	**5,732**	6,372	**5,553**	4,170	**(11,933)**	(12,568)	**18,712**	12,976
Bank interest income									**783**	219
Finance costs									**(641)**	(213)
Profit before tax									**18,854**	12,982
Tax									**(771)**	(675)
Profit for the year									**18,083**	12,307
Assets and liabilities										
Segment assets	**92,309**	87,911	**15,525**	16,910	**12,026**	10,027	**10,564**	7,022	**130,424**	121,870
Unallocated assets									**29,433**	29,370
Total assets									**159,857**	151,240
Segment liabilities	**7,815**	2,745	**523**	957	**2,323**	49	**5,658**	4,408	**16,319**	8,159
Unallocated liabilities									**14,934**	14,422
Total liabilities									**31,253**	22,581
Other segment information:										
Depreciation	**590**	607	**490**	523	**373**	392	**40**	46	**1,493**	1,568
Surplus on revaluation recognised directly in the income statement	**(205)**	(1,342)	**(136)**	(913)	**(114)**	(755)	**–**	(9)	**(455)**	(3,019)
Deficits/(surplus) on revaluation recognised directly in equity	**(289)**	(2,194)	**(163)**	(2,194)	**(147)**	(1,567)	**13**	(314)	**(586)**	(6,269)
Impairment of long term investments recognised in the income statement	**–**	–	**–**	–	**–**	–	**–**	1,262	**–**	1,262
Capital expenditure	**880**	143	**43**	143	**31**	103	**5**	20	**959**	409

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 March 2006 and 2005.

Group

	Hong Kong		Mainland China		Germany		Other countries		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**56,723**	44,377	**26,083**	23,619	**38,052**	26,897	**18,824**	20,422	**139,682**	115,315
Other segment information:										
Segment assets	**69,529**	34,227	**56,313**	86,928	**4,015**	224	**567**	491	**130,424**	121,870
Unallocated assets									**29,433**	29,370
									159,857	151,240
Capital expenditure	**30**	–	**929**	409	**–**	–	**–**	–	**959**	409

5. REVENUE

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

6. PROFIT BEFORE TAX

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

	Note	2006 HK$'000	2005 HK$'000
Cost of inventories sold		**101,116**	83,215
Write-back for slow-moving inventories included in cost of inventories sold*		**(6,384)**	(5,701)
Depreciation	14	**1,493**	1,568
Auditors' remuneration		**683**	683
Minimum lease payments under operating leases in respect of land and buildings		**417**	421
Impairment of long term investments**		**–**	1,262
Employee benefits expense (including directors' remuneration – note 8):			
Wages and salaries		**15,172**	13,900
Pension scheme contributions		**395**	438
Total staff costs		**15,567**	14,338
Loss/(gain) on disposal of items of property, plant and equipment		**(685)**	65
Gain on disposal of partial interest in a subsidiary		**(10)**	–
Revaluation surplus on land and buildings		**(455)**	(3,019)
Foreign exchange differences, net		**(121)**	92
Bank interest income		**(783)**	(219)

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

** The impairment of long term investments was included in "Other expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group 2006 HK$'000	2005 HK$'000
Interest on bank overdrafts	**637**	197
Interest on a hire purchase contract	**4**	16
	641	213

8. *DIRECTORS' REMUNERATION*

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

	Group	
	2006	2005
	HK$'000	HK$'000
Fees	**60**	40
Other emoluments:		
Salaries, allowances and benefits in kind	**3,419**	3,296
Pension scheme contributions	**36**	36
	3,455	3,332
	3,515	3,372

(a) Independent non-executive directors

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

	2006	2005
	HK$'000	HK$'000
Woo, Michael	**20**	20
Ho Wai Chi, Paul	**20**	20
Chen Yeh Ming, Steve	**20**	–
	60	40

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

8. *DIRECTORS' REMUNERATION (continued)*

(b) Executive directors

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006			
Char On Man	1,573	12	1,585
So Choi Hing, Stella	839	12	851
Li Wing Tak	1,007	12	1,019
	3,419	36	3,455
2005			
Char On Man	1,519	12	1,531
So Choi Hing, Stella	809	12	821
Li Wing Tak	968	12	980
	3,296	36	3,332

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

9. *FIVE HIGHEST PAID EMPLOYEES*

The five highest paid employees during the year included three (2005: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2005: two) non-directors, highest paid employees are as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	**497**	452
Pension scheme contributions	**22**	21
	519	473

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

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

10. TAX

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

	Group	
	2006	2005
	HK$'000	HK$'000
Current tax charge in Mainland China	**771**	675

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

Group – 2006

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

Group – 2005

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	5,245		7,737		12,982	
Tax at the statutory tax rate	918	17.5	2,553	33.0	3,471	26.7
Lower tax rate for specific provinces or local authority	–		(1,393)		(1,393)	
Income not subject to tax	(444)		(23)		(467)	
Expenses not deductible for tax	424		287		711	
Tax losses utilised from previous periods	(898)		(749)		(1,647)	
Tax charge at the Group's effective rate	–		675		675	

10. TAX (continued)

The Group has tax losses arising in Hong Kong of HK$3,734,000 (2005: HK$23,262,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the utilisation of these losses is uncertain.

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

The profit from ordinary activities attributable to ordinary equity holders of the parent for the year ended 31 March 2006 dealt with in the financial statements of the Company was HK$21,844,000 (2005: HK$15,421,000) (note 26(b)).

12. DIVIDENDS

	2006 **HK$'000**	2005 HK$'000
Interim – HK5.0 cents (2005: HK0.6 cent) per ordinary share	**15,852**	1,902
Proposed final – HK1.5 cents (2005: HK1.0 cent) per ordinary share	**4,755**	3,170
	20,607	5,072

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK$18,083,000 (2005: HK$12,307,000) and 317,035,700 ordinary shares in issue during the years.

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

14. PROPERTY, PLANT AND EQUIPMENT

Group

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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles and vessels HK$'000	Total HK$'000
31 March 2005						
At 1 April 2004:						
Cost or valuation	26,143	3,493	5,537	2,160	2,829	40,162
Accumulated depreciation	–	(2,859)	(4,826)	(1,913)	(2,090)	(11,688)
Net carrying amount	26,143	634	711	247	739	28,474
At 1 April 2004, net of accumulated depreciation	26,143	634	711	247	739	28,474
Additions	–	–	239	–	170	409
Disposals	–	–	–	(65)	–	(65)
Surplus on revaluation	9,288	–	–	–	–	9,288
Depreciation provided during the year	(790)	(120)	(371)	(61)	(226)	(1,568)
At 31 March 2005, net of accumulated depreciation	34,641	514	579	121	683	36,538
At 31 March 2005:						
Cost or valuation	34,641	3,493	5,776	1,911	2,999	48,820
Accumulated depreciation	–	(2,979)	(5,197)	(1,790)	(2,316)	(12,282)
Net carrying amount	34,641	514	579	121	683	36,538
Analysis of cost or valuation:						
At cost	–	3,493	5,776	1,911	2,999	14,179
At 31 March 2005 valuation	34,641	–	–	–	–	34,641
	34,641	3,493	5,776	1,911	2,999	48,820

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

	2006 HK$'000	2005 HK$'000
Hong Kong:		
Medium term leases	**14,740**	13,740
Mainland China:		
Long term leases	**2,570**	2,239
Medium term leases	**15,715**	18,662
At valuation	**33,025**	34,641

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's leasehold land and buildings were revalued individually at 31 March 2006 by Chung, Chan & Associates, independent professionally qualified valuers, on an open market value, existing use basis. Had the leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts at 31 March 2006 would have been HK$17,085,000 (2005: HK$17,956,000).

Certain of the Group's leasehold land and buildings with net book value of approximately HK$28,710,000 (2005: HK$13,180,000) were pledged to secure general banking facilities granted to the Group (note 22).

15. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**104,256**	104,256
Impairment	**(29,569)**	(52,200)
	74,687	52,056
Due from a subsidiary	**53,848**	73,657
	128,535	125,713

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

15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and operations@	Nominal value of issued/ paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Peking Fur and Leather Limited	British Virgin Islands/ Hong Kong	Ordinary US$1,000	100	–	Investment holding
Peking Fur Factory (Hong Kong) Limited	Hong Kong	Ordinary HK$200 Deferred HK$1,200,000#	–	100	Design and sale of leather garments, fur garments and other garments and the trading of tanned leather and fur pelts
Gangjing Fur & Leather (Shenzhen) Factory Ltd.^	PRC	RMB7,600,000	–	100	Design, manufacture and sale of leather garments, fur garments and other garments
Jiayi Fashion (Shenzhen) Co., Ltd.^	PRC	HK$2,000,000	–	100	Manufacture and sale of leather garments and other garments
Peking Leather Factory Limited	Hong Kong	Ordinary HK$100,000	–	90	Investment holding
Laiwu C and D Mink Farm Limited^##	PRC	HK$5,000,000	–	90	Mink farm operation and trading of minks
K and K Fur Creation Limited	Hong Kong	Ordinary HK$200,000	–	100	Investment holding

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

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

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

Incorporated during the year.

16. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Unlisted equity investments, at cost	**3,364**	3,364
Less: Provision for impairment	**(3,364)**	(3,364)
	–	–

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

17. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**69,270**	63,672
Finished goods	**3,849**	4,539
	73,119	68,211

18. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within 3 months	**11,992**	6,205
4 to 6 months	**925**	299
7 to 12 months	**74**	4,919
Over 1 year	**19**	64
	13,010	11,487

19. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$6,727,000 (2005: HK$4,835,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and bank balances and the pledged bank deposits approximate to their fair values.

20. TRADE AND BILLS PAYABLES

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within 3 months	**10,338**	1,518
4 to 6 months	**425**	1,146
7 to 12 months	**11**	387
Over 1 year	**188**	146
	10,962	3,197

The trade and bills payables are non-interest-bearing and are normally settled within 30 to 90 days.

21. OTHER PAYABLES AND ACCRUALS

Other payables of the Group and the Company are non-interest-bearing, have no fixed terms of repayment and are expected to be settled within one to three months.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

			Group	
			2006	2005
	Effective interest rate	**Maturity**	**HK$'000**	HK$'000
Bank overdrafts, secured	2% to 5.075% per annum	On demand	**13,758**	13,669
Hire purchase contract payable (note 23)			**–**	144
			13,758	13,813

22. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

(a) The banking facilities of the Group were secured by the Group's bank deposits and certain leasehold land and buildings with carrying values of HK$29,433,000 (2005: HK$29,370,000) and HK$28,710,000 (2005: HK$13,180,000) (note 14), respectively, and guarantees given by the Company.

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

23. HIRE PURCHASE CONTRACT PAYABLE

The Group leased a motor vehicle under a hire purchase contract in the prior year. As at 31 March 2006, the total future minimum lease payments under the hire purchase contract and their present values were as follows:

Group

	Minimum lease payments		**Present value of minimum lease payments**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**–**	147	**–**	144
Total minimum hire purchase contract payments	**–**	147	**–**	144
Future finance charges	**–**	(3)		
Total net hire purchase contract payable	**–**	144		
Portion classified as current liabilities	**–**	(144)		
Long term portion	**–**	–		

24. SHARE CAPITAL

	2006	2005
	HK$'000	HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
317,035,700 ordinary shares of HK$0.10 each	**31,704**	31,704

25. SHARE OPTION SCHEME

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

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

The maximum number of shares issuable under share options currently permitted to be granted under the Scheme is 31,703,570, representing 10% of the issued shares of the Company. The maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and may commence on the date of the offer and shall end no later than 10 years from the date of the offer.

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

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

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

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

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 20 of the financial statements.

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

(b) Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2004		49,586	99,143	(68,443)	80,286
Profit for the year		–	–	15,421	15,421
Interim 2005 dividend	12	–	(1,902)	–	(1,902)
Proposed 2005 final dividend	12	–	(3,170)	–	(3,170)
At 31 March 2005 and 1 April 2005		49,586	94,071	(53,022)	90,635
Profit for the year		–	–	21,844	21,844
Interim 2006 dividend	12	–	(15,852)	–	(15,852)
Proposed 2006 final dividend	12	–	(4,755)	–	(4,755)
At 31 March 2006		**49,586**	**73,464**	**(31,178)**	**91,872**

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

27. CONTINGENT LIABILITIES

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

(i) The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1,947,000 (2005: HK$1,895,000) as at 31 March 2006, as further explained under the heading "Employee benefits" in note 2.4 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(ii) The Company had given guarantees to banks in connection with banking facilities granted to a subsidiary amounting to HK$81,930,000 (2005: HK$81,930,000), of which HK$20,439,000 (2005: HK$13,669,000) was utilised at the balance sheet date.

28. *OPERATING LEASE ARRANGEMENTS*

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

At 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**23**	–
In the second to fifth years, inclusive	**85**	–
After five years	**334**	–
	442	–

29. *CAPITAL COMMITMENTS*

In addition to the operating lease commitments detailed in note 28 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for in respect of construction in progress	**1,755**	–

30. *RELATED PARTY TRANSACTIONS*

Compensation of key management personnel of the Group:

	2006	2005
	HK$'000	HK$'000
Short term employee benefits	**4,311**	4,237
Post-employment benefits	**77**	81
Total compensation paid to key management personnel	**4,388**	4,318

Further details of directors' emoluments are included in note 8 to the financial statements.

31. *FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES*

The Group's principal financial instruments comprise interest-bearing bank overdrafts and cash and bank deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

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

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

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

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

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

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

32. *APPROVAL OF THE FINANCIAL STATEMENTS*

The financial statements were approved and authorised for issue by the board of directors on 17 July 2006.