Notes to the Financial Statements

(31st March, 2006)

1. GENERAL

The Company was incorporated in the Cayman Islands on 12th April, 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 14.

2. PRINCIPAL ACCOUNTING POLICIES

(a) *Statement of compliance*

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

(b) *Basis of preparation*

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005.

Notes to the Financial Statements

(31st March, 2006)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation (Continued)

The applicable HKFRSs are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
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
HKFRS 2	Share-based Payment
HKAS-INT 15	Operating Leases – Incentives
HKAS-INT 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

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

- HKAS 1 affects certain presentation in the income statement, balance sheet, and statement of changes in equity.

- HKAS 2, 8, 16 and 21 affect certain disclosures of the financial statements.

- HKAS 7, 10, 12, 14, 17, 18, 19, 23, 27, 33, 36, 37, HKAS-INT 15 and 21 do not have any impact as the Group's accounting policies already comply with the standards.

- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

Notes to the Financial Statements

(31st March, 2006)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation (Continued)

HKAS 32 "Financial Instruments: Disclosure and Presentation"

HKAS 39 "Financial Instruments: Recognition and Measurement"

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

Classification and measurement of financial assets and financial liabilities

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

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities"

Prior to 1st April, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, debt securities that the Group intends and has the ability to hold to maturity ("held-to maturity securities") are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of a discount or premium arising from the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment. Investments other than held-to-maturity securities are classified as investment securities or other investments. Securities which are held for an identified long-term purpose, are classified as investment securities. They are measured at subsequent reporting dates at cost, less any impairment loss that is other than temporary. Securities not classified as investment securities are classified as other investments. Other investments are measured at fair value at subsequent reporting dates, with unrealised gains and losses included in net profit or loss for the period.

Notes to the Financial Statements

(31st March, 2006)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) *Basis of preparation (Continued)*

HKAS 32 "Financial Instruments: Disclosure and Presentation" (Continued)

HKAS 39 "Financial Instruments: Recognition and Measurement" (Continued)

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" *(Continued)*

From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "Financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" that are not part of a hedging relationship and "available-for-sale investments" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. On 1st April, 2005, other investment of HK$4,162,000 was reclassified as financial asset at fair value through profit or loss upon the application of HKAS 39. This change in accounting policy has had no material effect on results for the current and prior years.

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (Other financial liabilities)". Financial liabilities at fair value through profit or loss are carried at fair value, with changes in fair value recognised in profit or loss. Other financial liabilities are carried at amortised cost using the effective interest method. This change in accounting policy has had no material effect on results for the current and prior years.

Derecognition

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

Notes to the Financial Statements

(31st March, 2006)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation *(Continued)*

HKFRS 2 "Share-based Payment"

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

(c) Basis of consolidation

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

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

(d) Property, plant and equipment

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

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

Plant and machinery	–	30%
Furniture and fixtures	–	20%
Leasehold improvements	–	Shorter of expected useful life or over the unexpired period of the leases
Motor vehicles	–	30%

Notes to the Financial Statements

(31st March, 2006)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment (Continued)

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

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

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

(e) Financial Instruments

(i) Financial assets

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

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

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

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

Notes to the Financial Statements

(31st March, 2006)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Financial Instruments *(Continued)*

(i) Financial assets (Continued)

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of loss is removed from equity and recognised in the income statement. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

(ii) Financial liabilities

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

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition, which are measured at fair value on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. Other financial liabilities include trade payables and other short-term monetary liabilities, which are carried at amortised cost using the effective interest method.

(iii) Derecognition

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

(f) Impairment of assets

Assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Notes to the Financial Statements

(31st March, 2006)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Impairment of assets (Continued)

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment losses are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in equity.

(g) Inventories

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

Cost is determined on a first in, first out basis.

(h) Income taxes

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

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

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

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

(i) Operating leases

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Foreign currency

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

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

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

(k) Employee benefits

(i) Defined contribution pension plan

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

(ii) Employee entitlements

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

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

Notes to the Financial Statements

(31st March, 2006)

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Provisions and contingent liabilities

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

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

(m) Share based payments

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

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

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

(n) Revenue recognition

Revenue from goods sold is recognised when title of goods sold has passed to the purchaser, which is at the time of delivery.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Dividends

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

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

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

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

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	The Effects of Change in Foreign Exchange Rate-Net Investment in a Foreign Operation
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
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
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial instruments: Disclosures
HKFRS – INT 4	Determining whether an Arrangement Contains a Lease
HKFRS – 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

Notes to the Financial Statements

(31st March, 2006)

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowance for the year.

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into two major operating divisions – manufacturing business and retail business. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing business	–	Manufacture and distribution of leather products
Retail business	–	Retail of fashion apparel and leather accessories

5. SEGMENT INFORMATION *(Continued)*

Business segments (Continued)

Segment information about these business is presented below:

	Manufacturing business	Retail business	Inter-segment elimination	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31st March, 2006					
Revenue					
External sales	236,814	17,570	–	–	254,384
Inter-segment sales	1,347	3	(1,350)	–	–
	238,161	17,573	(1,350)	–	254,384
Segment results	45,411	(1,540)	(28)	–	43,843
Unallocated income					2,644
Unallocated expenses					(745)
Profit before tax					45,742
Income tax expense					(4,241)
Profit for the year					41,501
At 31st March, 2006					
Assets					
Segment assets	79,863	9,333	–	–	89,196
Unallocated assets					93,439
Total assets					182,635
Liabilities					
Segment liabilities	19,733	477	–	–	20,210
Unallocated liabilities					1,572
Total liabilities					21,782
Other information					
Capital expenditure	3,054	1,239	–	316	4,609
Depreciation of property, plant and equipment	1,779	811	–	434	3,024
Loss on disposal of property, plant and equipment	–	128	–	–	128
Impairment loss on trade receivables	330	–	–	–	330
Write down of inventories	1,062	–	–	–	1,062

Notes to the Financial Statements

(31st March, 2006)

5. SEGMENT INFORMATION *(Continued)*

Business segments (Continued)

	Manufacturing business HK$'000	Retail business HK$'000	Inter-segment elimination HK$'000	Unallocated HK$'000	Consolidated HK$'000
Year ended 31st March, 2005					
Revenue					
External sales	203,911	1,971	–	–	205,882
Inter-segment sales	855	–	(855)	–	–
	204,766	1,971	(855)	–	205,882
Segment results	44,284	(820)	(209)	–	43,255
Unallocated income					1,239
Unallocated expenses					(703)
Profit before tax					43,791
Income tax expense					(3,637)
Profit for the year					40,154
At 31st March, 2005					
Assets					
Segment assets	54,303	3,837	–	–	58,140
Unallocated assets					96,293
Total assets					154,433
Liabilities					
Segment liabilities	19,227	472	–	–	19,699
Unallocated liabilities					948
Total liabilities					20,647
Other information					
Capital expenditure	1,613	817	–	2,570	5,000
Depreciation of property, plant and equipment	1,577	155	–	485	2,217
Loss on disposal of property, plant and equipment	–	–	–	462	462
Impairment loss on trade receivables	198	–	–	–	198
Write down of inventories	526	–	–	–	526

Notes to the Financial Statements

(31st March, 2006)

5. SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's operations are principally located in Hong Kong and the People's Republic of China ("PRC"). Group administration is carried out in Hong Kong and the manufacturing function is carried out in the PRC.

The following table provides an analysis of the Group's revenue by geographical market and analysis of the carrying amount of total assets and capital expenditure by the geographical area in which the assets are located.

	Revenue 2006 *HK$'000*	**Total assets 2006** *HK$'000*	**Capital expenditure 2006** *HK$'000*
Japan	**85,037**	**–**	**–**
Europe	**71,529**	**–**	**–**
The United States of America ("USA")	**24,972**	**–**	**–**
Hong Kong	**38,778**	**138,107**	**1,555**
PRC	**9,100**	**43,741**	**3,054**
Australia	**7,824**	**–**	**–**
Others	**17,144**	**787**	**–**
	254,384	**182,635**	**4,609**

	Revenue 2005 *HK$'000*	Total assets 2005 *HK$'000*	Capital expenditure 2005 *HK$'000*
Japan	98,039	–	–
Europe	42,784	–	–
USA	16,727	–	–
Hong Kong	17,635	116,111	3,387
PRC	9,496	32,152	1,613
Australia	8,879	–	–
Others	12,322	6,170	–
	205,882	154,433	5,000

Notes to the Financial Statements

(31st March, 2006)

6. PROFIT BEFORE TAX

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Profit before tax is stated after charging:		
Auditors' remuneration	**390**	300
Cost of inventories sold	**171,389**	137,900
Depreciation of property, plant and equipment	**3,024**	2,217
Loss on disposal of property, plant and equipment	**128**	562
Operating lease rentals in respect of leasehold land and buildings	**8,447**	4,226
Impairment loss on trade receivables	**330**	198
Write down of inventories	**1,062**	526
Foreign exchange loss, net	**479**	505
Staff costs, excluding directors' emoluments *(Notes 7)*	**11,453**	8,244
and crediting:		
Interest income	**1,673**	392
Unrealised holding gain on other investment	**–**	217
Gain on disposal of other investment	**–**	130
Gain on disposal of financial asset at fair value through profit or loss	**241**	–

7. STAFF COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**10,965**	7,917
Retirement benefits scheme contributions	**488**	327
	11,453	8,244

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Directors' fees	**150**	140
Other emoluments:		
Salaries and other benefits	**3,120**	2,760
Discretionary bonuses	**1,200**	–
Retirement benefits scheme contributions	**60**	60
	4,530	2,960

Details of directors' emoluments for the year ended 31st March, 2006 are as follows:

	Fees	**Salaries and other benefits**	**Discretionary bonuses**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Chan King Hong Edwin	–	1,080	400	24	1,504
Chan King Yuen Stanley	–	1,080	400	24	1,504
Chan Wai Po Rebecca	–	960	400	12	1,372
Independent non-executive directors:					
Chau Cynthia Sin Ha	50	–	–	–	50
Fong Pui Sheung David	50	–	–	–	50
Or Kam Chung Janson	50	–	–	–	50
Total	150	3,120	1,200	60	4,530

Notes to the Financial Statements

(31st March, 2006)

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) *Directors' emoluments (Continued)*

Details of directors' emoluments for the year ended 31st March, 2005 are as follows:

	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Chan King Hong Edwin	–	960	24	984
Chan King Yuen Stanley	–	960	24	984
Chan Wai Po Rebecca	–	840	12	852
Independent non-executive directors:				
Chau Cynthia Sin Ha	50	–	–	50
Fong Pui Sheung David	50	–	–	50
Or Kam Chung Janson	40	–	–	40
Total	140	2,760	60	2,960

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

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**982**	890
Discretionary bonuses	**35**	25
Retirement benefits scheme contributions	**24**	24
	1,041	939

The emoluments of each remaining individual were below HK$1,000,000 for the years ended 31st March, 2005 and 2006.

During the years ended 31st March, 2005 and 2006, no emolument was paid to the directors or any of the five highest paid individuals as an inducement to join or upon joining by the Group or as compensation for loss of office.

9. INCOME TAX EXPENSE

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Current tax		
– Hong Kong Profits Tax	**3,908**	3,621
– Other jurisdictions	**258**	35
Underprovision in respect of prior years	**13**	6
Deferred tax *(Note 19)*	**62**	(25)
	4,241	3,637

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary is entitled to exemption from PRC income tax for two years commencing from their first profit-making year of operation and entitled to a 50% relief from the PRC income tax for the following three years.

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

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Profit before tax	**45,742**	43,791
Tax at the domestic tax rate of 17.5% (2005: 17.5%)	**8,005**	7,663
Tax effect of expenses not deductible for tax purpose	**16,524**	14,310
Tax effect of income not taxable for tax purpose	**(20,295)**	(18,477)
Tax effect of utilisation of tax loss not previously recognised	**(17)**	–
Underprovision in respect of prior years	**13**	6
Effect of tax concession of a subsidiary	**(322)**	(43)
Effect of different tax rates of a subsidiary operating in other jurisdiction	**204**	28
Tax effect of tax losses not recognised	**129**	150
Income tax expense	**4,241**	3,637

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(31st March, 2006)

10. DIVIDENDS

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Interim dividend of HK$0.024 (2005: HK$0.02) per ordinary share	**7,644**	6,370
Proposed final dividend of HK$0.02 (2005: HK$0.022) per ordinary share	**6,370**	7,007
	14,014	13,377

The final dividend of HK$0.02 (2005: HK$0.022) per share has been proposed by the directors and is subject to approval by the shareholders in forthcoming annual general meeting.

The amount of proposed final dividend is based on 318,500,000 shares in issue as at 20th July, 2006.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit for the year of HK$41,501,000 (2005: HK$40,154,000) and weighted average number of 318,500,000 (2005: 318,500,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year is based on the Group's profit for the year of HK$41,501,000 (2005: HK$40,154,000) and the weighted average number of 318,972,299 (2005: 318,617,200) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,500,000 (2005: 318,500,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of 472,299 (2005: 117,200) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

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(31st March, 2006)

12. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
The Group					
Cost					
At 1st April, 2005	5,808	3,550	5,480	856	15,694
Additions	1,325	773	2,511	–	4,609
Disposals	–	(23)	(302)	–	(325)
Exchange realignment	36	1	–	–	37
At 31st March, 2006	7,169	4,301	7,689	856	20,015
Accumulated depreciation					
At 1st April, 2005	3,441	1,708	1,112	496	6,757
Provided for the year	1,110	521	1,285	108	3,024
Eliminated on disposals	–	(11)	(186)	–	(197)
Exchange realignment	22	–	–	–	22
At 31st March, 2006	4,573	2,218	2,211	604	9,606
Cost					
At 1st April, 2004	4,409	3,012	4,095	450	11,966
Additions	1,399	859	2,336	406	5,000
Disposals	–	(321)	(951)	–	(1,272)
At 31st March, 2005	5,808	3,550	5,480	856	15,694
Accumulated depreciation					
At 1st April, 2004	2,389	1,500	1,019	342	5,250
Provided for the year	1,052	459	552	154	2,217
Eliminated on disposals	–	(251)	(459)	–	(710)
At 31st March, 2005	3,441	1,708	1,112	496	6,757
Net book value					
At 31st March, 2006	2,596	2,083	5,478	252	10,409
At 31st March, 2005	2,367	1,842	4,368	360	8,937

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(31st March, 2006)

13. INVENTORIES

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**42,298**	23,666
Work in progress	**5,633**	4,718
Finished goods	**7,880**	2,567
	55,811	30,951

14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**48,181**	48,181

Details of the Company's subsidiaries at 31st March, 2006 are as follows:

Name	**Place of incorporation or establishment/ operations**	**Issued share capital/ paid-up registered capital**	**Attributable equity interest held by the Company**		**Principal activities**
			Directly	**Indirectly**	
Chanco International Holding Limited	British Virgin Islands/Hong Kong	Ordinary shares US$1,000	100%		Investment holding
Sun Ray Manufactory, Limited	Hong Kong	Non-voting deferred shares HK$6 Ordinary shares HK$2		100%	Manufacturing and trading of leather accessories
Elite Leatherware Company Limited	Hong Kong	Ordinary shares HK$10,000		100%	Trading of leather accessories
Talent Union Development Limited	British Virgin Islands/Hong Kong	Ordinary shares US$8		100%	Investment holding

Notes to the Financial Statements

(31st March, 2006)

14. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation or establishment/ operations	Issued share capital/ paid-up registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Dongguan Ngai Luen Leather Goods Company Limited	PRC *(Note)*	Registered capital HK$2,000,000		100%	Manufacturing and trading of leather accessories
Amid Success Holdings Limited	British Virgin Islands/Hong Kong	Ordinary shares US$1		100%	Investment holding
Urban Stranger Company Limited	Hong Kong	Ordinary shares HK$1		100%	Retail of fashion apparel and leather assessories

Note:

The subsidiary is a wholly foreign-owned enterprise in the PRC.

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

15. TRADE AND BILLS RECEIVABLES

Customers are generally granted with credit terms of 30 to 90 days. Longer payment terms might be granted to those customers which have good payment history and long-term business relationship with the Group. Details of the ageing analysis are as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Current to 30 days	**14,731**	10,958
31-60 days	**3,434**	3,501
61-90 days	**1,195**	1,188
91-120 days	**554**	483
121-365 days	**990**	1,698
Over 365 days	**31**	86
	20,935	17,914

Notes to the Financial Statements

(31st March, 2006)

15. TRADE AND BILLS RECEIVABLES *(Continued)*

At the balance sheet date, the Group's trade and bills receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2006	2005
	HK$'000	*HK$'000*
United States dollars ("USD")	**9,286**	12,013
Euro	**5,056**	929
Renminbi ("RMB")	**2,428**	2,625
	16,770	15,567

16. OTHER INVESTMENT

	The Group and the Company	
	2006	2005
	HK$'000	*HK$'000*
Open-ended mutual funds with guaranteed return, stated at quoted market price	**–**	4,162

17. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

18. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Current to 30 days	**5,556**	6,172
31-60 days	**3,318**	2,950
61-90 days	**187**	1,775
91-120 days	**10**	544
121-365 days	**28**	65
Over 365 days	**104**	100
	9,203	11,606

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(31st March, 2006)

18. TRADE AND BILLS PAYABLES *(Continued)*

At the balance sheet date, the Group's trade and bills payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2006	2005
	HK$'000	*HK$'000*
USD	**1,157**	3,557
RMB	**2,156**	2,206
	3,313	5,763

19. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities provided by the Group and movements thereof:

	Accelerated tax depreciation	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1st April, 2004	195	34	229
Charge/(credit) to income statement for the year	61	(86)	(25)
At 31st March, 2005	256	(52)	204
Charge to income statement for the year	43	19	62
At 31st March, 2006	299	(33)	266

At the balance sheet date, the Group had unused tax losses of HK$1,593,000 (2005: HK$858,000) available to offset against future profits. No deferred tax assets have been recognised in respect of the amounts due to unpredictability of future profit streams.

At the balance sheet date, the Company did not have material unprovided deferred tax assets and liabilities (2005: Nil).

Notes to the Financial Statements

(31st March, 2006)

20. SHARE CAPITAL

	The Company	
	Number of share	**Amount**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1st April, 2004 and 31st March, 2005 and 2006	2,000,000,000	20,000
Issued and fully paid:		
At 1st April, 2004 and 31st March, 2005 and 2006	318,500,000	3,185

21. SHARE OPTIONS

Under the share option scheme (the "Share Option Scheme") approved by the shareholders on 18th February, 2003, the directors of the Company may, at its discretion, invite non-executive directors, employees, invested entities, suppliers of goods of services, customers, consultants and advisors of the Group or any entity in which any member of the Group holds any equity interest to take up options to subscribe for shares in the Company representing up to a maximum of 30 per cent of the issued share capital of the Company from time to time.

The subscription price for the shares in relation to options to be granted under the Share Option Scheme shall be determined by the board and shall be at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares on the date of grant (the "Offer Date"); and (iii) the average closing price of the shares for the five business days immediately preceding the Offer Date. The options are exercisable within 10 years from the Offer Date.

Notes to the Financial Statements

(31st March, 2006)

21. SHARE OPTIONS *(Continued)*

There were no movements in share options during the year ended 31st March, 2006. Details of share options outstanding at 31st March, 2006 are as follows:

	Name or category of participant	Date of grant	Outstanding as at 1st April, 2005 and 31st March, 2006	Exercisable period	Exercise price per share
(a)	**Executive directors**				
	Chan King Hong Edwin	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
	Chan King Yuen Stanley	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
	Chan Wai Po Rebecca	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
(b)	**Employees, in aggregate**	26th May, 2003	516,000	26th May, 2003 – 25th May, 2013	0.580
		24th Sept, 2003	6,362,400	24th Sept, 2003 – 23rd Sept, 2013	0.830
(c)	**Others, in aggregate**	26th May, 2003	3,000,000	26th May, 2003 – 25th May, 2013	0.580
	Total		19,422,000		

Weighted average exercise price as at 1st April, 2004, 1st April, 2005 and 31st March, 2006	HK$0.785

Note:

All the options were immediately vested when granted.

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(31st March, 2006)

22. RESERVES

The Company	Share premium HK$'000	Retained earnings HK$'000	Proposed dividends HK$'000	Total HK$'000
At 1st April, 2004	80,606	289	5,733	86,628
Profit for the year	–	13,173	–	13,173
2004 final dividend paid	–	–	(5,733)	(5,733)
2005 interim dividend paid	–	(6,370)	–	(6,370)
2005 proposed final dividend	–	(7,007)	7,007	–
At 31st March, 2005	80,606	85	7,007	87,698
Profit for the year	–	16,108	–	16,108
2005 final dividend paid	–	–	(7,007)	(7,007)
2006 interim dividend paid	–	(7,644)	–	(7,644)
2006 proposed final dividend	–	(6,370)	6,370	–
At 31st March, 2006	80,606	2,179	6,370	89,155

23. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st March, 2006 amounted to approximately HK$787,000 (2005: HK$1,000,000).

24. OPERATING LEASES COMMITMENTS

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

	The Group	
	2006 **HK$'000**	2005 HK$'000
Within one year	**5,245**	1,838
In the second to fifth years inclusive	**1,552**	846
	6,797	2,684

Operating lease payments represent rental payable by the Group for its offices, retail outlets and production plants. Leases are negotiated and rentals are fixed for an average term of one to two years.

Notes to the Financial Statements

(31st March, 2006)

25. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	**262**	240

Mr. Chan Woon Man is a substantial shareholder of the Company and Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

(b) Details of balances with related parties at the balance sheet date are set out in the consolidated balance sheet and note 17.

(c) *Compensation of key management personnel*

The remuneration of directors and other members of key management during the year was as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**6,201**	4,462
Post employment benefits	**108**	108
	6,309	4,570

26. COMPARATIVE FIGURES

In prior years, the Group classified the business of trading of leather as the Group's principal activity and the revenue and costs of the business were recognised as the Group's turnover and cost of sales respectively. In view of the fact that the business has become inactive and its contribution to the Group's turnover has become insignificant, the directors has decided to exclude the business from principal activities of the Group and report it as other income of the Group from 1st April, 2005 onwards. Hence, net gain from trading of leather has been reported as other income in the Group's financial statements for the year ended 31st March, 2006. Relevant comparative figures of turnover of HK$462,000 and cost of sales of HK$328,000 in relation to business of trading of leather for the year ended 31st March, 2005 have been reclassified to other income.

Notes to the Financial Statements

(31st March, 2006)

27. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed through its operations to one or more of the following financial risks:

- Foreign currency risk
- Liquidity risk
- Credit risk
- Fair value

Foreign currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain trade receivables and payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Liquidity risk

Internally generated cash flow are the general sources of funds to finance the operations of the Group. The Group's liquidity risk management includes making available standby banking facilities. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

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(31st March, 2006)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has policies in place to determine credit limits, credit approval and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spreading over a number of counterparties and customers.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

Fair value

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

29. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of trade receivables

The Group recognises impairment of trade receivables based on an assessment of the recoverability of debtors. Impairment tests are applied to debtors where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation on the recoverability of debtors is different from the original estimate and the present value of estimated future cash flows discounted at the effective rate computed at initial recognition is less than the asset's carrying amount, such difference will impact the carrying value of debtors and impairment of trade receivables should be recognised in the periods in which such estimate has been changed.

Estimated allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowance are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories.

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 20th July, 2006.