GAY GIANO INTERNATIONAL

Annual Report 2007

GAY GIANO INTERNATIONAL GROUP LIMITED
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

CONTENTS

Corporate Information

Head office and principal place of business

Suites 701-702, Grandtech Centre
8 On Ping Street
Siu Lek Yuen
Shatin, N.T.
Hong Kong

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Directors

Executive:
Ms Cheung Yin Sheung Subraina *(Chairman)*
Mr Tong Kwong Fat
Ms Yung Wing Sze Vivian

Non-Executive:
Ms To Ming Oi Wendy

Independent non-executive:
Mr Chan Ka Ling Edmond
Mr Lo Wa Kei Roy
Mr Ching Kwok Ho Samuel

Company secretary

Mr Ting Lam Kwai James

Auditors

BDO McCabe Lo Limited
Certified Public Accountants

Solicitors

Hong Kong:
Richards Butler
Fairbairn Catley Low & Kwong

Bermuda:
Conyers, Dill & Pearman

Principal share registrar and transfer office in Bermuda

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Branch share registrar and transfer office in Hong Kong

Union Registrars Limited
Room 1803, Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong

Principal bankers

The Hongkong and Shanghai Banking Corporation Limited
ICBC (Asia)
Shanghai Commercial Bank Limited
Wing Hang Bank, Limited

Website

www.gaygiano.com

Chairman's Statement

Business and Operation Review

Business Review

During the year, the Group continued to apply different strategies to improve the overall performance. However, facing the inflationary pressure in imported material, local rental and human resources costs, the result of the struggle contributed by the management was impaired accordingly.

The Group continued to focus on the fashion apparel retail market in Hong Kong. With a similar structure of the distributional channel to last year, the turnover of the Group for the year was maintained at a steady level of approximately HK$131.4 million (2006: HK$132.8 million). The keen price competition in fashion market impair turnover for the year by approximately 1%.

The gross profit margin of the Group for the year ended 31 March, 2007 was maintained at a relatively high level at approximately 65% (2006: 67%), representing a 2% decrease when compared with last year. The management of the Group had imposed different efforts in production cost control to maintain the gross profit margin. However, the imported inflation of fabrics and fashion accessories from European countries and the keen price competition has lowered down the gross profit ratio of the Group.

During the year, the Group tried to develop the distributional channel and the total number of retail outlets as at 31 March, 2007 is 16 (2006: 15) with total controlled retail area of 24,408 sq. feet (2006: 24,911 sq. feet). In order to achieve the strategic goal of retail outlets area optimization, the Group continued the progress of relocation of the existing retail outlets and opened a new retail outlet in Metro City Phase II, which is located in Tseung Kwan O. As a result, the total number of retail outlets increased with a similar level of total controlled retail area in this year and the ratio of turnover per square is slightly improved accordingly. This retail area optimization strategy effectively controlled the overall rental expenditure of the Group in the existing rental inflationary trend in retail market. On the other hand, certain retail outlets were renovated so as to enhance the brand image and to provide a more comfortable shopping environment to our customers.

The net loss for the year ended 31 March, 2007 is approximately HK$2.6 million (2006: net profit HK$2.1 million). The reason of deteriorated result during the year is mainly due to the worsened operating environment in retail market. The ratio of distribution costs to turnover and administrative expenses to turnover for the year are maintained at the level of approximately 36% (2006: 35%) and 31% (2006: 31%) respectively. Despite the tight fiscal discipline on operating expenses, the ratio of distribution and administrative expenses increased slightly due to the burden of inflating human resources and retail rental cost.

Prospect

Facing the inflationary pressure of the operating environment, the Group will continue to deploy prudent cost control and distributional strategies on our future retail outlets development. Looking ahead, we believe that the firm commitment of the management to build brand loyalty, effective operational and financial strategies, along with our sophisticated yet contemporary apparel products and effective distribution channel, will support the Group's healthy growth and enable us to gain access to additional business opportunities that may be presented to the Group in the future.

Appreciation

On behalf of the Board, I would like to extend my sincere gratitude to our shareholders, customers, suppliers, bankers and professional advisors for their continued support. May I also thank my fellow directors and our staff for their dedication and contribution.

Cheung Yin Sheung Subraina
Chairman

Hong Kong

27 July, 2007

Management Discussion and Analysis

Liquidity and financial resources

As at 31 March, 2007, net current assets and current ratio of the Group were approximately HK$35.0 million (2006: HK$33.9 million) and 4.0 (2006: 3.3), respectively. The current assets mainly comprised inventories of approximately HK$25.6 million (2006: HK$27.4 million), accounts receivable of approximately HK$0.3 million (2006: HK$1.1 million) and cash and bank balances of approximately HK$10.8 million (2006: HK$12.2 million). The Group had total assets of approximately HK$63.6 million (2006: HK$68.4 million), current liabilities of approximately HK$11.8 million (2006: HK$14.5 million), non-current liabilities of approximately HK$1.7 million (2006: HK$1.6 million) and shareholders' equity of approximately HK$50.2 million (2006: HK$52.3 million).

The overall gearing ratio for the year was maintained at 11.3% (2006: 9.8%) with total borrowings of approximately HK$5.7 million (2006: HK$5.1 million) and net worth of approximately HK$50.2 million (2006: HK$52.3 million) as at 31 March, 2007. Overall gearing ratio is defined as the total borrowings over the net worth.

The Group recorded a net cash inflow from operating activities of approximately HK$0.5 million (2006: HK$0.5 million) for the year. The Group repaid aggregated secured bank and other loans of HK$4.9 million (2006: HK$4.2 million) and the aggregated proceeds received from secured bank loans is HK$5.2 million (2006: HK$4.9 million).

Treasury policies

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks and financial institutions in Hong Kong. As of 31 March, 2007, the total outstanding short-term borrowings stood at approximately HK$5.2 million (2006: HK$5.0 million). Borrowing methods used by the Group mainly include bank loans and other loans from financial institutions. The interest rates of most of these loans are determined by reference to the Hong Kong dollar prime rate. The Group had no interest rate hedging arrangement during the year. The directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

Capital expenditure and commitments

Capital expenditures amounted to approximately HK$2.5 million (2006: HK$3.0 million) for the year ended 31 March, 2007. These expenditure were mainly used in retail network improvement. There were no material capital commitments at 31 March, 2007 (2006: Nil).

Pledge of assets and contingent liabilities

At 31 March, 2007, the Group pledged the leasehold land and buildings in Hong Kong with an aggregate net book value of approximately HK$5.7 million (2006: HK$5.4 million). At 31 March, 2007, the Group had no significant contingent liabilities (2006: Nil).

Material acquisitions and disposals of subsidiaries and associated companies

There were no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 March, 2007.

Investment in properties

The Group's leasehold land and buildings were valued at approximately HK$5.7 million (2006: HK$5.4 million) at 31 March, 2007 by Savills Valuation and Professional Services Limited on an open market, existing use basis. This valuation gave rise to a revaluation surplus of approximately HK$0.3 million which has been credited to reserves.

Properties leased in Hong Kong: the Group leases 16 (2006: 15) retail outlets from independent third parties with a total floor area of 24,408 sq.ft. (2006: 24,911 sq.ft). The Group also leases certain units at Siu Lek Yuen, Shatin, New Territories as warehouse and office space.

Property leased in the PRC: the production facilities and dormitories of the Group are located in Shediju, Shenzhen, PRC.

Segment information

Details of the segment information of the Group are disclosed in note 5 to the financial statement.

Hong Kong is the major geographical segment of the Group. This segment incurred a loss of approximately HK$2.1 million (2006: profit of HK$2.0 million). The deteriorated segment result is mainly due to the keen price competition and the worsened operating environment in Hong Kong retail market.

Employees and remuneration policies

As of 31 March, 2007, the Group had employed approximately 171 (2006: 187) full-time employees in Hong Kong and approximately 288 (2006: 375) full-time employees in the PRC. The total number of full-time employees of the Group is 459 (2006: 562). The Group has a share option scheme for the benefit of its directors and eligible employees of the Group.

Foreign exchange exposure

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and Renminbi. Exchange rates between these currencies were relatively stable during the year under review. However, the recent fluctuation of the exchange rate of EURO may render the Group suffering a greater exchange risk as in the forthcoming year, certain amount of the Group's raw materials are sourced from European countries. The Group had no foreign exchange rate hedging arrangement during the year. However, the management will monitor foreign exchange exposure and considers hedging significant foreign currency exposure should the need arises.

Biographical details of directors and senior management

Executive Directors

Cheung Yin Sheung Subraina, aged 52, is an Executive Director and the Chairman of the Company. She is one of the founders of the Group and is responsible for the Group's overall strategic planning as well as the Group's merchandising management and overall daily retail administrative management. Ms Cheung has over 35 years of experience in the fashion apparel distribution and management business. She is the spouse of Mr Tong Kwong Fat, the aunt of Ms Yung Wing Sze Vivian, the sister-in-law of Ms To Ming Oi Wendy, the elder sister of Mr Cheung Sing Chi and the younger sister of Mr Cheung For Sang.

Tong Kwong Fat, aged 52, is an Executive Director and the Chief Executive Officer of the Company. He is responsible for the Group's overall strategic management as well as marketing and retail development. Mr Tong joined the Group in 1994 and is the spouse of Ms Cheung Yin Sheung Subraina, the uncle of Ms Yung Wing Sze Vivian, brother-in-law of Ms To Ming Oi Wendy, Mr Cheung Sing Chi and Mr Cheung For Sang.

Yung Wing Sze Vivian, aged 31, is an Executive Director of the Company and is responsible for the Group's overall strategic management and business development. She holds a bachelor's degree and a master's degree in Commerce from University of New South Wales. Ms Yung joined the Group in 2000. Ms Yung is the niece of Ms Cheung Yin Sheung Subraina, Mr Tong Kwong Fat, Ms To Ming Oi Wendy, Mr Cheung Sing Chi and Mr Cheung For Sang.

Non-Executive Directors

To Ming Oi Wendy, aged 44, is a Non-Executive Director of the Company. She has over 11 years working experience in merchandising and retail management. Ms To joined the Group in 2007 and is the spouse of Mr Cheung Sing Chi. Ms To is also the sister-in-law of Ms Cheung Yin Sheung Subraina, Mr Tong Kwong Fat and Mr Cheung For Sang and the aunt of Ms Yung Wing Sze Vivian.

Independent Non-Executive Directors

Chan Ka Ling Edmond, aged 48, is an Independent Non-executive Director of the Company. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants (Practising). He has been practicing as a certified public accountant in Hong Kong for 19 years and is a partner in Chan and Chan, CPA. He is currently an independent non-executive director of Tack Hsin Holdings Limited and Simsen International Cooperation Limited, both companies are listed on the Main Board of the Stock Exchange.

Lo Wa Kei Roy, aged 36, is an Independent Non-Executive Director of the Company. He is a member of the Hong Kong Institute of Certified Public Accountants (Practicing), a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Securities Institute. He has over 14 years of experience in auditing, accounting and finance. He is currently the independent non-executive director of Sun Hing Vision Group Holdings Limited and Sun Man Tai Holdings Company Limited, all companies are listed on the Main Board of the Stock Exchange.

Ching Kwok Ho Samuel, aged 50, is an Independent Non-Executive Director of the Company. He is a practising solicitor in Hong Kong. He graduated from the University of Hong Kong with bachelor of laws degree and a postgraduate certificate in laws. Mr Ching is currently one of the partners of King & Company in Hong Kong. He has over 21 years of legal experience in banking and finance, liquidation, tenancy, conveyancing, commercial disputes and civil litigation in Hong Kong. Mr Ching currently is an independent non-executive director of Tack Fat Group International Limited, a company listed on the Main Board of the Stock Exchange.

Senior Management

Cheung Sing Chi, aged 46, is the Creative Director of the Group. He is one of the founders of the Group and is responsible for the overall fashion design management of the Group. He has over 27 years of experience in the fashion apparel distribution and manufacturing business. Mr Cheung is the substantial shareholder of the Group. He is the younger brother of Ms Cheung Yin Sheung Subraina and Mr Cheung For Sang, the brother-in-law of Mr Tong Kwong Fat, the uncle of Ms Yung Wing Sze Vivian and the spouse of Ms To Ming Oi Wendy.

Cheung For Sang, aged 54, is the Manufacturing Director of the Group. He is one of the founders of the Group and is responsible for the manufacturing management of the Group. He has over 27 years experience in fashion manufacturing management. He is the elder brother of Ms Cheung Yin Sheung Subraina and Mr Cheung Sing Chi, the brother-in-law of Mr Tong Kwong Fat and Ms To Ming Oi Wendy. He is also the uncle of Ms Yung Wing Sze Vivian.

Wang Pao Yao Paul, aged 31, is the General Manger of the Group and is responsible for the Group's overall strategic management and business development. He holds a bachelor's degree in Engineering (Computer) from University of New South Wales. Before joining the Group in 2006, he worked in a multinational computer technology and consulting corporation as Project Manager. Mr Wang is the spouse of Ms Yung Wing Sze, Vivian.

Chiu Che Chung Patrick, aged 44, is the Administration Manager of the Group. He holds a bachelor's degree in Arts from Tunghai University in Taiwan and is a member of the Institute of Human Resources Management. Mr Chiu joined the Group in 1992 and is responsible for the Groups administration and personnel management. He has more than 15 years of experience in general management.

Chan Kwok Kay, aged 44, is the Design Manager of the Group. He is responsible for the fashion design of the Group. He joined the Group in 1988 and has over 23 years of experience in fashion design.

Ting Lam Kwai James, aged 31, is the Financial Controller of the Company and the Company Secretary of the Company. He is responsible for the overall corporate finance strategy and formulation of corporate policies. He is also responsible for the company secretarial duties of the Company. Mr Ting is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He joined the Group in 2001.

Lee Yin Shan, aged 36, is the Accounting Manager and Deputy General Manager (Retail) of the Group. She is responsible for the overall finance, accounting and retail operation management. She is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Miss Lee joined the Group in 1998 and has more than 16 years of experience in accounting and auditing.

Lee Hop Mui, aged 42, is the Retail Manager of the Group and is responsible for the overall daily retail operations of the Group. She joined the Group in 1987 and has over 22 years of experience in fashion retailing.

Shop list

GAY GIANO

Shop 525, Times Square, 1 Matheson St, Causeway Bay, H.K.
Shop 36, G/F., Fashion Island, 19 Great George St., Causeway Bay, H.K.

COUR CARRÉ

Shop A, G/F., Style House, The Park Lane Hotel, 310 Gloucester Rd., Causeway Bay, H.K.
Shop 111 on Level One, Man Yee Arcade, Man Yee Bldg., 68 Des Voeux Road Central, H.K.
Shop 052, G/F., Cityplaza 2, 18 Taikoo Shing Rd., Taikoo Shing, H.K.
Shop 2332, Level 2, Harbour City, Tsimshatsui, KLN.
Shop G35-G37, G/F., Fashion World, Site 2 Whampoa Garden, Hunghom, KLN.
Shop Unit G80, Telford Plaza 1, Telford Garden, 33 Wai Yip St., Kowloon Bay, KLN.
Shop210-213, Level 2, Grand Century Place, KCRC Mongkok Station, KLN.
LG1-28, Level LG1, Festival Walk, 80 Tat Chee Avenue, Kowloon Tong, KLN.
Shop L024-L025, G/F., New World Centre Shopping Mall, 18-24, Salisbury Rd., Tsimshatsui, KLN.
Shop No. UC-2, Upper Concourse Level, APM, Millennium City 5, 418 Kwun Tong Rd., KLN.
Shop UG17, Upper Ground Floor, Olympian City 2, 18 Hoi Ting Road, Tai Kok Tsui, KLN.
Shop 472, 4/F., Phase 1, New Town Plaza, 18 Shatin Centre St., Shatin, N.T.
Shop No. 1100-1101, Level One, Metro City Phase II, Tseung Kwan O, N.T.

Summary of financial information

The following is a summary of the consolidated results and assets and liabilities of the Group for the five financial years ended 31 March, 2007.

Result	Year ended 31 March,				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover					
Gay Giano	36,043	36,688	34,333	32,317	44,802
Cour Carré	93,050	93,132	87,252	77,846	83,139
Due G	2,354	2,965	4,819	12,094	23,040
	131,447	132,785	126,404	122,257	150,981
(Loss)/profit before taxation	(1,986)	1,680	14,182	(8,422)	(29,232)
Taxation	(572)	463	(235)	(70)	293
Net (loss)/profit for the year	(2,558)	2,143	13,947	(8,492)	(28,939)

Assets and Liabilities	At 31 March,				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment	12,361	13,223	14,662	21,295	36,885
Rental deposits	4,459	6,277	5,853	3,855	7,652
Deferred tax assets	—	571	—	—	—
Current assets	46,809	48,367	42,831	29,408	36,836
Total assets	63,629	68,438	63,346	54,558	81,373
Current liabilities	11,789	14,473	12,327	13,161	22,558
Non-current liabilities	1,662	1,641	1,239	5,572	14,498
Total liabilities	13,451	16,114	13,566	18,733	37,056
Net assets	50,178	52,324	49,780	35,825	44,317

Key financial statistics

	Unit/Place	2007	2006	2005	2004	2003
Turnover	HK$'000	**131,447**	132,785	126,404	122,257	150,981
(Loss)/profit before taxation	HK$'000	**(1,986)**	1,680	14,182	(8,422)	(29,232)
(Loss)/profit for the year	HK$'000	**(2,558)**	2,143	13,947	(8,492)	(28,939)
Total equity	HK$'000	**50,178**	52,324	49,780	35,825	44,317
Total assets	HK$'000	**63,629**	68,438	63,346	54,558	81,373
Working capital	HK$'000	**35,020**	33,894	30,504	16,247	14,278
Total borrowings	HK$'000	**5,650**	5,142	4,585	6,628	22,846
(Loss)/earnings per share						
— Basic	HK cents	**(1.28)**	1.07	6.97	(4.25)	(14.47)
— Diluted	HK cents	**N/A**	1.07	6.95	N/A	N/A
Number of shops		**16**	15	13	12	16
Total controlled retail floor area	Square feet	**24,408**	24,911	24,901	27,172	34,751
Capital expenditure	HK$'000	**2,471**	3,027	3,090	729	1,110
Number of employees	Hong Kong, SAR	**171**	187	161	168	203
	PRC	**288**	375	367	348	377

Report of directors

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

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 31 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

Segment information

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March, 2007 is set out in note 5 to the financial statements.

Results and dividends

The Group's results for the year ended 31 March, 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 32. The directors do not recommend the payment of any dividend in respect of the year.

Property, plant and equipment

Details of movements in the Group's property, plant and equipment during the year are set out in note 12 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 24 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are stated in the Consolidated Statement of Changes in Equity on page 33.

Summary of financial information

A summary of the results of the Group for the past five financial years ended 31 March, 2007 is set out on page 14 of the annual report.

Distributable reserves

At 31 March, 2007, the Company has reserves of HK$4,028,000 available for cash distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account in the amount of HK$26,137,000 may be distributed in the form of fully paid bonus shares.

Bank Loans and Other Loan

Details of movements in the Group's bank loans and other loan during the year are set out in note 20 and note 21 respectively to the financial statements.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Emolument Policy

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the note 24 to the financial statements.

Retirement Scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. The MPF Scheme has been operated since 1 December, 2000. 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 in the PRC are required to participate in a central pension scheme operated by the local municipal governments. The Group is required to contribute certain stipulated percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they became payable in accordance with the rules of the central pension scheme.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. The Group's largest customer accounted for less than 1% of the Group's total sales during the year.

Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year. The Group's largest supplier accounted for approximately 7% of the Group's total purchases during the year.

None of the directors, their associates or any shareholder of the Company (who, to the knowledge of the directors, owns more than 5% of the Company's share capital) had an interest in the customers and the suppliers noted above.

Directors

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

Executive directors:

Cheung Yin Sheung Subraina (Chairman)
Tong Kwong Fat
Yung Wing Sze Vivian

Directors (continued)

Non-executive director:

To Ming Oi Wendy

Independent non-executive directors:

Chan Ka Ling Edmond
Lo Wa Kei Roy
Ching Kwok Ho Samuel (appointed on 1 May, 2006)
Tsang Wai Kit (resigned on 1 May, 2006)

In accordance with the Bye-Law 111(A) of the Company's Bye-Laws, Ms Cheung Yin Sheung Subraina, Mr Chan Ka Ling Edmond and Mr Lo Wa Kei Roy will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' and senior management's biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on page 11 of this annual report.

Directors' service contracts

Except for Ms Yung Wing Sze Vivian, each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 1 April, 2000, which will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Each of non-executive director and independent non-executive directors has entered into a services contract with the Company for a term of one year, which will continue thereafter until terminated by either party giving not less than one month's notice in writing to the other party.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

Save as disclosed in note 29 to the financial statements and in the section "Connected transactions" below, no director had a material interest in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year.

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 31 March, 2007, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures (continued)

(i) Long positions in ordinary shares of the Company

Name of Directors	Capacity	Type of interests	Number of shares held	Approximate % of the issued share capital
Cheung Yin Sheung Subraina ("Ms Cheung")	Beneficial owner	Corporate (Note 1)	120,000,000	60
	Interest of spouse (Note 2)	Corporate (Note 1)	120,000,000	60
Tong Kwong Fat ("Mr Tong")	Beneficial owner	Corporate (Note 1)	120,000,000	60
	Interest of spouse (Note 2)	Corporate (Note 1)	120,000,000	60
To Ming Oi Wendy ("Ms To")	Interest of spouse (Note 3)	Corporate (Note 1)	120,000,000	60

Notes:

1. The 120,000,000 shares are held by Gay Giano (BVI) Group Limited, ("Gay Giano (BVI)"), a limited company incorporated in the British Virgin Islands and Ms Cheung and Mr Tong owned 250 shares and 50 shares respectively, which representing 12.5% and 2.5% respectively of Gay Giano (BVI).

2. Mr Tong is the spouse of Ms Cheung. By virtue of the SFO, Mr Tong and Ms Cheung are taken to be interested in the shares held by each other.

3. The 120,000,000 shares are held by Gay Giano (BVI), Mr Cheung Sing Chi ("Mr Cheung") owned 1,450 shares, which representing 72.5% of Gay Giano (BVI). As Ms To is the spouse of Mr Cheung, Ms To is taken to be interested in the shares held by Mr Cheung by virtue of the SFO.

(ii) Interests in options to subscribe for the Company's shares

As at 31 March, 2007, the directors had interests in share options to subscribe for shares in the Company under the Old Scheme (as defined in the Section "Share option scheme" below) as follows:

Name of Directors	Capacity	Type of interests	Number of underlying shares held pursuant to share options	Total approximate % of the issued share capital
Cheung Yin Sheung Subraina	Beneficial owner	Personal	1,800,000	1.80
	Interest of spouse (Note 1)	Family	1,800,000	
Tong Kwong Fat	Beneficial owner	Personal	1,800,000	1.80
	Interest of spouse (Note 1)	Family	1,800,000	
Yung Wing Sze Vivian	Beneficial owner	Personal	1,170,000	0.58
To Ming Oi Wendy	Interest of spouse	Family	3,000,000 (Note 2)	1.50

Notes:

1. Mr Tong is the spouse of Ms Cheung. By virtue of the SFO, Mr Tong and Ms Cheung are taken to be interested in the shares held by each other.

2. These 3,000,000 underlying shares held by Mr Cheung pursuant to the share option scheme adopted by the Company on 14 March, 2000. As Ms To is the spouse of Mr Cheung. Ms To is taken to be interested in these underlying shares held by Mr Cheung by virtue of the SFO.

Save as disclosed above, none of directors or chief executives or their associates held any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation as at 31 March, 2007 which had to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' rights to acquire shares or debt securities

Apart from as disclosed under the heading "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or chief executive, or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries and fellow subsidiaries, a party to any arrangement to enable the directors, chief executives, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

Directors' interest in competing business

During the year, none of the directors or management shareholders of the Company (as defined in the Listing Rules) has an interest in a business which compete or may corporate with the business of the Group.

Share option scheme

In 2001, the Stock Exchange announced changes to the Listing Rules which set out the revised requirements for share option schemes operated by listed companies. In this respect, the operation of the share option scheme adopted by the Company on 14 March, 2000 (the "Old Scheme") was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option would be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On 10 September, 2002, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme") under which the board of directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time. Other details of the New Scheme were disclosed in the circular dated 29 July, 2002. As at 31 March, 2007, no options have been granted under the New Scheme.

Details of the movements in the share options granted and exercised during the year ended 31 March, 2007 under the Old Scheme are as follows:

Name or category of participant	Date of grant of share options (Note 1)	Exercisable period of share options	At 1 April, 2006	Granted during the year
Directors				
Cheung Yin Sheung Subraina	5 February, 2001	5 February, 2001 to 4 February, 2011	1,800,000	–
Tong Kwong Fat	5 February, 2001	5 February, 2001 to 4 February, 2011	1,800,000	–
Yung Wing Sze Vivian	5 February, 2001	5 February, 2001 to 4 February, 2011	1,170,000	–
			4,770,000	–
Other employees				
In aggregate	5 February, 2001	5 February, 2001 to 4 February, 2011	10,390,000	–
			15,160,000	–

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

2. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

Summary details of the Company's share option schemes are set out in note 24 to the financial statements.

	Number of share options				
	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31 March, 2007	Exercise price of share options HK$ (Note 2)
	—	—	—	1,800,000	0.2528
	—	—	—	1,800,000	0.2528
	—	—	—	1,170,000	0.2528
	—	—	—	4,770,000	
	—	(80,000)	—	10,310,000	0.2528
	—	(80,000)	—	15,080,000	

Substantial shareholders' interests and short positions in shares, underlying shares and debentures

According to the records entered into the register required to be kept by the Company pursuant to Section 336 of the SFO, so far as the directors of the Company are aware of and having made due enquiries, as at 31 March, 2007, the interests and short positions of the following parties (other than the directors or chief executives of the Company as disclosed above), in the shares or underlying shares of the Company were as follows:

Name	Capacity	Type of interests	Number of shares held	Number of underlying share held	% of the issued share capital
Gay Giano (BVI)	Beneficial owner	Corporate	120,000,000	–	60.00
K&E Industries Limited	Beneficial owner	Corporate	30,000,000	–	15.00
Cheung Sing Chi	Interest of Controlled Corporation (Note 1)	Corporate	120,000,000	–	60.00
	Beneficial owner	Personal	–	3,000,000	1.50
Cheung Yin Fong	Interest of Controlled Corporation (Note 2)	Corporate	120,000,000	–	60.00
	Beneficial owner	Personal	–	1,800,000	0.90

Note:

1. Mr Cheung Sing Chi holds 72.5% of the shares in issue of Gay Giano BVI and therefore has a controlling interest in it. By virtue of the SFO, Mr Cheung Sing Chi is taken to be interested in the shares of the Company held by Gay Giano BVI.

2. Ms Cheung Yin Fong holds 12.5% of the shares in issue of Gay Giano BVI and therefore has a controlling interest in it. By virtue of the SFO, Ms Cheung Yin Fong is taken to be interested in the shares of the Company held by Gay Giano BVI.

Save as disclosed above, as at 31 March, 2007, the Company was not notified by any person (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Connected transactions

During the year, the Group has entered into the following transactions with "connected persons" for the purpose of the Listing Rules:

During the year ended 31 March, 2007, Gay Giano International Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Boldsmore International Limited ("Boldsmore"), a fellow subsidiary of the Company. Pursuant to the agreement, Boldsmore leased an office and a warehouse to the Group for a term of two years from 1 November, 2005 to 31 October, 2007 at a monthly rent of HK$220,000.

Savills Valuation and Professional Services Limited, an independent firm of professional valuers, has reviewed the terms of the lease agreement as set out above and has confirmed to the directors that the rentals payable under the agreement is based on normal commercial terms and is fair and reasonable.

The independent non-executive directors are of the opinion that the terms of the above transaction is fair and reasonable so far as the shareholders of the Company are concerned; and that the transaction has been entered into by the Group in its ordinary course of business and on normal commercial terms and was carried out in accordance with the terms of the agreement governing such transaction.

Public float

As far as the information publicly available to the Company is concerned and to the best knowledge of the directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at 27 July, 2007 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained in the report).

Auditors

Messrs KLL Associates CPA Limited ("KLL") had been the auditors of the Company for three years until their practice merged with that of BDO McCabe Lo Limited ("BDO") in 2005. The Board appointed BDO as auditors of the Company immediately following the resignation of KLL on 30 September, 2005.

Messrs BDO shall retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of Messrs BDO as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company. Save as aforesaid, the Company has not changed its auditors in the preceding three years.

ON BEHALF OF THE BOARD
Cheung Yin Sheung Subraina
Chairman

Hong Kong
27 July, 2007

Report of corporate governance

Corporate governance practices

Throughout the year ended 31 March, 2007, the Group has adopted and complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

Directors' securities transactions

The Company has adopted a model code as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors of the Company (the "Directors"), the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the year ended 31 March, 2007.

Board of directors

Composition of the Board of Directors

The Board of Directors of the Company (the "Board") currently comprises seven Directors, of whom three are Executive Directors, namely Ms Cheung Yin Sheung Subraina, Mr Tong Kwong Fat, Ms Yung Wing Sze Vivian, a Non-executive Director, namely Ms To Ming Oi Wendy and, three are Independent Non-executive Directors, namely Mr Chan Ka Ling Edmond, Mr Lo Wa Kei Roy and Mr Ching Kwok Ho Samuel. Each of Directors' respective biographical details is set out in the "Biographical details of directors and senior management" of this annual report.

The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. To the best knowledge of the Board, save as the family relationships set out in the "Biographical details of directors and senior management" of this annual report, there is no financial, business, family or other material/relevant relationship among members of the Board.

Chairman and Chief Executive Officer

The Chairman and the Chief Executive Officer of the Company are Ms Cheung Yin Sheung Subraina and Mr Tong Kwong Fat respectively. Ms Cheung Yin Sheung Subraina is the spouse of Mr Tong Kwong Fat. The roles of the Chairman and Chief Executive Officer are segregated to assume a balance of authority and power. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

Functions of the Board of Directors

The Board is responsible for the leadership and control of the Company, oversee the Group's businesses and evaluate the performance of the Group. The Board also focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group. The Board delegates day-to-day operations of the Group to executive directors and senior management who perform their duties under the leadership of the Chairman.

Independent Non-executive Directors

In compliance of Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors. And among the three independent non-executive Directors, two of them have appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The Company has received from each of its independent non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers Mr Chan Ka Ling Edmond, Mr Lo Wa Kei Roy and Mr Ching Kwok Ho Samuel to be independent.

Board of directors (continued)

Directors' Appointment, Re-election and Removal

All non-executive Directors are appointed for a specific term 1 year subject to the retirement and reappointment provisions in the Bye-law of the Company (the "Bye-laws").

In accordance with the Bye-laws, one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting of the Company, every director shall be subject to retire by rotation at least once every three years. In addition, according to the Bye-laws, any directors appointed to fill a casual vacancy shall hold office only until the next following general meeting or until the next following annual general meeting if addition to the Board and shall then be eligible for re-election at that meeting.

Board meetings and Board Practices

The Board has scheduled at least four meetings a year and meets when required. During the year, the Board held 4 meetings. The Company Secretary assists the Chairman in preparing the agenda of meeting. For all such meetings, at least 14 days' notice is given to all Directors while reasonable notice is generally given for other board meetings. The Company Secretary is responsible for distributing detailed documents to Directors to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing to the Board of Directors opinions on matters in relation to the compliance with the procedures of the Board meetings. All Board and committee minutes are recorded in appropriate detail and all minutes are kept by Company Secretary and are open for inspections by the Directors. In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company.

During the year ended 31 March, 2007, the Company held 4 Board meetings, and the Directors' attendance records for those meetings held are set out below.

Directors' Attendance at Board Meetings

		Directors' Attendance
Executive Directors		
Ms Cheung Yin Sheung Subraina (Chairman)		4/4
Mr Tong Kwong Fat		4/4
Ms Yung Wing Sze Vivian		4/4
Non-executive Director		
Ms To Ming Oi Wendy		4/4
Independent Non-executive Directors		
Mr Chan Ka Ling Edmond		4/4
Mr Lo Wa Kei Roy		4/4
Mr Tsang Wai Kit	(resigned on 1 May, 2006)	1/1
Mr Ching Kwok Ho Samuel	(appointed on 1 May, 2006)	3/3

Board Committees

Audit Committee

The Company has established an audit committee on 14 March, 2000 with written terms of reference in accordance with the requirements of the CG Code. The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr Chan Ka Ling Edmond, Mr Lo Wa Kei Roy and Mr Ching Kwok Ho Samuel. Mr Chan Ka Ling Edmond is the Chairman of the audit committee. The audit committee acts as an important link between the Board and the Company's auditors in matters within the scope of the group audit. The duties of the audit committee are to review and provide supervision over the financial reporting process of the Group. The audit committee meets regularly with the management and the external auditors to discuss the accounting principles and practices adopted by the Group and financial reporting matters. The financial statements of the Group for the year ended 31 March, 2007 have been reviewed by the audit committee and there were 3 meetings held during the year ended 31 March, 2007. The attendance records for the audit committee meetings are set out below:

Members of the audit committee		Directors' Attendance
Mr Chan Ka Ling Edmond		3/3
Mr Lo Wa Kei Roy		3/3
Mr Tsang Wai Kit	(resigned on 1 May, 2006)	0/0
Mr Ching Kwok Ho Samuel	(appointed on 1 May, 2006)	3/3

Remuneration Committee

The Company established a remuneration committee on 28 September, 2005 with terms of reference in compliance with the provisions set out in the CG Code. The principal responsibilities of the remuneration committee include making recommendations to the Board on the Company's policy and structure in relation to the remuneration of directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time. It comprises three members, including the Company's two independent non-executive Directors, namely Mr Chan Ka Ling Edmond and Mr Lo Wa Kei Roy and an executive director, Ms Yung Wing Sze Vivian. Mr Chan Ka Ling Edmond is the Chairman of the remuneration committee.

The remuneration committee meets at least once a year. During the financial year ended 31 March, 2007, the remuneration committee has held 3 meeting to review the existing remuneration packages of each Director and senior management of the Company, and to recommend to the Board the salaries and bonuses of the Directors and senior management and discuss the remuneration package of the newly appointed directors and senior managements. The attendance record of individual committee members is set out as below:

Members of the remuneration committee	Directors' Attendance
Mr Chan Ka Ling Edmond	3/3
Mr Lo Wa Kei Roy	3/3
Ms Yung Wing Sze Vivian	3/3

Nomination of Directors

According to the CG Code, it is recommended to set up a nomination committee with a majority of the members thereof being independent non-executive directors. As the Board considers that may take up by the board members, therefore, the Company has not established a nomination committee.

The Board is responsible for considering to select and recommend candidates for directorship which based on assessment of their professional qualifications and experience. The Board is responsible for determining the independence of each Director and conducting assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

Auditors' remuneration

During the year ended 31 March, 2007, the fees paid/payable to BDO McCabe Lo Limited, the existing auditors of the Company, in respect of audit is HK$310,000 (2006: HK$320,000).

Directors' responsibility for the financial statements

The Board is responsible for the preparation of the financial statements of the Group. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

The Directors acknowledge their responsibility for preparing the financial statements of the Group. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Internal control

The Board has overall responsibility for the system of internal control and for reviewing its effectiveness. During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Group. The review covered all material controls, including financial, operational and compliance controls and risk management functions.

Independent auditor's report

BDO

BDO McCabe Lo Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Telefax: (852) 2815 0002

德豪嘉信會計師事務所有限公司

香港干諾道中一百一十一號
永安中心二十五樓
電話:(八五二)二五四一 五〇四一
傳真:(八五二)二八一五 〇〇〇二

TO THE SHAREHOLDERS OF
GAY GIANO INTERNATIONAL GROUP LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements of Gay Giano International Group Limited set out on pages 30 to 58, which comprise the consolidated and Company balance sheet as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

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

BDO McCabe Lo Limited
Certified Public Accountants

Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 27 July, 2007

Consolidated income statement

For the year ended 31 March, 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	4	131,447	132,785
Cost of sales		(45,936)	(44,123)
Gross profit		85,511	88,662
Other income		931	971
Distribution costs		(47,641)	(46,363)
Administrative expenses		(40,509)	(41,450)
(Loss)/profit from operations	6	(1,708)	1,820
Finance costs	7	(278)	(140)
(Loss)/profit before tax		(1,986)	1,680
Tax (expense)/income	9	(572)	463
(Loss)/profit for the year		(2,558)	2,143
Attributable to:			
— Equity holders of the Company		(2,558)	2,143
Dividend	10	NIL	NIL
(Loss)/earnings per share			
— Basic	11	HK(1.28) cents	HK1.07 cents
— Diluted	11	N/A	HK1.07 cents

Consolidated balance sheet

As at 31 March, 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	12	12,361	13,223
Rental deposits		4,459	6,277
Deferred tax assets	13	—	571
Total non-current assets		16,820	20,071
Current assets			
Inventories	15	25,603	27,395
Trade receivables	16	308	1,063
Prepayments, deposits and other receivables		6,427	4,216
Tax recoverable		181	—
Pledged bank deposits		3,500	3,500
Cash and cash equivalents	18	10,790	12,193
Total current assets		46,809	48,367
Current liabilities			
Trade payables	19	2,606	2,767
Accrued liabilities and other payables		3,692	6,695
Tax payable		—	7
Bank loans (secured)	20	5,212	4,867
Other loan (secured)	21	—	59
Obligations under finance leases	22	279	78
Total current liabilities		11,789	14,473
Net current assets		35,020	33,894
Total assets less current liabilities		51,840	53,965
Non-current liabilities			
Obligations under finance leases	22	159	138
Employee benefits	23	1,503	1,503
Total non-current liabilities		1,662	1,641
TOTAL NET ASSETS		50,178	52,324
Capital and reserves attributable to equity holders of the Company			
Share capital	24	20,013	20,013
Reserves		30,165	32,311
TOTAL EQUITY		50,178	52,324

On behalf of the Board

Cheung Yin Sheung Subraina
Director

Tong Kwong Fat
Director

Balance sheet

As at 31 March, 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Investment in a subsidiary	14	12,842	21,233
Current assets			
Prepayment		—	3
Amounts due from subsidiaries	17	37,437	45,824
Cash and cash equivalents	18	11	6
Total current assets		37,448	45,833
Current liabilities			
Accrued liabilities		112	40
Net current assets		37,336	45,793
TOTAL NET ASSETS		50,178	67,026
Capital and reserves attributable to equity holders of the Company			
Share capital	24	20,013	20,013
Reserves	25	30,165	47,013
TOTAL EQUITY		50,178	67,026

On behalf of the Board

Cheung Yin Sheung Subraina
Director

Tong Kwong Fat
Director

Consolidated statement of changes in equity

For the year ended 31 March, 2007

	Share capital HK$'000	Share premium HK$'000	Exchange fluctuation reserve HK$'000	Leasehold land and buildings revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April, 2005	20,006	26,126	116	—	3,532	49,780
Exercise of share options	7	11	—	—	—	18
Change in fair value of leasehold land and buildings	—	—	—	353	—	353
Profit for the year	—	—	—	—	2,143	2,143
Exchange realignments	—	—	30	—	—	30
At 31 March, 2006 and 1 April, 2006	20,013	26,137	146	353	5,675	52,324
Change in fair value of leasehold land and buildings	—	—	—	408	—	408
Loss for the year	—	—	—	—	(2,558)	(2,558)
Exchange realignments	—	—	4	—	—	4
At 31 March, 2007	**20,013**	**26,137**	**150**	**761**	**3,117**	**50,178**

Consolidated cash flow statement

For the year ended 31 March, 2007

	2007 HK$'000	2006 HK$'000
Cash flows from operating activities		
(Loss)/profit before tax	(1,986)	1,680
Adjustment for:		
Depreciation of property, plant and equipment	2,424	3,460
Loss on write-off and disposals of property, plant and equipment	1,286	1,329
Write-down of inventories to net realisable value	1,804	877
Provision for long service payments	—	539
Interest income	(219)	(176)
Interest on bank loans and overdrafts	261	123
Interest on obligations under finance leases	16	12
Interest on other loan	1	5
Operating profit before working capital changes	3,587	7,849
Decrease/(increase) in rental deposits	1,818	(424)
Increase in inventories	(12)	(9,000)
Decrease in trade receivables	755	959
Increase in prepayments, deposits and other receivables	(2,211)	(270)
(Decrease)/increase in trade payables	(161)	1,304
(Decrease)/increase in accrued liabilities and other payables	(3,003)	391
Cash generated from operations	773	809
Interest received	219	176
Interest on bank loans and overdrafts	(261)	(123)
Interest on obligations under finance leases	(16)	(12)
Interest on other loan	(1)	(5)
Income tax paid	(189)	(351)
Net cash from operating activities	525	494
Cash flows from investing activities		
Proceeds on disposals of property, plant and equipment	35	60
Purchase of property, plant and equipment	(2,071)	(3,027)
Net cash used in investing activities	(2,036)	(2,967)
Cash flows from financing activities		
Issue of shares	—	18
Repayments of other loan	(59)	(1,924)
Repayments of obligations under finance leases	(178)	(123)
Proceeds from bank loans (secured)	5,212	4,867
Repayments of bank loans (secured)	(4,867)	(2,263)
Net cash from financing activities	108	575
Net decrease in cash and cash equivalents	(1,403)	(1,898)
Cash and cash equivalents at beginning of year	12,193	14,091
Cash and cash equivalents at end of year	10,790	12,193
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	10,790	12,193

Notes to the financial statements

31 March, 2007

1. General

The Company was incorporated in Bermuda as exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Its registered office is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and principal place of business is at Suites 701-702, Grandtech Centre, 8 On Ping Street, Siu Lek Yuen, Shatin, N.T., Hong Kong.

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

The Company is a subsidiary of Gay Giano (BVI) Group Limited, a company incorporated in the British Virgin Islands, which is considered by the directors to be the Company's ultimate holding company.

The Company acts as an investment holding company. The Group is principally involved in the manufacturing, retailing and wholesaling of fashion apparel and complementary accessories. The activities of its principal subsidiaries are set out in note 31.

2. Application of Hong Kong financial reporting standards

(a) In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are relevant to its operation and effective for accounting period beginning on 1 April, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

(b) Potential impact arising on the new/revised accounting standards not yet effective

The Group has not yet applied the following new standards, amendments or interpretations 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 of the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[4]
HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 7	Financial Instruments: Disclosures[4]
HKFRS 8	Operating Segments[1]
HK (IFRIC) — Interpretation 8	Scope of HKFRS 2[7]
HK (IFRIC) — Interpretation 9	Reassessment of Embedded Derivatives[6]
HK (IFRIC) — Interpretation 10	Interim Financial Reporting and Impairment[5]
HK (IFRIC) — Interpretation 11	Group and Treasury Share Transactions[3]
HK (IFRIC) — Interpretation 12	Service Concession Arrangements[2]

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

3. Principal accounting policies

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, 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 of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

(b) Basis of preparation

The financial statements have been prepared under the historical cost basis, except for certain properties and financial instruments, which are measured at fair values or revalued amounts as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Judgements and estimations made by the management that have a significant effect on the financial statements are discussed in note 32 of the financial statements in the annual report.

(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, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full in preparing the consolidated financial statements.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition.

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

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss, if any.

(d) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

(e) Revenue recognition

Revenue from sales of goods is recognised when title of the goods 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.

Royalty fee income is recognised on accrual basis in accordance with the terms of the agreements.

(f) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended use or sale.

All other borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

3. Principal accounting policies (continued)

(g) Leasing

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

The Group as lessee

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership 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.

(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.

Income 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) Share based payment

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 or services received unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For each-settled share based payments, a liability is recognised at the fair value of the goods or services received.

3. Principal accounting policies (continued)

(j) Employee benefits

(i) Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognised as an expense in the income statement when the services are rendered by the employees.

(ii) Long service payments

The Group's net obligations in respect of lump sum long service amounts payable on cessation of employment in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefits that employee have earned in return for their services in the current and prior periods. The obligations is calculated using the projected unit credit method, discounted to its present value, and the fair value of any related plan assets is deducted. The discount rate is the yield at balance sheet date on government bonds that have maturity dates approximating the terms of the Group's obligations.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iv) 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 payments 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.

(k) Foreign currency

Transactions entered into by Group entities in currencies 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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the 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.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences is also recognised directly in equity.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rate 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 "exchange fluctuation 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 exchange fluctuation reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

3. Principal accounting policies (continued)

(l) Impairment of non-financial assets

Other non-financial 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.

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

(m) Property, plant and equipment

The building component of owner-occupied leasehold properties are stated at valuation less accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Increases in valuation are credited to the leasehold land and buildings revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and thereafter charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged and thereafter to the leasehold land and buildings revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the leasehold buildings revaluation reserve to retained earnings.

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

Property, plant and equipment are depreciated so as to write off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The useful lives are as follows:

Leasehold Land and Buildings	Over the lease terms
Leasehold improvements	5 years
Plant and machinery	5 years
Furniture and fixtures	5 years
Motor vehicles	4 years

During the year, the depreciation methods of property, plant and equipment was revised from reducing balance basis to straight-line basis to better reflect the useful life of the property, plant and equipment. The effect of the change in accounting estimate in the current year was an decrease in depreciation charge of approximately HK$15,000.

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 a fixed asset is the difference between the net sale proceeds and its carrying amount, and is recognised in the income statement on disposal.

3. Principal accounting policies (continued)

(n) 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 calculated using the first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(o) 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:

Financial assets at fair value through profit or loss: include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on these financial assets are recognised in the income statement.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

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 debtors), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets: 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 the loss is removed from equity and recognised in the income statement.

Any impairment losses on available-for-sale financial assets are recognised in the income statement on available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

3. Principal accounting policies (continued)

(o) Financial instruments (continued)

(ii) Financial liabilities

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

Financial liabilities at fair value through profit or loss: Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on liabilities held for trading are recognised in the income statement.

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.
- Bank borrowings are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iii) Equity instruments

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

(iv) Financial guarantee contracts

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

(v) Derecognition

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

3. Principal accounting policies (continued)

(p) 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.

(q) 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.

4. Turnover

Turnover represents the net invoiced value of goods sold, after goods returns and trade discounts, from retail and wholesale of ladies' and men's fashion apparel and complementary accessories.

5. Segment information

(a) Business segments

No segment analysis for business segment is presented as the Group principally operates in one business segment, which is the retail and wholesale of fashion apparel.

(b) Geographical segments

The following table presents the revenue, results, assets and capital expenditure information for the geographical segments of the Group.

GROUP

	Hong Kong		PRC		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue						
Sales to external customers	**129,533**	131,337	**1,914**	1,448	**131,447**	132,785
Segment results	**(2,112)**	1,950	**404**	(130)	**(1,708)**	1,820
Other segment information:						
Segment assets	**57,353**	57,841	**6,276**	10,597	**63,629**	68,438
Capital expenditure	**2,435**	2,912	**36**	115	**2,471**	3,027

The carrying amounts of the segment revenue and segment assets are analysed by the geographical area in which the customers and assets are located respectively.

6. (Loss)/profit from operations

	GROUP 2007 HK$'000	2006 HK$'000
(Loss)/profit from operations is arrived at after charging:		
Cost of inventories sold	45,936	44,123
Staff costs (excluding directors' emoluments, note 8)*		
Wages and salaries	35,205	35,573
Retirement benefits	1,858	1,805
Provision for long service payments	—	539
	37,063	37,917
Write-down of inventories to net realisable value*	1,804	877
Depreciation of property, plant and equipment*		
— Owned	2,252	3,358
— Leased	172	102
Minimum lease payments under operating leases on land and buildings*	33,449	31,996
Auditors' remuneration	310	320
Loss on write-off and disposals of property, plant and equipment, net	1,286	1,329
Exchange losses, net*	605	—
and after crediting:		
Royalty fee income	616	616
Interest income	219	176
Exchange gains, net*	—	741

* Cost of inventories sold includes direct staff costs, operating lease rentals on land and buildings, write-down of inventories to net realisable value, net exchange gains/losses and depreciation of property, plant and equipment in aggregate of HK$7,862,000 (2006: HK$7,109,000), which are included in the above respective captions of expenses.

7. Finance costs

	GROUP 2007 HK$'000	2006 HK$'000
Interest expenses on:		
Bank loans and overdrafts	261	123
Obligations under finance leases	16	12
Other loan wholly repayable within five years	1	5
Total finance costs	278	140

8. Directors' and employees' emoluments

(a) Directors' emoluments

The aggregate amounts of the directors' emoluments, disclosed pursuant to the Listing Rules and Section 161 of Hong Kong Companies Ordinance, are as follows:

Name of directors	Fees HK$'000	Basic salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	2007 Total HK$'000
Executive directors:				
Cheung Yin Sheung Subraina (Chairman)	—	907	12	919
Tong Kwong Fat	—	901	12	913
Yung Wing Sze Vivian	—	861	12	873
Non-executive director:				
To Ming Oi Wendy	240	—	—	240
Independent non-executive directors:				
Chan Ka Ling Edmond	100	—	—	100
Ching Kwok Ho	66	—	—	66
Lo Wa Kei Roy	60	—	—	60
Tsang Wai Kit	3	—	—	3
Total	469	2,669	36	3,174

Name of directors	Fees HK$'000	Basic salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	2006 Total HK$'000
Executive directors:				
Cheung Yin Sheung Subraina (Chairman)	—	820	12	832
Tong Kwong Fat	—	805	12	817
Yung Wing Sze Vivian	—	723	12	735
Non-executive director:				
To Ming Oi Wendy	60	—	—	60
Independent non-executive directors:				
Chan Ka Ling Edmond	85	—	—	85
Lo Wa Kei Roy	36	—	—	36
Tsang Wai Kit	45	—	—	45
Total	226	2,348	36	2,610

No directors waived any emoluments in the years ended 31 March, 2007 and 2006.

During the years ended 31 March, 2007 and 2006, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as compensation for loss of office.

8. Directors' and employees' emoluments (continued)

(b) The five highest paid individuals

The five highest paid individuals during the year included three (2006: three) directors. Details of the emoluments of the remaining two (2006: two) highest paid individuals are as follows:

	GROUP	
	2007 HK$'000	2006 HK$'000
Employees		
— basic salaries and allowances	3,301	2,920
— retirement benefits scheme contributions	24	24
	3,325	2,944

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

	Number of employees	
	2007	2006
HK$1,000,000 — HK$1,500,000	—	2
HK$1,500,001 — HK$2,000,000	2	—
	2	2

9. Tax (expense)/income

The amount of tax (expense)/income in the consolidated income statement represents:

	GROUP	
	2007 HK$'000	2006 HK$'000
Current tax — provision for Hong Kong Profits Tax		
— tax for the year	(1)	(5)
— under provision in respect of prior years	—	(68)
	(1)	(73)
Current tax — overseas		
— tax for the year	—	(35)
Deferred tax		
— current year	(571)	571
	(572)	463

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

The Group's subsidiary established in the PRC is subject to Corporate Income Tax at a rate of 15% (2006: 15%).

On 16 March, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January, 2008. A subsidiary in the Group is registered in the Lo Wu District in the PRC and hence enjoy a preferential income tax rate of 15%. From 1 January, 2008, the income tax rate is expected to gradually increase to the standard rate of 25% over a five-year transition period. However, the new tax law has not set out the details as to how the existing tax rate will gradually increase to the standard rate of 25%. Consequently, the Group is not able to make an estimate of financial effect of the new tax law, if any, will be reflected in the Group's 2008 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

9. Tax (expense)/income (continued)

The tax expense/(income) for the year can be reconciled to the (loss)/profit per the consolidated income statement as follows:

	GROUP 2007 HK$'000	2006 HK$'000
(Loss)/profit before tax	(1,986)	1,680
Tax calculated at the domestic income tax rate of 17.5% (2006: 17.5%)	(348)	294
Net tax effect of revenue and expenses not subject to tax and not deductible for tax purpose	274	568
Tax effect of utilisation of tax losses not previously recognised	(86)	(991)
Tax losses for the year not recognised	628	184
Tax effect of temporary differences not recognised	45	(660)
Under provision in the prior year	—	68
Effect of different tax rates of subsidiaries operating in other jurisdictions	59	74
Tax expense/(income) for the year	572	(463)

10. Dividend

No dividend was paid or proposed during the year of 2007 and 2006, nor has any dividend been proposed since the balance sheet date.

11. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss for the year of HK$2,558,000 (2006: profit for the year of HK$2,143,000) and the weighted average number of 200,130,000 (2006: 200,127,000) ordinary shares in issue during the year, calculated as follows:

	2007 Number of shares '000	2006 Number of shares '000
Issued ordinary shares at beginning of the year	200,130	200,060
Share options exercised	—	67
Weighted average number of ordinary shares for the purpose of basic (loss)/earning per share	200,130	200,127

Diluted loss per share for the year ended 31 March, 2007 has not been disclosed as the potential ordinary shares outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 March, 2006 is based on the profit for the year of HK$2,143,000 and the weighted average number of 200,133,000 ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 200,127,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 6,000 ordinary shares assumed to have been issued at no consideration upon exercise of all share options outstanding during the year.

12. Property, plant and equipment

GROUP	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST OR VALUATION:						
At 1 April, 2006	5,400	10,714	3,521	14,353	3,453	37,441
Additions	—	1,187	12	862	410	2,471
Write-off and disposals	—	(3,339)	(183)	(6,665)	(462)	(10,649)
Change in fair value	300	—	—	—	—	300
Exchange realignments	—	106	104	16	8	234
At 31 March, 2007	5,700	8,668	3,454	8,566	3,409	29,797
Analysis of cost or valuation:						
At cost	—	8,668	3,454	8,566	3,409	24,097
At valuation	5,700	—	—	—	—	5,700
	5,700	8,668	3,454	8,566	3,409	29,797
ACCUMULATED DEPRECIATION:						
At 1 April, 2006	—	7,186	3,481	11,441	2,110	24,218
Charge for the year	108	842	9	1,028	437	2,424
Eliminated on write-off and disposals	—	(2,743)	(183)	(6,082)	(320)	(9,328)
Change in fair value	(108)	—	—	—	—	(108)
Exchange realignments	—	104	103	15	8	230
At 31 March, 2007	—	5,389	3,410	6,402	2,235	17,436
NET BOOK VALUE:						
At 31 March, 2007	5,700	3,279	44	2,164	1,174	12,361

The net book value of property, plant and equipment held under finance leases included in the amount of motor vehicles at 31 March, 2007 amounted to HK$516,000 (2006: HK$278,000). At 31 March, 2007, the leasehold land and buildings of the Group with net book value of HK$5,700,000 (2006: HK$5,400,000) was pledged to secure bank loans granted to the Group (note 20).

The Group's leasehold land and buildings in Hong Kong was last valued at 31 March, 2007 by qualified valuers from Savills Valuation and Professional Services Limited, on an open market value basis. Messrs. Savills Valuation and Professional Services Limited is not connected with the Group.

Had the revaluated leasehold land and buildings been measured on a historical cost basis, their net book values would have been HK$4,939,000 (2006: HK$5,047,000).

12. Property, plant and equipment (continued)

GROUP	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST OR VALUATION:						
At 1 April, 2005	5,150	11,960	3,362	14,452	3,612	38,536
Additions	—	1,656	28	1,110	233	3,027
Write-off and disposals	—	(3,033)	—	(1,230)	(400)	(4,663)
Change in fair value	250	—	—	—	—	250
Exchange realignments	—	131	131	21	8	291
At 31 March, 2006	5,400	10,714	3,521	14,353	3,453	37,441
Analysis cost or valuation:						
At cost	—	10,714	3,521	14,353	3,453	32,041
At valuation	5,400	—	—	—	—	5,400
	5,400	10,714	3,521	14,353	3,453	37,441
ACCUMULATED DEPRECIATION:						
At 1 April, 2005	—	8,326	2,877	10,689	1,982	23,874
Charge for the year	103	982	488	1,463	424	3,460
Eliminated on write-off and disposals	—	(2,244)	—	(728)	(302)	(3,274)
Change in fair value	(103)	—	—	—	—	(103)
Exchange realignments	—	122	116	17	6	261
At 31 March, 2006	—	7,186	3,481	11,441	2,110	24,218
NET BOOK VALUE:						
At 31 March, 2006	5,400	3,528	40	2,912	1,343	13,223

13. Deferred taxation

GROUP

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior periods:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 April, 2005	(684)	684	—
(Charge)/credit to income for the year	(132)	703	571
At 31 March, 2006	(816)	1,387	571
Credit/(charge) to income for the year	166	(737)	(571)
At 31 March, 2007	(650)	650	—

At the balance sheet date, the Group has unused tax losses of HK$33,260,000 (2006: HK$33,317,000) available to set off future profits. A deferred tax asset has been recognised in respect of HK$3,714,000 (2006: HK$7,927,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$29,546,000 (2006: HK$25,390,000) due to the unpredictability of future profits streams. All the losses can be carried forward indefinitely.

COMPANY

At the balance sheet date, the Company has unused tax losses of HK$1,615,000 (2006: HK$1,326,000). No deferred tax assets has been recognised in relation to such unused tax losses due to the unpredictability of future profits streams.

14. Investment in a subsidiary

	COMPANY	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**32,251**	32,251
Impairment	**(19,409)**	(11,018)
	12,842	21,233

Particulars of the principal subsidiaries of the Company at 31 March, 2007 are set out in note 31.

15. Inventories

	GROUP	
	2007	2006
	HK$'000	HK$'000
Raw materials	**3,505**	4,401
Work in progress	**1,198**	1,828
Finished goods	**20,900**	21,166
	25,603	27,395

16. Trade receivables

The following is an ageing analysis of trade receivables at the balance sheet date, based on the invoice dates:

	GROUP	
	2007	2006
	HK$'000	HK$'000
0 — 30 days	**308**	436
Over 60 days	**—**	627
	308	1,063

The amounts approximated to the respective fair values as at 31 March, 2007 and 2006.

Normal credit terms granted by the Group to its customers ranges from 30 to 60 days of invoice date. The Group grants credit terms of over 60 days to certain customers of long business relationship or with high creditability.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

Included in trade receivables is the following amount denominated in a currency other than the functional currency of the Group to which it relates:

	GROUP	
	2007	2006
	HK$'000	HK$'000
Renminbi	**—**	760

17. Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, bearing interest at rates ranging from 8.5% to 8.75% per annum and repayable on demand.

18. Cash and cash equivalents

	GROUP		COMPANY	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash	**10,790**	12,193	**11**	6

The amounts approximated to their respective fair values as at 31 March, 2007 and 2006.

The carrying amounts of the Group's cash and cash equivalents are denominated in currencies other than the functional currency of the Group are set out as below:

	GROUP		COMPANY	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**619**	275	**—**	—

19. Trade payables

The following is an ageing analysis of trade payables at the balance sheet date:

	GROUP	
	2007	2006
	HK$'000	HK$'000
0 — 30 days	**2,368**	1,744
31 — 60 days	**158**	792
Over 60 days	**80**	231
	2,606	2,767

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the Group to which they relate:

	GROUP	
	2007	2006
	HK$'000	HK$'000
Euro	**941**	75
Renminbi	**115**	49

20. Bank loans (secured)

	GROUP	
	2007	2006
	HK$'000	HK$'000
Secured bank loans repayable:		
Within one year	**5,212**	4,867

The amounts approximated to their respective fair values as at 31 March, 2007 and 2006.

20. Bank loans (secured) (continued)

The bank loans of the Group that are denominated in currencies other than the functional currency of the Group are set out below:

	GROUP 2007 HK$'000	GROUP 2006 HK$'000
Euro	2,851	2,557
Japanese Yen	66	—
United States Dollars	1,565	2,204

At 31 March, 2007, bank loans of the Group were secured by a pledged bank deposit of HK$3,500,000 (2006: HK$3,500,000).

21. Other loan (secured)

	GROUP 2007 HK$'000	GROUP 2006 HK$'000
Secured other loan repayable:		
Within one year	—	59

22. Obligations under finance leases

The Group leased certain of its motor vehicles. The leases are classified as finance leases and have remaining lease terms ranging from less than one year to four years.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Future lease payments are due as follows:

	Minimum lease payments 2007 HK$'000	Interest 2007 HK$'000	Present value 2007 HK$'000
Not later than one year	302	(23)	279
Later than one year and not later than five years	173	(14)	159
	475	(37)	438

	Minimum lease payments 2006 HK$'000	Interest 2006 HK$'000	Present value 2006 HK$'000
Not later than one year	88	(10)	78
Later than one year and not later than five years	154	(16)	138
	242	(26)	216

The present value of future lease payments are analysed as:

	GROUP 2007 HK$'000	GROUP 2006 HK$'000
Current liabilities	279	78
Non-current liabilities	159	138
	438	216

23. Employee benefits

	GROUP 2007 HK$'000	GROUP 2006 HK$'000
Liabilities for employee benefits comprise:		
Long service payments accrual	1,503	1,503

Long service payments

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

(a) Movement for the year

	GROUP 2007 HK$'000	GROUP 2006 HK$'000
At beginning of the year	1,503	964
Expense recognised in the consolidated income statement	—	539
At end of the year	1,503	1,503

(b) The directors' assumptions with reference to the independent valuers' report used for accounting purposes at 31 March are as follows:

	GROUP 2007	GROUP 2006
Discount rate applied to pension obligations	4.6%	4.6%
Future salary increases	1.7%	1.7%

24. Share capital

	2007 Number of shares '000	2007 HK$'000	2006 Number of shares '000	2006 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	1,000,000	100,000	1,000,000	100,000
Issued and fully paid:				
At the beginning of the year	200,130	20,013	200,060	20,006
Issued on exercise of share options (Note)	—	—	70	7
At the end of the year	200,130	20,013	200,130	20,013

In the light of the transaction, share options are likely to be excised by option holders, which would increase the number of share capital issued and earnings per shares.

24. Share capital (continued)

Note:

Share options

The operation of the share option scheme adopted by the Company on 14 March, 2000 (the "Old Scheme") was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option would be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On 10 September, 2002, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme") under which the board of directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and other schemes of the Group must not in aggregate exceed 10% of the shares in issue upon completion of the share offer and the capitalisation issue at the time dealings in the shares commence on the Stock Exchange unless a fresh approval from the shareholders of the Company has been obtained.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time.

The total number of shares issued and may be issued upon exercise of the options granted to each eligible person under the New Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in 12-month period must not exceed 1% of the issued share capital of the Company.

Option granted under the New Scheme must be accepted within 28 days from the date of grant. Upon acceptance, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

The subscription price for the shares under the New Scheme shall be a price determined by the board of directors of the Company and notified to an eligible participant and shall not be lower than the higher of: (i) the nominal value of a share; (ii) the closing price of one share as stated in the daily quotation sheets issued by the Stock Exchange on the offer date, which shall be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date.

The following tables disclose details of the Company's share options under the old Scheme held by employees (including directors) and movements in such holdings during the year.

(a) Movements in share options

	2007 Number	2006 Number
At the beginning of the year	**15,160,000**	15,320,000
Exercised	**—**	(70,000)
Cancelled	**(80,000)**	(90,000)
At the end of the year	**15,080,000**	15,160,000

Subsequent to balance sheet date, 2,090,000 share options were exercised and converted into 2,090,000 shares.

(b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Exercise price	2007 Number	2006 Number
5 February, 2001	5 February, 2001 to 4 February, 2011	HK$0.2528	**15,080,000**	15,160,000

Details of unexpired and unexercised share options analysed by directors and non-directors are disclosed in the report of directors.

The financial impact of share options granted and vested before 1 April, 2005 was not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge was recognised in the income statement in respect of the value of options granted and vested before 1 April, 2005. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options. No option has been granted under the New Scheme since its adoption on 10 September, 2002.

25. Reserves

COMPANY

	Share premium HK$'000	Contributed surplus* HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 March, 2005	26,126	32,051	(10,950)	47,227
Exercise of share options	11	—	—	11
Loss for the year	—	—	(225)	(225)
At 31 March, 2006	26,137	32,051	(11,175)	47,013
Loss for the year	—	—	(16,848)	(16,848)
At 31 March, 2007	**26,137**	**32,051**	**(28,023)**	**30,165**

* The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the underlying net assets of subsidiaries which were acquired by the Company pursuant to a group reorganisation implemented during the year ended 31 March, 2000.

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

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

(2) the realisable value of the Company's assets would thereby be less than the aggregate of its issued share capital and share premium accounts.

26. Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. The MPF Scheme has been operated since 1 December, 2000. 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 in the PRC are required to participate in a central pension scheme operated by the local municipal governments. The Group are required to contribute certain stipulated percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they became payable in accordance with the rules of the central pension scheme.

27. Operating lease commitments

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

	GROUP	
	2007 HK$'000	2006 HK$'000
Within one year	**25,061**	30,093
In the second to fifth years, inclusive	**20,346**	21,244
	45,407	51,337

28. Contingent liabilities

At 31 March, 2007, the Group had no significant contingent liabilities (2006: Nil).

At 31 March, 2007, the Company had provided guarantee to a bank against facilities utilised by a subsidiary as follow:

	COMPANY	
	2007	2006
	HK$'000	HK$'000
Bank loans	5,212	4,867

The Company has not recognised any liabilities in respect of the guarantees of banking facilities granted to a subsidiary since the directors considered the fair value of the financial guarantee is immaterial.

29. Related party transactions

(a) During the year, the Group entered into the following related party transaction:

Related party relationship	Type of transaction	Transaction amount	
		2007	2006
		HK$'000	HK$'000
Entity in which a director of the Company has interest	Rental on office premises paid by the Group	2,640	2,374

Further details of the above-mentioned transaction is included under the heading "Connected transactions" in the Report of the Directors.

(b) Compensation of key management personnel

The emoluments of directors (included in note 8) and other members of key management during the year were as follows:

	2007	2006
	HK$'000	HK$'000
Short-term benefits	6,829	5,902
Post-employments benefits	72	72
	6,901	5,974

(c) During the year, the Group sold finished goods amounted to HK$1,870,255 (2006: HK$1,424,000) to an entity of which the owner name is registered in the name of a director of a subsidiary of the Group. The transactions were based on normal commercial terms and with reference to market prices. The director of that subsidiary declared that such entity is beneficially owned by an independent third party. The transactions ceased subsequent to 31 March, 2007.

30. Financial instruments — risk management

The Group is exposed through its operations to the following financial risks:

- Currency risk
- Liquidity risk
- Interest rate risk
- Fair value risk

Policy for managing these risks is set by the directors of the Group. The policy for each of the above risks is described in more detail below.

(a) Currency Risk

Several subsidiaries of the Group have foreign currency purchases which expose the Group to foreign currency risk. The management is aware of the possible exchange appreciation in Euro in the future although the Group's cash outlay on purchase of raw materials are mainly denominated in Hong Kong dollars and United State dollars and currency risk exposure is immaterial. The Group currently does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure and consider hedging significant foreign currency exposure should the need arises.

(b) Liquidity Risk

Individual operating entities within the Group are responsible for their own cash management, including the cash, current working capital and the raising of funds from issue of shares and underlying interests in shares of the Company, subject to approval by the Company's shareholders, if necessary. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and current working capital to meet its liquidity requirements in the short and longer term.

(c) Interest Rate Risk

The Group is exposed to interest rate risk on variable-rate bank loans and other loan. The management monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arises.

(d) Fair Value Risk

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

31. Principal subsidiaries

Particulars of the Company's principal subsidiaries at 31 March, 2007 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation/ registration and operations	Nominal value of paid-up issued share registered capital	Percentage of equity attributable to the Company %	Principal activities
Directly held:					
Gay Giano Holdings Limited	Limited	British Virgin Islands	US$1,000	100	Investment holding
Indirectly held:					
Belarus Limited	Limited	Hong Kong	HK$3,000	100	Sourcing of materials and investment holding
Cour Carré (Asia) Limited	Limited	British Virgin Islands	US$1	100	Investment holding
Cour Carré Company Limited	Limited	Hong Kong	HK$1,000	100	Retail of fashion apparel and complementary accessories
Cour Carré World Limited	Limited	British Virgin Islands	US$1	100	Wholesale of fashion apparel and complementary accessories
Due G Company Limited	Limited	Hong Kong	HK$10,000	100	Retail of fashion apparel and complementary accessories
Gay Giano Company Limited	Limited	Hong Kong	HK$1,000,000	100	Retail of fashion apparel and complementary accessories
Gay Giano International Limited	Limited	Hong Kong	HK$1,000	100	Investment holding and provision of administrative services
Gay Giano Technology Limited	Limited	British Virgin Islands/ Hong Kong	US$1	100	Provision of information technology services
Maxrola Limited	Limited	Hong Kong	HK$2	100	Property investment
Shenzhen Longwei Fashion Mfg. Co., Ltd.* ("SLFM")	Wholly Owned Foreign Enterprise	PRC	HK$12,000,000	100	Manufacture and distribution of fashion apparel

* SLFM was a co-operative joint venture established by the Group and a partner in the PRC for a period of operation for ten years commencing from the date of the issuance of its business licence on 3 May, 1996. SLFM is treated as a subsidiary, the Group controls the composition of the board of directors of SLFM and has control over the financial and operating policies of SLFM. On 2 February, 2007, the form of business structure changed to wholly owned foreign enterprise, which supercedes the previous joint venture structure.

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

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

32. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have 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:

(a) Impairment loss on trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and ageing analysis of the trade receivables and on management's judgement. A considerable amount of judgment is required in assessing the ultimate realisation of these trade receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

(b) Impairment loss on inventories

The management of the Group reviews an ageing analysis at each balance sheet date, and writes down obsolete and slow-moving inventory items identified to net realisable value. The management estimated the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

(c) Depreciation and impairment of property, plant and equipment

The management of the Group reviews the depreciation policy and estimates the useful lives of each category of property, plant and equipment with respect to their respective condition and deterioration rate. If the conditions and recoverable value of assets were to deteriorate, acceleration on depreciation and additional impairment may be required. The management will also consider referring to professional property valuers' estimation in assessing impairment.

(d) Provision for long service payment and annual leave

A provision is made for the estimated liability for long service payment and annual leave and the calculation of which involves assumption and assessment on the employees' final salary, years of service, employee turnover rate, the change of labour market condition and other relevant economic and strategic policies. Adjustment on provision is dependent on the aggregate effect of relevant factors which involve considerable degree of estimation. The management will also consider taking reference to the independent valuers' report in assessing whether adjustment on provision is required.

33. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 27 July, 2007.

GAY GIANO
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