Grandtop International Holdings Limited

泓鋒國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2309)

Annual Report 2006

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mrs. Tsai Lai Wa, Jenny *(Chairlady)*
Ms. Bessie Siu *(General Manager)*
Ms. Mao Yue
Mr. Lee Yiu Tung

Alternative Director

Mr. Peter Christopher Tashjian
(Alternate to Mrs. Tsai Lai Wa, Jenny)

Independent Non-executive Directors

Ms. Lo Wing Yan, Emmy
Mr. Liang Kwong Lim
Mr. Chang Kin Man

Non-executive Director

Mr. Fu Wing Kwok, Ewing

COMPANY SECRETARY

Mr. Edmund Siu

AUDIT COMMITTEE

Mr. Chan Kin Man *(Chairman to the Audit Committee)*
Ms. Lo Wing Yan, Emmy
Mr. Liang Kwong Lim

Nomination Committee and Remuneration Committee

Ms. Bessie Siu *(Chairlady to the Nomination Committee and Remuneration Committee)*
Ms. Mao Yue
Mr. Fu Wing Kwok, Ewing

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

No. 1, 1st Floor,
Pei Ho Building,
115-117 Fuk Wa Street,
Sham Shui Po, Kowloon,
Hong Kong

REGISTERED OFFICE

Century yard, Cricket Square,
Hutchins Drive,
P.O. Box 2681 GT, George Town,
Grand Cayman, British West Indies

SHARE REGISTRAR

Principal share registrar and transfer office

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
3rd Floor, 36C Bermuda House,
Dr. Roy's Drive, George Town,
Cayman Islands, British West Indies

Hong Kong Branch share registrar and transfer office

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

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31st Floor, Gloucester Tower,
The Landmark,
11 Pedder Street, Central,
Hong Kong

PRINCIPAL BANKERS

Standard Chartered Bank
The Bank of East Asia

STATEMENT FROM THE GENERAL MANAGER

On behalf of the Board of Directors (the "Board") of Grandtop International Holdings Limited, I am pleased to report the annual results of the Company together with its subsidiaries (collectively the "Group") for the year ended 31 March 2006.

PERFORMANCE

Turnover of the Group for the year ended 31 March 2006 was approximately HK$48,428,000 (2005: HK$101,974,000), represented a decrease of approximately 53% as compared to the previous year. Loss attributable to shareholders was approximately HK$79,610,000 while it was a profit HK$2,160,000 in the previous year. Loss per share decreased to HK$0.249 (2005: Earnings per shares HK$0.007).

BUSINESS REVIEW

In last year, the Group has commenced in apparel trading operation (retail and wholesales of apparel products) in Hong Kong and Macau in order to capture the business opportunity arising from Mainland Individual Traveler Scheme ("Scheme"). However the outcome was not promising as originally planned in this year. The main reason was that the Group did not capture the market of the Scheme due to the lower anticipated growth rate of the Scheme and lower anticipated spending power of these travelers.

The Group's apparel sourcing division faced intensive competition during the year. After thoughtful discussion from the Board, the Group decided to scale down apparel-sourcing business during the financial year.

The Board believe the Group should reallocate all their resources to apparel trading operation because the Group believe that the economy of Hong Kong and Macau have more potential in the years to come.

Restructuring plan has been taken by disposed of some non-core subsidiaries in order to focus on its core business operation and better control in operating costs.

The Group is constantly exploring new business opportunities in order to achieve better returns for our shareholders and will continue to seek merger and acquisition opportunities so as to enhance shareholders' value.

APPRECIATION

On the behalf of the Board, I would like to take this opportunity to express my gratitude to our customers for their continued trust and support. I would also like to express our appreciation to the management and staff members for their hard work and significant contribution to the Group in the past year. Finally, I would like to thank our shareholders for their support to the Group.

On behalf of the Board
Grandtop International Holdings Limited
Bessie Siu
General Manager

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 March 2006, the Group recorded a turnover of approximately HK$48,428,000 (2005: HK$101,974,000) representing a decrease of approximately 53% as compared to the previous year. It was mainly due to the deceleration of the growth of the Group's apparel sourcing service during the year.

The Group recorded a net loss of approximately HK$79,610,000 for the year ended 31 March 2006 while it was a profit of approximately HK$2,160,000 for the year ended 31 March 2005. The major reasons for the loss incurred during the year was mainly due to (i) the change in the Group's accounting policies which an aggregate impairment loss of approximately HK$54,888,000 were recognised for the year ended 31 March 2006; (ii) a provision of tax liabilities of approximately HK$19,918,000 has been provided in respect of the potential tax liabilities imposed on a subsidiary of the Group for non-taxable claim of non-Hong Kong sourced income for the years of assessments of 1998/1999 to 2003/2004 and (iii) the provision of obsolete stock of approximately HK$6,689,000 during the current year. Without accounting for the above one-off non cash impairments, provision for tax liabilities and provision for slow moving stock, the operating loss for the year was only approximately HK$5.6 million.

The operating loss for the current year is mainly due to the decrease in gross profit margin and increase in operating costs as compared to last year. The Group's gross profit margin was approximately 20% for the current year while it was approximately 28% in last year. The decrease in gross profit margin was mainly due to the fierce competition in price which the Group required to mark down its selling price in order to maintain the market shares of the apparel sourcing services.

In respect of the geographical analysis, Russia, South Korea, Panama, USA, the PRC, Macau and Hong Kong accounted for approximately 2%, 3%, 2%, 3%, 18%, 44% and 27% respectively (2005: 31%, 29%, 9%, 12%, 9%, 4% and 6% respectively). Following on the disposal of a subsidiary during the year, the Group's geographical market will be concentrated on both Hong Kong and Macau in the foreseeable future.

Divisional Operating Performance

The Group's principal activities are engaged in (i) apparel source services, (i) apparel trading services and (iii) sales support services. Turnover derived from these three operations are accounted from approximately 9%, 91% and 0% (2005: 80%, 20% and 0%) of the Group's total turnover respectively. The details on the review of each business operation are discussed below:

Apparel Sourcing

For the year ended 31 March 2006, turnover of the Group's apparel sourcing operation was approximately HK$4,524,000, representing a decrease of approximately 94% as compared to the last financial year. The Group also recorded a loss of approximately HK$3,252,000 (2005: profit of HK$8,823,000) in respect of the Group's apparel sourcing operation for the current year. The Group recorded a loss in results of this segment is mainly due to the increase in price competition in the market which leads to the decrease in profit margin for the current year. The segment turnover and results of this operation were in downward trend. In view of significant resources required for the provision of apparel sourcing services such as extra sales team and sourcing team, the Group has scaled down this operation by disposed of a subsidiary of the Group which engaged in the apparel sourcing operation in the second half of the year in order to avoid further loss incurred from this operation.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Divisional Operating Performance (Continued)

Sales Support Services

For the year ended 31 March 2006, no turnover derived from the provision of sales support services (2005: Nil). With the fact that the quota system for textile products export to the US ceased in last year and the Group lost its unique features for the sales support services. Therefore, the sales support services operation remain inactive during the year.

Apparel Trading

Apparel trading operation of the Group comprise of wholesales and retails of garment products in both Hong Kong and Macau. For the year ended 31 March 2006, turnover derived from the apparel trading operation was approximately HK$43,904,000, representing an increase of approximately 120% as compared to the previous year. However, the Group recorded a loss from this segment of approximately HK$14,236,000, while it was a profit of approximately HK$7,734,000 in last year. The significant decrease in the results of apparel trading operation is mainly due to increase in operating costs during the year and the impairment loss recognised for obsolete inventories and trade receivables of approximately HK$6.7 million and HK$4.7 million respectively.

PROSPECT

Following on the continuing rebound of the Hong Kong economy which strengthens consumer sentiment and relaxation of travel policy of the PRC citizens to Hong Kong, the directors of the Company anticipate that retails business will be booming with outstanding growth. On the other hand, Macau become a main focus in recent year, its existing attraction in gambles is expected to boost more tourist business in Macau. In order to reap these development opportunities, the Group intended to allocate more resources in its apparel trading operation in the future. In addition, the Group will continue to explore and identify investment opportunities so as to enhance shareholders' value by organic growth.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 March 2006 (2005: Nil).

CAPITAL STRUCTURE

It is the intention of the Group to maintain a strong and stable financial position to ensure an efficient capital structure over time. As at 31 March 2006, the Group had total assets of approximately HK$41,424,000 (2005: HK$99,573,000), comprising non-current assets of approximately HK$20,555,000 (2005: HK$64,184,000) and current assets of approximately HK20,869,000 (2005: HK$35,389,000).

As at 31 March 2006, total debts of the Group amounted to approximately HK$38,173,000, representing an increase of 164% as compared to previous year of approximately HK$14,450,000. The significant increase is mainly due to a provision of tax liabilities of approximately HK$19,918,000 recognised during the year. Except for the provision of tax liabilities, total debts remained fairly stable as compared to previous year. The total debts as at 31 March 2006 mainly comprise of interests bearing bank borrowing related to a mortgage loan of approximately HK$5,950,000 (2005: HK$6,200,000) in respect of a leasehold land and building.

As at 31 March 2006, the shareholders' equity was approximately HK$3,251,000 (2005: HK$82,861,000), representing a decrease of approximately 94%. The current ratio deteriorated from last year's 4.25 to 0.65 and the quick ratio also declined from last year's 2.9 to 0.37 this year. The decrease in quick ratio is mainly due to the provision of tax liabilities, except for this, the Group remained fairly low level of debts, the directors of the considered that the Group has sufficient cash flow to settle all the debts when they fall due.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

CAPITAL STRUCTURE *(Continued)*

The debt to equity ratio was 11.7 while it was 0.17 in last year. The ratio was calculated by dividing the total liabilities of HK$38,173,000 (2005: HK$14,450,000) by the total shareholders' equity of HK$3,251,000 (2005: HK$82,861,000).

The gearing ratio expressed as a percentage of total bank borrowings to total shareholders' equity was 183% for the year ended 31 March 2006 while it was 7.5% in last year.

LIQUIDITY AND FINANCIAL RESOURCES

It is the intention to manage its cash and bank balances and maintains a high level of liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business. Cash and bank balances of the Group as at 31 March 2006 were approximately HK$2,488,000 (2005: HK$4,246,000), representing a decrease of 41% compared to previous year. Except for the long term mortgage loan of HK$5,950,000 (2005: HK$6,200,000) and the provision of tax liabilities of approximately HK$19,918,000, the management considered that the Group maintained a healthy liquidity position.

BORROWINGS AND BANKING FACILITIES

The Group generally financed its operations with internally generated cash flows. As at 31 March 2006, interest bearing bank borrowing represents a mortgage loan amounted to approximately HK$5,950,000 (2005: HK$6,200,000) for the purpose of facilitating a leasehold land and building. The mortgage loan is not at fixed interest rates. Except for this, no banking facility has been obtained by the Group during the year ended 31 March 2006.

The Group serviced its debts primarily through cash generated by its operations. The Group does not have any bank overdraft for the year under review.

CONTINGENT LIABILITIES

Apart from the Tax Obligations imposed by the Hong Kong Inland Revenue Department against to the Group of approximately HK$19,918,000 as disclosed in note 37 to the financial statements, the Group does not have any material contingent liabilities as at 31 March 2006.

SUBSEQUENT EVENTS

On 2 June 2006, the Group entered into a sales and purchases agreement with an independent third party for the disposal of the entire interest in Fair Good Limited, Elite Team Inc. and Easy Billion International Enterprises Limited for a cash consideration of approximately HK$120,000.

FOREIGN EXCHANGE EXPOSURE

As at 31 March 2006, substantially all of the monetary assets of the Group was comprised of cash and bank balances, which denominated in Hong Kong dollars and Renminbi, hence exchange risk of the Group is minimal. In addition, the Group did not have any foreign currency investments which has been hedged by currency borrowings and other hedging instruments.

PLEDGE AND CHARGE OF GROUP ASSETS

As at 31 March 2006, the Group's leasehold land and buildings with carrying amounts HK$4,606,000 and HK$4,612,000 respectively were pledged to secure a mortgage loan (2005: HK$4,650,000 and HK$6,241,000).

HUMAN RESOURCES

As at 31 March 2006, the Group employed 28 employees. The Group's emolument policies are formulated on the performance of individual employee and will be reviewed regularly every year. The Group also participates in a defined contribution retirement benefits scheme for its qualified employees. Since 22 October 2002, the Group established a share option scheme for its employees and other eligible participants with a view to provide an incentive to or as a reward for their contribution to the Group. As at the date of this report, no option has been granted.

CORPORATE GOVERNANCE REPORT

The Board of Directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 March 2006.

Good corporate governance has always been recognised as vital to the Company's success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and has introduced corporate governance practices appropriate to the conduct and growth of its business.

The Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") sets out the principles of good corporate governance (the "Principles") and two levels of corporate governance practices:

(a) code provisions (the "Code Provisions") which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) recommended best practices for guidance (the "Recommended Best Practices") only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has applied the Principles set out in the Code and complied with most of the Code Provisions save for (i) the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the Code; (i) the Code which requires that the division of responsibilities between the Chairlady and General Manager should be clearly established and set out in writing. The details of such deviations of the Code Provisions A.4.2 and A.2.1 will be explained below.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The Board provides leadership, approves policies, strategies and plans, and oversees their implementation to ensure the healthy growth of the Company, in the interests of Company's shareholders.

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

All directors have full and timely access to all relevant information as well as the advice and services of the Company secretary, with a view to ensuring that the Board procedures and all applicable rules and regulations are followed. In general, each director is able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the General Manager and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers. The Board has the full support of the General Manager and the senior management to discharge its responsibilities.

CORPORATE GOVERNANCE REPORT *(Continued)*

THE BOARD *(Continued)*

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision-making.

The Board currently comprises of nine members, consisting of four executive directors, one alternate director, one non-executive director and three independent non-executive directors.

The Board of the Company comprises the following directors:

Executive directors:
Mrs. Tsai Lai Wa, Jenny, Chairlady of the Board.
Ms. Mao Yue, member of the Remuneration Committee and the Nomination Committee.
Ms. Siu Bessie (Appointed on 25 April 2006), General Manager, Chairlady of the Remuneration Committee and the Nomination Committee.
Mr. Lee Yiu Tung (Appointed on 13 June 2006)
Mr. Siu Edmund (Resigned on 12 July 2006)

Alternate Director
Mr. Peter Christopher Tashjian (Alternate to Mrs. Tsai Lai Wa, Jenny) (Appointed on 11 July 2006)

Non-Executive Director
Mr. Fu Wing Kwok, Ewing (Re-designated as non-executive director on 12 July 2006), member of the Remuneration Committee and the Nomination Committee.

Independent non-executive directors:
Mr. Fu Wing Kwok, Ewing (Re-designated as non-executive director on 12 July 2006), member of the Remuneration Committee and the Nomination Committee
Mr Liang Kwong Lim, member of the Audit Committee
Ms. Lo Wing Yan, Emmy, member of the Audit Committee
Mr Chang Kin Man (Appointed on 13 July 2006), Chairman of the Audit Committee, member of the Audit Committee

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under "Biographies of Directors " on page 15 to 16.

During the year ended 31 March 2006, the Board at all times met the requirements of the Listing rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent in accordance with the independence guidelines set out in the Listing Rules.

THE BOARD *(Continued)*

Composition (Continued)

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Code provision A1.3 stipulates that 14-days notice should be given for each board meeting. The Company agrees that sufficient time should be given to the directors of the Company (the "Directors") in order to make a proper decision. In these respects, the Company adopts a more feasible approach (and yet sufficient time has been given) in convening board meetings to ensure efficient and prompt management decisions could be made.

Code provision A4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Company deviates from the above code provision as the non-executive Directors ("INEDs") are not appointed for specific terms. According to the Memorandum and Articles of Association of the Company, however, the INEDs are subject to the retirement and re-election. The reason for the deviation is that the Company believes that Directors ought to be committed to representing the long term interest of the Company's shareholders.

Code provision A4.2 stipulates that every director should subject to retirement by rotation at least once every three years. According to the bye-laws of the Company, one-third of the Directors shall retire from office by rotation provided that the Chairlady shall be subject to retirement by rotation. The Company's Memorandum and Articles of Association deviate from the code provision. The Company considered that the continuity of the Chairlady/Deputy Chairman/General Manager and their leadership is essential for the stability of the business and key management. The rotation methodology ensures a reasonable proportion of Directors in continuing which is to the best interest of the Company's shareholder.

Code provisions B1.1-5 stipulate the establishment of a remuneration committee, its operations and its term of reference. In addition, Code provision C3.3 stipulates the terms of reference of the audit committee. The previous terms of reference of our audit committee do not fully cover those set out in Code provision C3.3. The Company has adopted terms of reference as set out in Code provision C3.3 and set up a remuneration committee according to the Code provisions B1.1-5 on 16 December 2005.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

CORPORATE GOVERNANCE REPORT *(Continued)*

BOARD MEETINGS

Number of Meetings and Directors' Attendance

Code Provision A.1.1 stipulates that regular Board meetings should be held at least four times a year at approximately quarterly intervals.

The individual attendance record of each director at the meetings of the Board and the Audit Committee during the year ended 31 March 2006 is set out below:

	Attendance/Number of Meetings	
Name of Directors	**Board**	**Audit Committee**
Tsai Lai Wa, Jenny	0	N/A
Siu Edmund	4	N/A
Mao Yue	4	N/A
Lo Wing Yan, Emmy	1	2
Fu Wing Kwok, Ewing	4	4
Liang Kwong Lim	2	4

A. Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors as soon as practicable before the meetings. The Company agrees that sufficient time should be given to the Board members in order to make proper decision. In these respects, the Company deviates to adopt a more feasible approach and yet sufficient time has been givens in convening board meetings to ensure efficient and prompt management decisions could be made. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors as soon as practicable before each Board meeting or committee meeting to allow the directors to read the papers and information, to keep them abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

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

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye Laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

B. Chairlady and General Manager

The Company fully supports the division of responsibility between the Chairlady of the Board and the General Manager to ensure a balance of power and authority.

The positions of the Chairlady and General Manager of the Company are held by Mrs. Tsai Lai Wa, Jenny and Ms. Bessie Siu respectively.

CORPORATE GOVERNANCE REPORT *(Continued)*

BOARD MEETINGS *(Continued)*

B. *Chairlady and General Manager (Continued)*

The Chairlady provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the Company Secretary and the senior management, the Chairlady is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The General Manager focuses on implementing objectives, policies and strategies approved and delegated by the Board. She is in charge of the Company's day-to-day management and operations. The General Manager is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval. The Board considers that the responsibilities of the Chairlady and General Manager are clear and distinctive, therefore, written terms thereof are not necessary.

C. *Board Committees*

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

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman/chairlady and members of each Board committee is set out under "Corporate Information" on page 2 to the Annual Report.

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

(1) Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessment of the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge and personal integrity of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

As of the date of report, the Nomination Committee comprises of two executive directors namely Ms. Siu Bessie (General Manager) and Ms. Mao Yue and one non-executive director namely Mr. Fu Wing Kwok, Ewing.

The Nomination Committee has not held any meeting during the year ended 31 March 2006. Up to the date of the Annual Report, the Nomination Committee reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

CORPORATE GOVERNANCE REPORT *(Continued)*

BOARD MEETINGS *(Continued)*

C. Board Committees (Continued)

(1) Nomination Committee *(Continued)*

In accordance with the Company's Memorandum and Articles of Association 87, directors shall retire by rotation and, being eligible, offer themselves for re-election at the next forthcoming annual general meeting of the Company. The Nomination Committee recommended the re-appointment of these directors standing for re-election at the said annual general meeting.

(2) Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Remuneration Committee shall consult the Chairlady and/or General Manager of the Company about these recommendations on remuneration policy and structure and remuneration packages.

As of the date of report, the Remuneration Committee comprises of two executive directors namely Ms. Siu Bessie (General Manager), Ms. Mao Yue and one non-executive directors namely Mr. Fu Wing Kowk, Ewing.

The Remuneration Committee has not held any meeting during the year ended 31 March 2006. Up to the date of the Annual Report, the Remuneration Committee reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

Emolument Policy

The directors are paid fees in line with market practice. The Group adopted the following main principles of determining the directors' remuneration:

– No individual should determine his or her own remuneration.

– Remuneration should be broadly aligned with companies with whom the Group competes for human resources

– Remuneration should reflect performance and responsibility with a view to motivating and retaining high performing individuals and promoting the enhancement of the value of the Company to its shareholders

In addition to the basic salaries, a share option scheme is adopted for rewarding good performers as well as retaining talented staff for the continual operation and development of the Group.

BOARD MEETINGS *(Continued)*

C. *Board Committees (Continued)*

(3) Audit Committee

The Audit Committee comprises of three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:-

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer, internal auditor (if any) or external auditors before submission to the Board.

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

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

The Audit Committee held 4 meetings during the year ended 31 March 2006 to review the financial results and reports, financial reporting and compliance procedures, and the re-appointment of the external auditors.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

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

The Company's annual results for the year ended 31 March 2006 has been reviewed by the Audit Committee.

D. *Model Code for Securities Translations*

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions (the "Own Code").

Specific enquiry has been made to all of the directors and they have confirmed that they have complied with the Own Code and Model Code throughout the year ended 31 March 2006.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

CORPORATE GOVERNANCE REPORT *(Continued)*

BOARD MEETINGS *(Continued)*

E. Shareholder Rights and Investor Relations

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

Results on any voting conducted by poll will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairlady of the Board as well as the Chairman/Chairlady of the Board committees or, in their absence, other members of the respective committees and, where applicable, the independent Board committee, are normally available to answer questions at the shareholders' meetings.

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

The Company continues to enhance communications and relationships with its investors. Designated executive director(s) and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

INTERNAL CONTROL

The Company adopted the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 April 2005 pursuant to the CG Code. As at the date of the Annual Report, the Board has reviewed the effectiveness of the system of internal control of the Group and is satisfied that the internal controls and accounting systems of the Group have been in place and function effectively.

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay any aggregate of approximately HK$660,000 to the external auditors. During the year, the external auditors only perform the work of statutory audit and do not involved any non-audit assignment of the Group.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view. The auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

LOOKING FORWARD

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavors to take the necessary actions to ensure the compliance with the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive directors

Mrs. Tsai Lai Wa, Jenny, aged 40, is the Chairlady of the Group and presently responsible for administrative function of the Group.

Ms. Mao Yue, aged 28, has approximately 5 years of experience in market research and general administration works. Ms Mao Yue holds a bachelor degree in psychology.

Ms. Bessie Siu, aged 30, has several years of experience in marketing management, general administration works and trading business. Ms. Siu holds a bachelor degree in Science, Master of Marketing Management and Master of Business Administration. She is the niece of Mrs. Tsai Lai Wa, Jenny and sister of Mr. Edmund Siu. She was appointed as an executive Director on 25 April 2006.

Mr. Lee Yiu Tung, aged 43, is a registered architect in Hong Kong with extensive working experiences related to PRC property development, project management and development consultant services. Mr. Lee is a member of Royal Institute of British Architects and Hong Kong Institute of Architects. He holds a Bachelor of Arts in Architectural Studies with Honors, a Bachelor of Architecture and a Master of Science degree in Real Estate all from the University of Hong Kong. He also holds a qualification of Real Estate Planner recognized by the Ministry of Labor and Social Security, PRC. He was appointed as an executive Director 13 June 2006.

Non-executive directors

Mr. Fu Wing Kwok, Ewing aged 35, is the financial controller and the company secretary of Sino Union Petroleum & Chemical International Limited, which is listed on the Main Board of the Stock Exchange of Hong Kong Limited. Mr Fu Wing Kwok is also responsible for the planning and supervising the implementation of the management information system. He holds a bachelor degree in science with major in accounting Bemidji State University, USA and is a member of both American Institute of Certified Public Accountants and Hong Kong Institute of Certified Public Accountants. He has over 10 years of experience in auditing and accounting field. He was re-designated from an Independent Non-executive Director to a Non-executive Director with effect from 12 July 2006.

Alternate director

Mr. Peter Christopher Tashjian, aged 50, is an Operator of Monash University Master of Business Law, Director of Institute of Professional Development, Director of Results Management Limited (Hong Kong) and Director of Institute of Compliance Officers. He holds a Bachelor of Science in Business in USA, Juris Doctorate in Law in New England School of Law in USA and Master of International Management in American Graduate School of International Management in USA. He was appointed on 11 July 2006 and alternate to Mrs. Tsai Lai Wa, Jenny.

Independent non-executive directors

Ms. Lo Wing Yan, Emmy, aged 32, is the accounting manager of PacificNet Inc., a company listed on the NASDAQ stock exchange in the US. Ms. Lo has been an associate member of the Hong Kong Institute of Certified Public Accountants since 2001. She has over six years of experience in auditing, accounting and financial management.

BIOGRAPHICAL DETAILS OF DIRECTORS *(Continued)*

Mr. Liang Kowng Lim, aged 63, has approximately 30 years of experience in export and import trade businesses.

Mr. Chang Kin Man, aged 42, is a certified public accountant in Hong Kong and a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Chartered Certified Accountants. Mr. Chang holds a Bachelor of Science Degree in Economics and a Master's degree in Applied Finance.

Mr. Chang has extensive experience in corporate finance and in accounting field. He worked for an international accounting firm and a number of public listed companies for more than 15 years. During the past three years, Mr. Chang acted as an independent non-executive director of Haywood Investments Limited (Stock code 905), a company listed on the Main Board of the Stock Exchange of Hong Kong (the "Stock Exchange"). He resigned from the company on 24 May 2005. He is currently an independent non-executive director of Sunlink International Holdings Limited (stock code 2336), Hon Po Group (Lobster King) Limited (stock code 228) and Sky Hawk Computer Group Holdings Limited (stock code 1129), all are listed company on the Main Board of the Stock Exchange. He was appointed as an Independent Non-executive Director on 13 July 2006.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited financial statements of Grandtop International Holdings Limited (hereinafter referred as to the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group") for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are engaged in provision of apparel sourcing services, sales support services and apparel trading. The activities and other particulars of the subsidiaries are set out in note 12 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 27.

The state of affairs of the Group and the Company as at 31 March 2006 are set out in the consolidated and Company's balance sheets on page 25 and 26 respectively.

The directors do not recommend the payment of a final dividend nor transfer of any amount to reserves in respect of the year ended 31 March 2006 (2005: HK$Nil).

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to the results by principal activities for the year ended 31 March 2006 is set out in note 7 to the financial statements.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 76.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 18 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 9 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank and other borrowings of the Company and the Group as at 31 March 2006 are set out in note 19 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 17 to the financial statements. There were no movements in the Company's share capital during the year.

RETIREMENT SCHEME

Particulars of the retirement scheme of the Group are set out in note 32 to the financial statements.

REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS

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

Executive Directors

Mrs. Tsai Lai Wa, Jenny *(Chairlady)*	
Ms. Bessie Siu *(General Manager)*	(Resigned on 12 July 2006)
Ms. Mao Yue	
Mr. Lee Yiu Tung	(Appointed on 25 April 2006)
Mr. Edmund Siu	(Appointed on 13 June 2006)

Alternate Director

Mr. Peter Christopher Tashjian (Alternate director to Ms. Tsai Lai Wa, Jenny)	(Appointed on 11 July 2006)

Non-Executive Directors

Mr. Fu Wing Kwok, Ewing	(Re-designated as non-executive director and resigned as independent non-executive director on 12 July 2006)

Independent Non-Executive Directors

Ms. Lo Wing Yan, Emmy	
Mr. Liang Kwong Lim	
Mr. Chang Kin Man	(Appointed on 13 June 2006)
Mr. Fu Wing Kwok, Ewing	(Re-designated as non-executive director and resigned as independent non-executive director on 12 July 2006)

In accordance with article 87(1) of the Company's articles of association, Ms. Bessie Siu, Mr. Lee Yiu Tung, Mr. Chang Kin Man, Mr. Fu Wing Kwok, Ewing and Mr. Peter Christopher Tashjian will retire, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Independent Non-executive Directors ("INEDs") are subject to retirement by rotation in accordance with the Company's articles of association. The Company has received from each INED a confirmation of his/her independence pursuant to the new independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers the INEDs to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with Company and any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2006, the interests and short positions of the directors in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in ordinary shares of the Company
Shares of the Company of HK$0.01

Director	**Capacity**	**Number of issued ordinary share held**	**Percentage of the issued share capital of the Company**
Mrs. Tsai Lai Wa, Jenny	Held by trust	96,000,000 (L) *(Note)*	30%

(L): Long position

Note:

These shares are registered in the name of Huge Gain Development Limited ("Huge Gain"). The entire issued share capital of Huge Gain is owned by Nerine Trust Company Limited ("Nerine Trust"). Nerine Trust is the trustee of SB Unit Trust and holds properties for the benefit of holders of units issued by SB Unit Trust. All the units issued by SB Unit Trust were held by the family members of Mr. Siu Ban, co-founder of the Group and the discretionary objects of which include Mrs. Tsai Lai Wa, Jenny, being the executive director of the Group.

Other than disclosed above and certain nominee shares in subsidiaries held by certain directors in trust for the Group, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) as at 31 March 2006, as required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate. None of the directors, or their spouses or their children under the age of 18, had any right to subscribe for the shares of the Company, or had exercised any such rights during the year.

REPORT OF THE DIRECTORS *(Continued)*

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

Shares of the Company of HK$0.01 each

Substantial shareholders	**Capacity**	**Number of issued ordinary share held**	**Percentage of the issued share capital of the Company**
Nerine Trust Company Limited	Held by controlled corporation	96,000,000 (L) *(Note i)*	30%
Huge Gain Development Limited	Beneficial owner	96,000,000 (L)	30%
Speeddragon Limited	Held by corporation	50,000,000 (L)	15.63%
Star Victory Holdings Limited	Beneficial owner	24,000,000 (L)	7.5%

(L): Long position

Note:

(i) These shares are registered under the name of Huge Gain. The entire issued share capital of Huge Gain is owned by Nerine Trust, which is the trustee of SB Unit Trust and holds properties for the benefit of holders of units issued by SB Unit Trust. Nerine Trust is deemed to be interested in 96,000,000 of the Company as SB Unit Trust beneficially owns 100% interests in Huge Gain.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 61% (2005: 64%) of the Group's total purchases for the year and the purchases attributable to the Group's largest supplier were approximately 20% (2005: 26%) of the Group's total purchases for the year.

The Group's five largest customers accounted for approximately 30% (2005: 33%) of the group's total turnover for the year. In particular, the largest customer of the Group accounted for approximately 15% (2005: 19%) of the Group's total turnover for the year.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

REPORT OF THE DIRECTORS *(Continued)*

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year under review.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year and up to date of this report, no director of the Company or any of its subsidiaries is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules, other than those business of which the directors were appointed as directors to represent the interest of the Company and/or the Group.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or other rights as at 31 March 2006. There were no exercises of convertible securities, options warrants or similar rights during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

SHARE OPTION SCHEME

On 22 October 2002, the Company had adopted a share option scheme (the "Scheme"). Under the terms of the Scheme, the Directors of the Company may, at their absolute discretion, invite full-time employees including executive directors of the Company representing up to maximum 30% of the total issued share capital of the Company from time to time. The details of share option scheme are set out in note 33 to the financial statements.

No option had been granted or agreed to be granted under the Scheme up to the date of approval of these financial statements.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2006 with the Code of Best Practice as set out in Appendix 14 of the listing Rules.

The Company has received, from each of the independent non-executive directors, an annual confirmation of the independence pursuant to Rules 3.13 of the Listing Rules. The Company was of the view that all the independent non-executive directors of the Company met the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

MODEL CODE FOR SECURITIES

The Company had adopted the Model Code for Securities Transactions by Directors and Employees" as set out in Appendix 10 of the Listing Rules ("Model Code"). Having made specific enquiry to all the directors of the Company, all the directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors and employees adopted by the Company.

REPORT OF THE DIRECTORS *(Continued)*

AUDIT COMMITTEE

The Company has an Audit Committee which was established on 22 October 2002 in accordance with the requirements of the Code of Best Practices set out in Appendix 14 to the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive directors of the Company.

During the year, the Audit Committee met with the Group's executive directors, senior management and the external auditors to consider and review the Group's financial statements, the nature and scope of audit reviews, and the effectiveness of the system of internal control and compliance. The Audit Committee held two meetings during the year. The Audit Committee had reviewed the unaudited interim accounts and the audited annual financial statements for the year ended 31 March 2006 and communicated with external auditors before recommending them to the Board of Directors for approval.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company as at date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

AUDITORS

HLB Hodgson Impey Cheng retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Bessie Siu
Executive Director and General Manager

Hong Kong, 26 July 2006

AUDITORS' REPORT

國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
GRANDTOP INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we have considered the adequacy of the disclosure made in note 2 to the financial statements which explains that the circumstances giving rise to the fundamental uncertainties relating to the net loss and net current liability position of the Group and possible obligation arising from tax liabilities (the "Tax Obligations") imposed by the Inlands Revenue Department of the Hong Kong Special Administrative Region (the "HKIRD"). These financial statements have been prepared on a going concern basis, the validity of which depends upon the outcome of the Tax Obligations on the Group and upon the continuing financial support from the controlling shareholder of the Company. The financial statements do not include any adjustments that if the Group failed to obtain the necessary financial support from its controlling substantial shareholder. We have considered that appropriate disclosures have been made in the financial statements concerning this situation, but the evidence available to us was limited. In the absence of sufficient documentary evidence, we were unable to ascertain as to whether the assumption made by the directors of the Company in preparing the financial statements on a going concern basis, as set out in note 2 to the financial statements, are fair and reasonable. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the going concern basis, which may have a consequential significant effect on the results for the year and its liquidity

AUDITORS' REPORT *(Continued)*

position as at 31 March 2006. These fundamental uncertainties relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the possible effect of the limitation in the evidence available to us relating to the matter referred to above, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2006 and of its loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the matter referred to above, we have not obtained all the information and explanation that we considered necessary for the purpose of our audit.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong, 26 July 2006

CONSOLIDATED BALANCE SHEET

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	9	**12,103**	16,479
Leasehold land	10	**5,757**	6,241
Goodwill	11	**–**	5,524
Available-for-sale financial assets	13	**2,695**	35,940
		20,555	64,184
Current assets			
Inventories	14	**8,951**	11,303
Trade receivables	15	**5,392**	8,969
Prepayments, deposits and other receivables	16	**4,038**	10,871
Cash and cash equivalents		**2,488**	4,246
		20,869	35,389
Total assets		**41,424**	99,573
Equity			
Capital and reserves attributable to the equity holders of the Company			
Share capital	17	**3,200**	3,200
Reserves	18	**51**	79,661
		3,251	82,861
Minority interests		**–**	2,262
		3,251	85,123
Non-current liabilities			
Interest-bearing bank borrowings, secured	19	**5,689**	5,950
Deferred tax liabilities	20	**167**	167
		5,856	6,117
Current liabilities			
Interest-bearing bank borrowings, secured	19	**261**	250
Trade and other payables	21	**3,345**	6,909
Amount due to a director	22	**8,261**	–
Tax payables		**20,450**	1,174
		32,317	8,333
Total equity and liabilities		**41,424**	99,573
Net current (liabilities)/assets		**(11,448)**	27,056
Total assets less current liabilities		**9,107**	91,240

Approved by the Board of Directors on 26 July 2006 and signed on its behalf by:

Bessie Siu	**Fu Wing Kwok, Ewing**
Director	*Director*

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	9	**145**	228
Interests in subsidiaries	12	**15,274**	71,197
		15,419	71,425
Current assets			
Prepayments, deposits and other receivables	16	**226**	85
Cash and cash equivalents		**31**	11
		257	96
Total assets		**15,676**	71,521
Equity			
Capital and reserves attributable to the equity holders of the Company			
Share capital	17	**3,200**	3,200
Reserves	18	**731**	42,258
		3,931	45,458
Current liabilities			
Trade and other payables	21	**469**	403
Amount due to a director	22	**2,792**	–
Amounts due to subsidiaries	12	**8,484**	25,660
		11,745	26,063
Total equity and liabilities		**15,676**	71,521
Net current liabilities		**(11,488)**	(25,967)
Total assets less current liabilities		**3,931**	45,458

Approved by the Board of Directors on 26 July 2006 and signed on its behalf by:

Bessie Siu	**Fu Wing Kwok, Ewing**
Director	*Director*

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	6	**48,428**	101,974
Cost of sales		**(38,892)**	(73,674)
Gross profit		**9,536**	28,300
Other revenue	23	**431**	380
Selling expenses		**(2,911)**	(4,636)
Administrative expenses		**(19,413)**	(10,092)
Impairment loss on trade receivables	15	**(4,685)**	–
Impairment loss on goodwill	11	**(5,524)**	–
Impairment loss on prepayments, deposits and other receivables		**(4,745)**	–
Impairment loss on available-for-sale financial assets	13	**(33,245)**	–
(Loss)/profit from operations	24	**(60,556)**	13,952
Finance costs	26	**(149)**	(193)
Gain/(loss) on disposal of a subsidiary		**1,098**	(2,585)
(Loss)/profit before taxation		**(59,607)**	11,174
Taxation	27	**(20,003)**	(1,293)
(Loss)/profit for the year		**(79,610)**	9,881
Attributable to:			
Equity holders of the Company		**(79,610)**	2,160
Minority interests		**-**	7,721
		(79,610)	9,881
Dividend	29	**-**	–
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year			
Basic	30	**(HK$0.249)**	HK$0.007
Diluted		**N/A**	N/A

All of the Group's activities are classified as continuing.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 March 2006

	Attributable to the equity holders of the Company						
	Share capital *HK$'000*	**Contributed surplus** *HK$'000*	**Share premium account** *HK$'000*	**(Accumulated losses)/ retained profits** *HK$'000*	**Sub-total** *HK$'000*	**Minority interests** *HK$'000*	**Total** *HK$'000*
At 1 April 2004, as previously reported	3,200	(84)	25,146	52,440	80,702	–	80,702
Effect on adoption of HKAS 1	–	–	–	–	–	9,240	9,240
At 1 April 2004, as restated	3,200	(84)	25,146	52,440	80,702	9,240	89,942
Release upon disposal of a subsidiary	–	(1)	–	–	(1)	(14,699)	(14,700)
Net profit for the year	–	–	–	2,160	2,160	7,721	9,881
At 31 March 2005	3,200	(85)	25,146	54,600	82,861	2,262	85,123
Disposal of a subsidiary	–	–	–	–	–	(2,262)	(2,262)
Net loss for the year	–	–	–	(79,610)	(79,610)	–	(79,610)
At 31 March 2006	3,200	(85)	25,146	(25,010)	3,251	–	3,251

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before taxation		**(59,607)**	13,952
Adjustments for:			
Depreciation	9	**3,147**	1,098
Impairment of property, plant and equipment	9	**169**	–
Provision on obsolete inventories	14	**6,689**	–
Impairment loss on loan receivables		**2,000**	–
Impairment loss on investment deposits		**2,745**	–
Impairment of goodwill	11	**5,524**	–
Amortisation of leasehold land	10	**484**	119
Impairment loss on available-for-sale financial assets	13	**33,245**	–
Amortisation of goodwill		**–**	271
Impairment of provision for trade receivables	15	**4,685**	–
Dividend income received from available-for-sale financial assets	23	**(191)**	(159)
(Gain)/loss on disposal of a subsidiary		**(1,098)**	2,585
Interest income		**(240)**	(200)
Finance costs		**149**	192
Operating cash flows before movements in working capital		**(2,299)**	17,858
Increase in inventories		**(4,337)**	(10,759)
Increase in trade receivables		**(1,108)**	(4,867)
Decrease in prepayments, deposits and other receivables		**2,029**	1,816
(Decrease)/increase in trade and other payables		**(3,060)**	3,805
Cash (used in)/generated from operations		**(8,775)**	7,853
Interest received		**240**	200
Profits tax paid		**(727)**	(801)
Net cash (used in)/generated from operating activities		**(9,262)**	7,252
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(723)**	(4,614)
Loan to third party		**–**	(2,000)
Dividend income received from available-for-sale financial assets		**191**	159
Payment to acquire available-for-sale financial assets		**–**	(4,680)
Cash effect on acquisition of a subsidiary		**–**	(3,480)
Cash effect on disposal of a subsidiary		**174**	2,792
Net cash used in investing activities		**(358)**	(11,823)
FINANCING ACTIVITIES			
Repayment of mortgage loan		**(250)**	(159)
Advance from a director		**8,261**	–
Finance costs		**(149)**	(192)
Net cash generated from/(used in) financing activities		**7,862**	(351)
Net decrease in cash and cash equivalents		**(1,758)**	(4,922)
Cash and cash equivalents at beginning of the year		**4,246**	9,168
Cash and cash equivalents at the end of the year		**2,488**	4,246

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2006

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

The directors of the Company consider that the ultimate holding Company is Huge Gain Development Limited, which is incorporated in the British Virgin Islands.

The principal place of business in Hong Kong is located at No. 1, 1st Floor, Pei Ho Building, 115-117 Fuk Wa Street, Sham Shui Po, Kowloon, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are engaged in the provision of apparel sourcing services, sales support services and apparel trading.

2. BASIS OF PREPARATION

The consolidated financial statements of Grandtop International Holdings Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs"), and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the financial statements is historical cost convention and modified the revaluation of available-for-sale financial assets, which are carried at fair value.

In preparing the financial statements, the directors of the Company (the "Directors") have given consideration to the future liquidity of the Group in light of the following:

(i) As at 31 March 2006, the Group has net current liabilities of approximately HK$11,448,000. The Group also incurred a net loss from ordinary activities attributable to the equity holders amounted to approximately HK$79,610,000 for the year ended 31 March 2006; and

(ii) Tax liabilities in relation to the estimated assessments issued by the Hong Kong Inland Revenue Department of approximately HK$19,918,000 in respect of non-taxable claim of non-Hong Kong sourced income for the years of assessments of 1998/1999 to 2003/2004. Detail of which has been set out in note 27 to the financial statements.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the outcome of the Tax Obligations on the Group and the financial support of the controlling shareholder, at a level sufficient to finance the working capital requirement of the Group. The controlling shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. If the going concern basis is not used, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

The Adoption of new/revised HKFRSs

From the beginning of the financial year ended 31 March 2006, the Group adopted the new/revised standards and interpretations of HKFRSs below, which are relevant to its operations. The comparatives figures for the financial year ended 31 March 2005 have been restated as required, in accordance with the relevant requirements. A summary of the new and revised HKFRSs is set out as below:–

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

2. BASIS OF PREPARATION *(Continued)*

HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 4	Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new and revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 37, HKAS-Int 4 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 33, 37, HKAS-Int 4 and 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. A lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in land element and the building element of the lease at the inception of the lease. The lease of land is stated at cost and amortised over the period of the lease whereas the building is stated at cost less accumulated depreciation. In prior years, leasehold land was classified under property, plant and equipment at cost less impairment.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

2. BASIS OF PREPARATION *(Continued)*

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1 April 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in share-based payment reserve. The share-based payment reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for positive goodwill prospective application is required. Until 31 March 2005, positive goodwill was capitalised and amortised on a straight-line basis over its useful economic life of 15 years and was subject to impairment testing when there were indications of impairment.

In accordance with the provisions of HKFRS 3:

– the Group ceased amortisation of goodwill from 1 April 2005;

– accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill;

– from the year ended 31 March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment;

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2005 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005.

– HKFRS 3 – prospectively after 1 April 2005.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

2. BASIS OF PREPARATION *(Continued)*

The effect on the adoption of the new accounting policies in consolidated balance sheet and consolidated income statement were summarised as follow:–

Consolidated balance sheet

As at 31 March 2006

	HKAS 17 *HK$'000*	HKFRS 3, HKAS 36 and 38 *HK$'000*	HKAS 39 *HK$'000*	Total *HK$'000*
Decrease in property, plant and equipment	(5,757)	–	–	(5,757)
Increase in leasehold land	5,757	–	–	5,757
Decrease in investment in securities	–	–	(35,940)	(35,940)
Increase in available-for-sale financial assets	–	–	2,695	2,695
Decrease in goodwill	–	(5,524)	–	(5,524)
Decrease in trade receivables	–	–	(4,685)	(4,685)
Decrease in prepayments, deposits and other receivables	–	–	(4,745)	(4,745)
	–	(5,524)	(42,675)	(48,199)
Decrease in reserve	–	(5,524)	(42,675)	(48,199)

Consolidated income statement

For the year ended 31 March 2006

	HKAS 17 *HK$'000*	HKFRS 3, HKAS 36 and 38 *HK$'000*	HKAS 39 *HK$'000*	Total *HK$'000*
Decrease in depreciation	(484)	–	–	(484)
Increase in amortisation of leasehold land	484	–	–	484
Impairment of goodwill	–	5,524	–	5,524
Impairment loss on available-for-sale financial assets	–	–	33,245	33,245
Impairment loss on trade receivables	–	–	4,685	4,685
Impairment loss on prepayments, deposits and other receivables	–	–	4,745	4,745
Increase in loss attributable to equity holders of the Company	–	5,524	42,675	48,199
Increase in loss per shares (HK$)	–	0.017	0.133	0.150

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

2. BASIS OF PREPARATION *(Continued)*

Consolidated balance sheet

As at 31 March 2005

	HKAS 17	HKFRS 3, HKAS 36 and 38	HKAS 39	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Decrease in property, plant and equipment	(6,241)	–	–	(6,241)
Increase in leasehold land	6,241	–	–	6,241
	–	–	–	–

There was no impact on the reserves from the adoption of HKAS 17 as at 31 March 2005.

Consolidated income statement

For the year ended 31 March 2005

	HKAS 17	HKFRS 3, HKAS 36 and 38	HKAS 39	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Decrease in depreciation	(119)	–	–	(119)
Increase in amortisation of leasehold land	119	–	–	119

There was no impact on earnings per share from the adoption of HKAS 17 for the year ended 31 March 2005.

With effect from 1 April 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet as part of equity, separately from interests attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company. These changes in presentation have been applied retrospectively with comparatives figures restated.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

2. BASIS OF PREPARATION *(Continued)*

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transaction
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 7	Financial Instruments: Disclosure
HK(IFRIC)-Int 4	Determining whether an Arrangement contain a Lease
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Report in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded derivatives

The HKAS 1 (Amendment) shall be applied for annual periods beginning on or after 1 April 2007. The revised standard will affect the disclosure about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated accounts, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit and loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated accounts as at 31 March 2006 and 2005.

HKAS 39 (Amendment) The Fair Value Option changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will comply this amendment from accounting periods beginning on 1 April 2006.

HKAS 39 and HKFRS 4 (Amendment) Financial Guarantee Contracts requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Company regards its financial guarantees provided to its subsidiaries as insurance contracts.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

2. BASIS OF PREPARATION *(Continued)*

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

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application. A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements is set out below:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operation policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received or receivables.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries, associates and jointly controlled entities at the date of acquisition. In the case of jointly-controlled entities and associates, goodwill is included in the carrying amount rather than as a separate identifiable asset on the consolidated balance sheet.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset. Prior to the adoption of the new HKFRS, goodwill is amortised on a straight-line basis over its estimated useful life of a period up to a maximum of 15 years. Following the adoption of HKFRS 3, goodwill ceased to be amortised from 1 April 2005 in which it will be tested annually for impairment. The goodwill is therefore carried at cost less accumulated impairment losses and any accumulated amortisation brought forward has been eliminated against the cost of goodwill.

On disposal of subsidiaries, jointly-controlled entities and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the date of acquisition is written back and included in the calculation of the gain and loss on disposal.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation (Continued)

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

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

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight-line method, over their estimated useful lives. The principal annual rates are as follows:

Buildings	2.5%
Leasehold improvements	20%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	20%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leasehold land

Leasehold land represents prepaid lease payment made for leasehold land. Interest in leasehold land is stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The cost of leasehold land is amortised on a straight-line basis over the unexpired lease terms.

(g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(h) Investment

Before adoption of new HKFRSs, the Group classified the investment in listed equity securities as investment in securities.

From 1 April 2005 onward, the Group classifies its investments in the following categories depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Investment (Continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Work in progress and finished goods comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates the reversal effect of that specific event.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

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

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

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

Assets carried at cost

If there is objective that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

(n) Provision

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value money is material, the amount of a provision is the present value at the balance sheet date of the expenditures expected to be required to settle the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(p) Revenue recognition

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

(i) Revenue derived from the provision of sales support services are recognised when services are performed and upon each shipment made by the Group's Hong Kong garment and fashion manufacturing clients to the US;

(ii) Service income is recognised when services are provided;

(iii) Sales of merchandise are recognised when goods are delivered and title is passed;

(iv) Interest income, is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(v) Dividend income from available-for-sale financial assets are recognised when the shareholder's right to receive payment is established.

(q) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Taxation (Continued)

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

The carrying amount of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

(r) Foreign currencies

Transactions in foreign currencies are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

(s) Operating leases

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

(t) Employee benefits

(i) Bonuses

The Group recognises a liability for bonuses when there is a contractual obligation and the amount can be estimated reliably.

(ii) Retirement benefit obligations

The Group has a defined contribution retirement benefits scheme ("the Scheme") for its qualified employees, which was registered under the Occupational Retirement Scheme Ordinance (Chapter 426 of Laws of Hong Kong) and exempted from registration requirements of Section 5 of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Contributions are made based on a percentage of the employees' basic salaries and are charged to the combined income statement as they become payable in accordance with rules of the Scheme. The assets of the 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 Scheme except for the Group's employer voluntary contributions, which are refunded to the group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Employee benefits (Continued)

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(iv) Share-based compensation

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards are recognised as an expense in the income statement.

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

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

(u) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Related parties transactions

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

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

(b) the party is an associate;

(c) the party is jointly-controlled entity;

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

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

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

(g) the party is a post-employment benefit plan for the benefit or the employees of the Group, or of any entity that is related party of the Group.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (foreign exchange risk), credit risk, liquidity risk and cash flow and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group's treasury function operates as a centralised service for managing financial risks and for providing cost efficient funding to the Group.

(a) Market risk – Foreign exchange risk

The Group operates mainly in both the Macau and Hong Kong and majority of transactions are dominated in Hong Kong dollars and Renminbi. Therefore, the foreign exchange risk of the Group is minimal. In addition, the Group does not have any foreign currency investments which has been hedged by currency borrowings and other hedging investments.

(b) Credit risk

The Group's credit risk is primarily attributable to trade or other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with appropriate credit history. The exposures to these credit risks are monitored on an ongoing basis.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

4.1 Financial risk factors (Continued)

(c) Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

(d) Cash flow and fair value interest rate risk

Borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group monitors the interest rate risk exposure on a continuous basis and adjusts the portfolio of borrowings where necessary.

4.2 Fair value estimation

The carrying amounts of the following other investments/financial assets and liabilities approximate their fair value including cash and cash equivalent, trade receivables, prepayment, deposit and other receivables, trade and other payables and amount due to a director.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of intangible assets in accordance with the accounting policy stated in note 3(g). The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

(b) Provision for impairment of receivables

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(c) Useful lives of property, plant and equipment

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

(d) Net realisable of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience and selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

6. TURNOVER

The Group's turnover comprised of the followings:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Apparel sourcing services	**4,524**	81,984
Apparel trading	**43,904**	19,990
	48,428	101,974

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

7. SEGMENT INFORMATION

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

In accordance with the Group's internal financial reporting system, the Group has determined that business segments as the primary reporting because this is more relevant to the Group in making operating and financial decisions.

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

Analysis of assets and liabilities by business segments and by geographical segments have not been prepared as most of the group's assets and liabilities were unable to be allocated in view of the nature of the Group's business.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

7. SEGMENT INFORMATION *(Continued)*

Business segments

The following table provides an analysis of the Group's revenues, results and certain assets, liabilities and expenditure information by business nature:

	Continuing operations								Discontinued operation			
	Apparel sourcing services		Apparel trading		Sales support services		Subtotal		Marketing and compliance monitoring services		Consolidated Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Segment revenue												
Sales to external customers	**4,524**	81,984	**43,904**	19,990	**-**	–	**48,428**	101,974	**-**	–	**48,428**	101,974
Segment results	**(3,252)**	8,823	**(14,236)**	7,734	**-**	–	**(17,488)**	16,557	**-**	(2,985)	**(17,488)**	13,572
Other revenue											**431**	380
Net unallocated expenses											**(43,499)**	–
(Loss)/profit from operations											**(60,556)**	13,952
Gain/(loss) on disposal of a subsidiary											**1,098**	(2,585)
Finance costs											**(149)**	(193)
(Loss)/profit before taxation											**(59,607)**	11,174
Taxation											**(20,003)**	(1,293)
(Loss)/profit for the year											**(79,610)**	9,881
Net (loss)/profit from ordinary activities attributable to the equity holders of the Company											**(79,610)**	2,160
Minority interests											**-**	7,721
											(79,610)	9,881

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

7. SEGMENT INFORMATION *(Continued)*

Business segments (Continued)

	Continuing operations								Discontinued operation			
	Apparel sourcing services		Apparel trading		Sales support services		Subtotal		Marketing and compliance monitoring services		Consolidated Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)	**HK$'000**	HK$'000 (Restated)
Segment assets	**3,654**	28,642	**25,524**	17,030	**52**	327	**29,230**	45,999	**-**	–	**29,230**	45,999
Unallocated assets											**12,194**	53,574
Total assets											**41,424**	99,573
Segment liabilities	**2,821**	5,053	**9,317**	3,030	**-**	–	**12,138**	8,083	**-**	–	**12,138**	8,083
Unallocated liabilities											**26,035**	6,367
Total liabilities											**38,173**	14,450
Other segment information:												
Capital expenditure	**-**	1,672	**439**	2,942	**-**	–	**439**	4,614	**-**	–	**439**	4,614
Unallocated capital expenditure											**284**	–
											723	4,614
Depreciation and amortisation	**722**	320	**1,824**	453	**426**	255	**2,972**	1,028	**-**	–	**2,972**	1,028
Unallocated depreciation and amortisation											**659**	189
											3,631	1,217
Impairment loss on property, plant and equipment	–	–	**-**	–	**169**	–	**169**	–	**-**	–	**169**	–
Other non-cash expenses	**3,595**	320	**11,241**	453	**169**	255	**15,005**	1,028	**-**	–	**15,005**	1,028
Unallocated other non-cash expenses											**43,514**	3,989
											58,519	5,017

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

7. SEGMENT INFORMATION *(Continued)*

Geographical segments

	Segment revenue						Segment results					
	Continuing operations		Discontinued operations		Total		Continuing operations		Discontinued operations		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)
Hong Kong	**13,202**	6,106	**-**	–	**13,202**	6,106	**(4,653)**	339	**-**	–	**(4,653)**	339
Russia	**1,052**	31,872	**-**	–	**1,052**	31,872	**(253)**	2,024	**-**	–	**(253)**	2,024
South Korea	**1,545**	29,203	**-**	–	**1,545**	29,203	**(1,541)**	1,625	**-**	–	**(1,541)**	1,625
Panama	**1,006**	8,901	**-**	–	**1,006**	8,901	**(562)**	1,654	**-**	–	**(562)**	1,654
USA	**1,421**	12,008	**-**	–	**1,421**	12,008	**(1,428)**	4,268	**-**	–	**(1,428)**	4,268
PRC	**8,954**	9,532	**-**	–	**8,954**	9,532	**(1,062)**	2,541	**-**	–	**(1,062)**	2,541
Macau	**21,248**	4,352	**-**	–	**21,248**	4,352	**(7,989)**	1,121	**-**	–	**(7,989)**	1,121
	48,428	101,974	**-**	–	**48,428**	101,974	**(17,488)**	13,572	**-**	–	**(17,488)**	13,572
Unallocated other revenue											**431**	380
Unallocated corporate expenses											**(43,499)**	–
(Loss)/profit from operations											**(60,556)**	13,952
Finance costs											**(149)**	(193)
Gain/(loss) on disposal of a subsidiary											**1,098**	(2,585)
(Loss)/profit before taxation											**(59,607)**	11,174
Taxation											**(20,003)**	(1,293)
(Loss)/profit for the year											**(79,610)**	9,881
Net (loss)/profit from ordinary activities attributable to the equity holders of the Company											**(79,610)**	2,160
Minority interests											**-**	7,721
(Loss)/profit for the year											**(79,610)**	9,881

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

7. SEGMENT INFORMATION *(Continued)*

Geographical segments (Continued)

	Segment assets						Segment liabilities					
	Continuing operations		Discontinued operations		Total		Continuing operations		Discontinued operations		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		Restated		Restated		Restated		Restated		Restated		Restated
Hong Kong	**31,692**	91,032	**-**	–	**31,692**	91,032	**29,995**	9,331	**-**	–	**29,995**	9,331
Macau	**9,732**	8,541	**-**	–	**9,732**	8,541	**8,178**	5,119	**-**	–	**8,178**	5,119
Total	**41,424**	99,573	**-**	–	**41,424**	99,573	**38,173**	14,450	**-**	–	**38,173**	14,450

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

8. DISCONTINUED OPERATION

On 20 October 2004, the Group entered into a sale and purchase agreement to dispose of its entire interest in Dragon City Limited ("Dragon City") at a total consideration of HK$2,800,000. Dragon City was principally engaged in the provision of marketing and compliance monitoring services. Upon disposal of Dragon City, the Group discontinued its marketing and compliance monitoring operation. Loss on disposal of the aforesaid discontinued operation of approximately HK2,585,000 was charged to the income statement. No income tax expenses or credit arose from the disposal.

The turnover, results, cash flow, total assets and total liabilities of the marketing and compliance monitoring operation were as follows:

	2006	2005
	HK$'000	*HK$'000*
Turnover	–	–
Selling expenses	–	(2,752)
Administrative expenses	–	(232)
Loss from operations	–	(2,984)
Taxation	–	–
Net loss for the year	–	(2,984)
Total assets	–	13,679
Total liabilities, including amount due to the Group of approximately HK$8,286,000	–	(8,294)
Net assets	–	5,385
Net cash used in operating activities	–	(6)
Net cash used in investing activities	–	(2,984)
Total net cash outflow	–	(2,990)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

9. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000 (Restated)	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000 (Restated)
At cost:						
At 1 April 2004, as previously reported	14,130	2,663	1,489	1,059	753	20,094
Effect on adoption of HKAS 17	(7,115)	–	–	–	–	(7,115)
At 1 April 2004, as restated	7,015	2,663	1,489	1,059	753	12,979
Additions	–	3,782	302	530	–	4,614
Acquisition of a subsidiary	–	1,361	457	238	–	2,056
At 31 March 2005 and At 1 April 2005	7,015	7,806	2,248	1,827	753	19,649
Additions	–	383	284	56	–	723
Disposal of a subsidiary	–	(2,043)	(859)	(836)	–	(3,738)
At 31 March 2006	7,015	6,146	1,673	1,047	753	16,634
Accumulated depreciation:						
At 1 April 2004, as previously reported	1,088	82	274	288	735	2,467
Effect on adoption of HKAS 17	(755)	–	–	–	–	(755)
At 1 April 2004, as restated	333	82	274	288	735	1,712
Charge for the year	70	264	410	336	18	1,098
Acquisition of a subsidiary	–	280	35	45	–	360
At 31 March 2005 and At 1 April 2005	403	626	719	669	753	3,170
Charge for the year	175	2,065	522	385	–	3,147
Disposal of a subsidiary	–	(1,192)	(382)	(381)	–	(1.955)
At 31 March 2006	578	1,499	859	673	753	4,362
Impairment:						
At 1 April 2004 and 31 March 2005	–	–	–	–	–	–
Charge for the year	–	–	49	120	–	169
At 31 March 2006	–	–	49	120	–	169
Net book value:						
At 31 March 2006	6,437	4,647	765	254	–	12,103
At 31 March 2005	6,612	7,180	1,529	1,158	–	16,479

As 31 March 2006, the Group's buildings are situated in Hong Kong under long term lease.

As at 31 March 2006, the Group's buildings with carrying amount of HK$4,612,000 (2005: HK$4,650,000) were pledged to secure a mortgage loan granted to the Group (note 19).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

9. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Furniture and fixtures HK$'000	Office equipment HK$'000	Total HK$'000
Cost:			
At 1 April 2004	–	–	–
Additions	157	127	284
At 31 March 2005 and at 31 March 2006	157	127	284
Accumulated depreciation:			
At 1 April 2004	–	–	–
Charge for the year	31	25	56
At 31 March 2005 and at 1 April 2005	31	25	56
Charge for the year	52	31	83
At 31 March 2006	83	56	139
Net book value:			
At 31 March 2006	74	71	145
At 31 March 2005	126	102	228

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

10. LEASEHOLD LAND

The Group

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Cost:		
At 1 April 2005/2004		
as previously reported	**–**	–
Effect on adoption of HKAS 17	**7,115**	7,115
At 1 April 2005/2004, as restated		
and at 31 March 2006/2005	**7,115**	7,115
Accumulated amortisation:		
At 1 April 2005/2004,		
as previously reported	**–**	–
Effect on adoption of HKAS 17	**874**	755
At 1 April 2005/2004, as restated	**874**	755
Charge for the year	**484**	119
As at 31 March 2006/2005	**1,358**	874
Net Book Value:		
At 31 March 2006/2005	**5,757**	6,241

The Group's interests in leasehold land represents prepaid operating lease payments in respect of leasehold land in Hong Kong under long-term lease and their net book value is analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Land in Hong Kong, held on:		
Long-term leases	**5,757**	6,241

As at 31 March 2006, the Group's leasehold land with carrying amount of HK$4,606,000 (2005: HK$4,639,000) were pledged to secure a mortgage loan granted to the group *(note 19)*.

11. GOODWILL

The Group

	HK$'000
Cost:	
At 1 April 2004 and at 31 March 2005	5,913
Elimination of accumulated amortisation upon adoption of HKFRS 3	(389)
At 31 March 2006	5,524
Accumulated amortisation:	
At 1 April 2004	118
Charge for the year	271
At 31 March 2005 and at 1 April 2005	389
Elimination of accumulated amortisation upon adoption of HKFRS 3	(389)
At 31 March 2006	–
Impairment:	
At 1 April 2004 and at 31 March 2005	–
Impairment loss recognised	5,524
At 31 March 2006	5,524
Carrying amount:	
At 31 March 2006	–
At 31 March 2005	5,524

(i) In prior years, Goodwill is amortised over a period of 15 years. Following the adoption of HKFRS 3, amortisation of goodwill has ceased since 1 April 2005. The accumulated amortisation of goodwill as at 1 April 2005 has been eliminated against the cost of goodwill as at that date. Annual impairment review was performed.

(ii) Goodwill is allocated to the Group's cash generating unit ("CGU") identified according to country of operation at business segment as follows:–

	2006 **HK$'000**	2005 HK$'000
Provision of apparel sourcing, quality assurance and social compliance monitoring services	**–**	5,524

The recoverable amount of CGU is determined based on the value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flow beyond five-year period is extrapolated using the estimated rate stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

11. GOODWILL *(Continued)*

The Group (Continued)

Key assumptions used for value-in-use calculations:

Gross margin	35%
Growth rate	20%
Discount rate	7%

Management determined the budget gross margin based on past performance and its expectations for the market development. The weighted average growth rates used are calculated in accordance with the total amounts and terms of signed contracts. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

(iii) Due to operating loss incurred by the subsidiary, the director reassessed the recoverable amount of the goodwill and made impairment loss approximately HK$5,524,000.

12. INTERESTS IN SUBSIDIARIES

The Company

	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**22,316**	32,916
Less: Impairment loss on interests in subsidiaries	**(7,042)**	–
	15,274	32,916
Amounts due from subsidiaries	**22,641**	38,281
Less: Impairment loss on amounts due from subsidiaries	**(22,641)**	–
	–	38,281
	15,274	71,197

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

12. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	**Place of incorporation**	**Particular of issued and paid up capital**	**Percentage and of equity attributable to the Company**		**Principal activities**
			2006 **%**	2005 %	
Directly held					
Sun Ace Group Limited	British Virgin Islands ("BVI")	US$1 Ordinary	**100**	100	Investment holding
Fair Good Limited	BVI	US$1 Ordinary	**100**	100	Investment holding
Indirectly held					
Sun Tai Hing Garment Making Company Limited	Hong Kong	HK$115,000 Ordinary	**100**	100	Provision of sales support services
Easy Billion International Enterprise Limited	Hong Kong	HK$10,000 Ordinary	**100**	100	Investment holding
East Step Trading Limited	Hong Kong	HK$1 Ordinary	**100**	100	Apparel trading (Hong Kong based)
Gala Consultants Group Limited	BVI	US$1 Ordinary	**100**	100	Apparel trading (Overseas based)
Elite Team Inc.	BVI	US$1 Ordinary	**100**	100	Investment holding
Fanlink Far East Limited	BVI	US$1 Ordinary	**100**	100	Investment holding

The above table listed the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and recoverable/(repayable) on demand.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

As mentioned in note 2 to the financial statements, from 1 April 2005, the Group's investment in securities have been reclassified to available-for-sale financial assets in accordance with HKAS 39. The details of the Group's available-for-sale financial assets as at 31 March 2006 and at 31 March 2005 have been summarised below:–

	The Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Held for non-trading purpose:		
Listed equity securities – Hong Kong, at cost	**31,260**	31,260
Listed equity securities – outside Hong Kong, at cost	**4,680**	4,680
	35,940	35,940
Impairment loss on available-for-sale financial assets	**(33,245)**	–
At 31 March	**2,695**	35,940

14. INVENTORIES

The Group

	2006	2005
	HK$'000	*HK$'000*
Finished goods	**15,640**	11,303
Less: Provision for obsolete inventories	**(6,689)**	–
	8,951	11,303

Note:

The movement of provision on obsolete inventories were as follows:–

	2006	2005
	HK$'000	*HK$'000*
Balance as at 1 April 2005/2004	**–**	–
Provision on obsolete inventories	**6,689**	–
Balance as at 31 March 2006/2005	**6,689**	–

15. TRADE RECEIVABLES

The Group

The Group's general credit terms granted to its customers ranged form 0 – 60 days (2005: 0 – 60 days). The following is an aged analysis of the trade receivables at the balance sheet date.

	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**3,586**	8,485
Between 31 to 60 days	**1,806**	484
Between 61 days to 1 year	**4,685**	–
	10,077	8,969
Less: Impairment loss on trade receivables	**(4,685)**	–
	5,392	8,969

Notes:

i. The carrying amount of trade receivables approximately to their fair value.

ii. The movements in Impairment loss on trade receivables were as follows:

	2006	2005
	HK$'000	*HK$'000*
At 1 April 2005/2004	**–**	–
Impairment loss on trade receivables	**4,685**	–
At 31 March 2006/2005	**4,685**	–

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		**The Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**2,096**	3,689	**226**	85
Rental and utility deposits	**1,910**	2,437	**–**	–
Other receivables	**32**	–	**–**	–
Loan receivables	**–**	2,000	**–**	–
Investment deposits	**–**	2,745	**–**	–
	4,038	10,871	**226**	85

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

The fair value of the Group's prepayments, deposits and other receivables as at 31 March 2006 approximately to the corresponding carrying amount.

17. SHARE CAPITAL

The Company

	2006 ***HK$'000***	2005 *HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
320,000,000 ordinary shares of HK$0.01 each	**3,200**	3,200

18. RESERVES

The Group

	Contributed surplus *HK$'000* *(Note i)*	**Share premium account** *HK$'000*	**(Accumulated losses)/ retained profits** *HK$'000*	**Total** *HK$'000*
At 1 April 2004	(84)	25,146	52,440	77,502
Release upon disposal of a subsidiary	(1)	–	–	(1)
Net profit for the year	–	–	2,160	2,160
At 31 March 2005 and At 1 April 2005	(85)	25,146	54,600	79,661
Net loss for the year	–	–	(79,610)	(79,610)
At 31 March 2006	(85)	25,146	(25,010)	51

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

18. RESERVES *(Continued)*

The Company

	Contributed surplus HK$'000 (Note ii)	Share premium account HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2004	22,117	25,146	(905)	46,358
Release upon disposal of a subsidiary	(1)	–	–	(1)
Net loss for the year	–	–	(4,099)	(4,099)
At 31 March 2005 and At 1 April 2005	22,116	25,146	(5,004)	42,258
Net loss for the year	–	–	(41,527)	(41,527)
At 31 March 2006	22,116	25,146	(46,531)	731

Notes:

Contributed surplus

(i) The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation on 22 October 2002 over the nominal value of the Company's shares issued in exchange thereof.

(ii) The contributed surplus of the Company represents the difference between the fair value of the shares of Sun Ace Group Limited acquired pursuant to the Group Reorganisation on 22 October 2002 over the nominal value of the Company's share issued in exchange thereof.

Under the Companies Law (2001 Second Revision) of the Cayman Islands, the contributed surplus account is distributable to the shareholders of the Company under certain circumstances.

(iii) In the opinion of the directors, the Company did not have any reserves available for distribution to shareholders at 31 March 2006. As at 31 March 2005, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$47,262,000.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

19. INTEREST-BEARING BANK BORROWINGS – SECURED

The Group

	2006	2005
	HK$'000	*HK$'000*
Mortgage loan repayable:		
Within one year or on demand	**261**	250
In the second year	**264**	255
In the third to fifth years, inclusive	**827**	792
Beyond five years	**4,598**	4,903
	5,950	6,200
Portion classified as current liabilities	**(261)**	(250)
Long term portion	**5,689**	5,950

The Group's mortgage loan was secured by the followings:

(i) legal charge over the leasehold land and buildings of the Group with an aggregate net book value of approximately HK$4,606,000 and HK$4,612,000 respectively (2005: HK$4,639,000 and HK$4,650,000) (note 9 and 10); and

(ii) personal guarantee executed by a director of the Company.

20. DEFERRED TAXATION

Deferred tax liabilities arising from accelerated tax depreciation is as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
At 31 March 2006/2005	**167**	167

At 31 March 2006, there was no significant unrecognised deferred tax liabilities (2005: HK$Nil) for taxes that would have been payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liabilities to additional tax should amounts be remitted.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables:				
Within 90 days	**1,628**	5,498	**–**	–
Within 91 days to 180 days	**727**	482	**–**	–
	2,355	5,980	**–**	–
Accrued expenses due within 30 days or on demand	**990**	929	**469**	403
	3,345	6,909	**469**	403

The carrying amount of trade and other payables approximately to their fair value.

22. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, non-interest bearing and repayable on demand.

The amount due to a director was secured by the corporate guarantee executed by the Company.

23. OTHER REVENUE

The Group

	2006	2005
	HK$'000	*HK$'000*
Bank interest income	**240**	200
Dividend income received from available-for-sale financial assets	**191**	159
Sundry income	**–**	21
	431	380

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

24. (LOSS)/PROFIT FROM OPERATIONS

Expenses included in cost of goods sold, selling expenses and administrative expenses are analysed as follows:–

	The Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories expensed	**38,892**	73,674
Employee benefit expenses *(Note 25)*	**3,172**	2,640
Depreciation	**3,147**	1,098
Amortisation of intangible assets	**–**	233
Amortisation of goodwill	**–**	271
Amortisation of leasehold land	**484**	119
Auditors' remuneration	**660**	500
Impairment loss on loan receivable	**2,000**	–
Impairment loss on investment deposits	**2,745**	–
Provision for obsolete inventories	**6,689**	–
Operating lease rental in respect of rental premises	**1,163**	516
Irrecoverable bad debts	**–**	3,800

25. EMPLOYEE BENEFIT EXPENSES

The Group

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
(a) Employee benefit expenses are analysed as follows:		
Wages, salaries and allowance	**2,981**	2,467
Retirement benefit contributions	**191**	173
	3,172	2,640

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

25. EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Directors and senior management emoluments

	Fee		Salaries, bonus and other benefits		Pension scheme contributions		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*	**HK$'000**	*HK$'000*	**HK$'000**	*HK$'000*
Name of directors								
Executive directors								
Tsai Lai Wa, Jenny	**-**	–	**-**	129	**-**	–	**-**	129
Edmund Siu	**-**	–	**120**	120	**6**	–	**126**	120
Mao Yue	**-**	–	**240**	20	**12**	–	**252**	20
	-	–	**360**	269	**18**	–	**378**	269
Independent non-executive directors								
Lo Wing Yan, Emmy	**100**	100	**-**	–	**-**	–	**100**	100
Fu Wing Kwok, Ewing	**100**	30	**-**	–	**-**	–	**100**	30
Liang Kwong Lim	**100**	20	**-**	–	**-**	–	**100**	20
	300	150	**-**	–	**-**	–	**300**	150
	300	150	**360**	269	**18**	–	**678**	419

The remuneration of all of the director fell within the nil to HK$500,000 band for the two years ended 31 March 2005 and 2006.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2005: one) directors whose emoluments are set out in note 25(b) above. The emoluments of the remaining four (2005: four) individuals were follows.

	2006	2005
	HK$'000	*HK$'000*
Wages, salaries and allowance	**580**	492
Retirement benefit contributions	**21**	17
	601	509

The emoluments on each of the remaining four highest paid individuals fell within the followings bands:

	Number of individual	
	2006	2005
Emolument bands:		
Nil to HK$500,000	**4**	4

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

26. FINANCE COSTS

The Group

	2006	2005
	HK$'000	*HK$'000*
Bank charges	**15**	21
Mortgage loan interest wholly repayable over five years	**134**	172
	149	193

27. TAXATION

The Group

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**85**	60
Provision for estimated assessments of tax liabilities *(Note (i))*	**19,918**	–
Current – Elsewhere		
Charge for the year	**–**	1,254
Over provision in prior year	**–**	(21)
Total tax charge for the year	**20,003**	1,293

Notes:

(i) During the year, the Hong Kong Inland Revenue Department ("IRD") issued certain estimated assessments for tax liabilities of approximately HK$19,918,000 to a subsidiary on the non-taxable claim of non-Hong Kong sourced income for the years of assessment of 1998/1999, 1999/2000, 2000/2001, 2001/2002, 2002/2003 and 2003/2004 ("Estimated Assessments"). The concerned subsidiary has formally filed objections to the IRD against the Estimated Assessments and the concerned subsidiary is still in the process of answering queries from the IRD. The directors considered that full provision on the tax liabilities of the Estimated Assessments was required as the result of the objections regarding the Estimated Assessments is uncertain.

(ii) A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and majority of its subsidiaries are domiciled to the tax expense/(income) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

27. TAXATION *(Continued)*

The Group – for the year ended 31 March 2006

	Hong Kong		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Loss before taxation	**(49,322)**		**(10,285)**		**(59,607)**	
Tax at the statutory tax rate	**(8,631)**	**(17.5)**	**(1,543)**	**(15)**	**(10,174)**	**(17.1)**
Tax effect of expenses that are not deductible in determining taxable profit	**8,791**	**17.8**	**1,063**	**10.3**	**9,854**	**16.5**
Tax effect of income that is not taxable in determining taxable profit	**(75)**	**(0.1)**	**-**	**-**	**(75)**	**(0.1)**
Provision for tax liabilities	**19,918**	**40.4**	**-**	**-**	**19,918**	**33.4**
Effect of tax losses not recognised	**-**	**-**	**480**	**4.7**	**480**	**0.8**
Tax charge for year	**20,003**	**40.6**	**-**	**-**	**20,003**	**33.5**

The Group – for the year ended 31 March 2005

	Hong Kong		Others		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before taxation	(654)		11,828		11,174	
Tax at the statutory tax rate	(114)	(17.5)	1,774	15	1,660	14.8
Tax effect of expenses that are not deductible in determining taxable profit	258	39.4	127	1.0	385	3.4
Tax effect of income that is not taxable in determining taxable profit	(63)	(9.6)	(668)	(5.6)	(731)	(6.5)
Over provision in previous year	(21)	(3.2)	–	–	(21)	(0.1)
Tax charge for year	60	9.1	1,233	10.4	1,293	11.6

28. LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The Group's consolidated loss attributable to shareholders is approximately HK$79,610,000 (2005: profit of HK$2,160,000) of which net loss of approximately HK$41,527,000 (2005: HK$4,099,000) is dealt with in the financial statements of the Company.

29. DIVIDEND

The directors do not recommend the payment of any dividend in respect for the year ended 31 March 2006 (2005: Nil).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

30. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the (loss)/profit attributable to the Company's equity holders of HK$79,610,000 (2005: profit of HK$2,160,000) and on 320,000,000 (2005: 320,000,000) shares in issue during the year.

There were no potential shares in existence for the year ended 31 March 2006 and 2005, and, accordingly, no diluted loss per share has been presented.

31. ACQUISITION OF A SUBSIDIARY

The Group

	2006	2005
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	**–**	730
Inventories	**–**	201
Prepayment, deposits and other receivables	**–**	2,930
Cash and cash equivalent	**–**	20
Trade and other payables	**–**	(381)
	–	3,500
Purchase consideration settled in cash	**–**	3,500

Analysis of the net cash outflow in respect of the acquisition of a subsidiary is set out below:

	2006	2005
	HK$'000	*HK$'000*
Cash consideration paid	**–**	3,500
Cash and cash equivalent acquired	**–**	(20)
Net cash outflow in respect of the acquisition of a subsidiary	**–**	3,480

During the year ended 31 March 2005, the Group acquired 100% interest in Gala Consultants Group Limited which is principally engaged in apparel trading.

The subsidiary acquired in 2005 contributed approximately HK$13,884,000 to the Group's turnover and contributed to the Group's profit of approximately HK$4,790,000 for the year. The subsidiary acquired contributed approximately HK$2,692,000 to the Group's net operating cash flows for the year ended 31 March 2005.

32. EMPLOYEE RETIREMENT BENEFITS

The Group has a defined contribution retirement benefits scheme ("the Scheme") for its qualified employees, which was registered under the Occupational Retirement Scheme Ordinance (Chapter 426 of Laws of Hong Kong) and exempted from registration requirements of Section 5 of the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). Contributions are made based on a percentage of the employees' basic salaries and are charged to the combined income statement as they become payable in accordance with rules of the Scheme. The assets of the 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 Scheme except for the Group's employer voluntary contributions, which are refunded to the group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

33. SHARE OPTION SCHEME

The Company's existing share option scheme ("Share Option Scheme") became effective on 22 October 2002. The major terms of the Share Option Scheme, in conjunction with the requirements of Chapter 17 of the Listing Rules on the Stock Exchange, are set out as follows:

(a) Purpose

The purpose of Share Option Scheme is providing incentives and rewards to full-time employees of the Group in recognition of their contribution to the Group.

(b) Participants of the Share Option Scheme

Subject to the terms of the share Option Scheme, the Directors may, at its absolute discretion, invite full-time employees of the Group including executive directors of the Company or any of its subsidiaries ("Eligible Persons") to take up options to subscribe for Shares.

(c) Total number of shares available for issue under the Share Option Scheme

The total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option scheme and any other scheme of the Company must not exceed 30% of the total issued share capital of the Company from time to time.

(d) Maximum entitlement of each Eligible Persons

The total number of shares issued and to be issued on the exercise of options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of grant to each Eligible Person shall not exceed 1% of the total issued share capital of the Company in issue unless (i) a shareholders' circular is dispatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to herein; and (iii) the relevant Eligible Person and its associates abstain from voting on the resolution.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

33. SHARE OPTION SCHEME *(Continued)*

(e) Time of acceptance and exercise of the Share Option Scheme

An offer of the grant of an option shall be made to Eligible Persons by letter in such form as the Board may from time to time determine and shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the date upon which it is made provided that no such offer shall be open for acceptance after the 10th anniversary of the Adoption Date or after the Share Option Scheme has been terminated.

(f) Amount payable upon acceptance of the option

A non-refundable nominal consideration of $1.00 is payable by the grantee upon acceptance of an option. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the Eligible Person together with the said consideration of $1.00 is received by the Company.

(g) Basis of determining the exercise price of the option

The exercise price for Shares under the Share Option Scheme may be determined by the Board at its absolute discretion but in any event will not be less than the higher of:

(i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day, and

(ii) the average closing price of the Shares as stated in daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant, and

(iii) nominal value of Shares

(h) Period of the Share Option Scheme

Unless otherwise provided in the terms of the Share Option Scheme, an option may be exercised at any time during the period commencing on the expiry of six calendar months after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the Board to each grantee, but in any event not later than 10 years from the date of grant of option but subject to the early termination of the Share Option Scheme.

(i) Details of option granted

During the year under review and up the date of this report, no share option was granted or agreed to be granted under the Share Option Scheme.

34. DISPOSAL OF A SUBSIDIARY

The Group

	2006	2005
	HK$'000	*HK$'000*
Net assets disposed of:		
Intangible assets	**–**	3,835
Property, plant and equipment	**1,783**	–
Agency costs	**–**	9,827
Prepayments, deposits and other receivables	**59**	9
Cash and cash equivalent	**26**	8
Assignment of amount due to fellow subsidiaries	**–**	(8,286)
Trade and other payables	**(504)**	(8)
Minority interests	**(2,262)**	–
	(898)	5,385
Gain/(loss) on disposal of a subsidiary attributable to discontinued operation	**1,098**	(2,585)
Consideration satisfied by cash	**200**	2,800

For the year ended 31 March 2006

On 19 January 2006, the Group disposed of the 51% interests in View Joy Limited to an independent third party for a cash consideration of approximately HK$200,000, the principal activities of which is engaged in the provision of apparel sourcing, quality assurance and social compliance monitoring services. The gain on disposal of View Joy Limited amounted to approximately HK$1,098,000 has been credited to the income statement for the year.

For the year ended 31 March 2005

During the year ended of 31 March 2005, the Group disposed of the entire interests in Dragon City Limited which is principally engaged in the provision of marketing and compliance monitoring services for a consideration of HK2,800,000.

Analysis of the net cash inflow in respect of the disposal of a subsidiary is set out below:

	2006	2005
	HK$'000	*HK$'000*
Cash consideration received	**200**	2,800
Cash and cash equivalent disposed of	**(26)**	(8)
Net cash inflow in respect of the disposal of a subsidiary	**174**	2,792

The subsidiary disposed of during both years ended 31 March 2006 and 2005 did not contribute significantly to the Group's cash and did not have material impact on the Group's results as a whole.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

35. COMMITMENTS

Operating lease commitments

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

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

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**842**	303
In the second to fifth years, inclusive	**1,096**	329
	1,938	632

36. MATERIAL RELATED PARTY TRANSACTIONS

(a) *Key management personnel*

Compensation for key management personnel, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in note 25, is as follows:–

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Salaries and other short-term benefits	**660**	419
Pension scheme contributions	**18**	–
	678	419

(b) The amount due to a director amounted to approximately HK$8,261,000 as at 31 March 2006 was secured by the corporate guarantee provided by the Company. The director has been resigned on 12 July 2006.

37. CONTINGENT LIABILITIES

Apart from the Tax Obligations imposed by the IRD against to a subsidiary of the Group amounted to approximately HK$19,918,000 as set out in note 27, the Group does not have any material contingent liabilities as at 31 March 2006.

38. SUBSEQUENT EVENT

On 2 June 2006, the Group entered into a disposal agreement with an independent third party for the disposal of the entire interests in Fair Good Limited, Elite Team Inc. and Easy Billion International Enterprise Limited ("Easy Billion") for a total cash consideration of approximately HK$120,000.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

At 31 March 2006

39. COMPARATIVE FIGURES

Following the adoption of new HKASs and HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified/restated to conform with the current year's presentation and accounting treatment.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 26 July 2006.

FIVE YEARS FINANCIAL SUMMARY

31 March 2006

	For the year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Turnover	**48,428**	101,974	119,410	34,769	27,671
(Loss)/profit before taxation	**(59,607)**	11,174	29,016	24,803	21,443
Taxation	**(20,003)**	(1,293)	(781)	(119)	(76)
	(79,610)	9,881	28,235	24,684	21,367
Attributable to					
Equity holders of the Company	**(79,610)**	9,881	28,235	24,684	21,367
Minority interests	**–**	(7,721)	(4,738)	–	–
Net (loss)/profit for the year	**(79,610)**	2,160	23,497	24,684	21,367
Dividend	**–**	–	–	–	–

Assets and liabilities and minority interest

	At at 31 March				
	2006	2005	2004	2003	2002
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Total assets	**41,424**	99,573	99,170	64,900	14,763
Total liabilities	**(38,173)**	(14,450)	(9,228)	(7,695)	(788)
Minority interests	**–**	(2,262)	(9,240)	–	–
Total equity	**3,251**	82,861	80,702	57,205	13,975