INTERIM REPORT

SIX MONTHS ENDED 30 SEPTEMBER 2006

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

GAY GIANO
INTERNATIONAL

INTERIM RESULTS

The board of directors (the "Board" or the "Directors") of Gay Giano International Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended September 30, 2006 together with the comparative figures for the corresponding period in the previous year as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended September 30, 2006

	Notes	UNAUDITED Six months ended September 30, 2006 HK$'000	2005 HK$'000
TURNOVER	3	56,409	57,809
Cost of sales		(18,900)	(18,244)
GROSS PROFIT		37,509	39,565
Other income		712	387
Distribution costs		(22,730)	(21,502)
Administrative expenses		(19,466)	(19,492)
LOSS FROM OPERATIONS	5	(3,975)	(1,042)
Finance costs		(106)	(52)
LOSS BEFORE TAX		(4,081)	(1,094)
Tax expense	6	—	(103)
NET LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		(4,081)	(1,197)
DIVIDEND	7	Nil	Nil
LOSS PER SHARE	8		
— Basic		HK(2.04) cents	HK(0.60) cent
— Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET
At September 30, 2006

	Notes	UNAUDITED September 30, 2006 HK$'000	AUDITED March 31, 2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	13,803	13,223
Rental deposits		5,839	6,277
Deferred tax assets		571	571
		20,213	20,071
CURRENT ASSETS			
Inventories		31,344	27,395
Trade receivables	10	748	1,063
Prepayments, deposits and other receivables		4,935	4,216
Tax recoverable		39	—
Pledged bank deposits		3,500	3,500
Cash and cash equivalents		3,334	12,193
		43,900	48,367
CURRENT LIABILITIES			
Trade payables	11	3,397	2,767
Accrued liabilities and other payables		4,682	6,695
Tax payable		—	7
Bank loans (secured)		5,653	4,867
Other loan (secured)		—	59
Obligation under finance lease		279	78
		14,011	14,473

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*
At September 30, 2006

	Note	UNAUDITED September 30, 2006 HK$'000	AUDITED March 31, 2006 HK$'000
NET CURRENT ASSETS		29,889	33,894
TOTAL ASSETS LESS CURRENT LIABILITIES		50,102	53,965
NON-CURRENT LIABILITIES			
Obligation under finance lease		298	138
Employee benefits		1,503	1,503
		1,801	1,641
TOTAL NET ASSETS		48,301	52,324
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	12	20,013	20,013
Reserves		28,288	32,311
TOTAL EQUITY		48,301	52,324

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended September 30, 2006

	Share capital *HK$'000*	Share premium *HK$'000*	Exchange fluctuation reserve *HK$'000*	Leasehold land and buildings revaluation reserve *HK$'000*	(Accumulated losses)/ retained earnings *HK$'000*	Total *HK$'000*
At April 1, 2005	20,006	26,126	116	–	3,532	49,780
Exercise of Share options	7	10	–	–	–	17
Net loss for the period	–	–	–	–	(1,197)	(1,197)
At September 30, 2005	20,013	26,136	116	–	2,335	48,600
At April 1, 2006	20,013	26,137	146	353	5,675	52,324
Change in fair value of leasehold land and buildings	–	–	–	54	–	54
Loss for the period	–	–	–	–	(4,081)	(4,081)
Exchange realignments	–	–	4	–	–	4
At September 30, 2006	20,013	26,137	150	407	1,594	48,301

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended September 30, 2006

	Six months ended September 30,	
	2006 *HK$'000*	2005 *HK$'000*
Net cash used in operating activities	(7,634)	(8,168)
Net cash used in investing activities	(1,913)	(3,237)
Net cash generated from/ (used in) financing	688	(487)
Net decrease in cash and cash equivalents	(8,859)	(11,892)
Cash and cash equivalents at beginning of period	12,193	14,091
Cash and cash equivalents at end of period	3,334	2,199

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS
For the six months ended September 30, 2006

1. Basis of preparation

These unaudited consolidated condensed interim financial statements are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed interim financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values.

These condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended March 31, 2006.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2006, except for the adoption of certain new standards, amendments and interpretations issued by the HKICPA which are effective for accounting periods beginning on or after January 1, 2006.

2. Potential impact arising on the new accounting standards not yet effective

The Group has not yet applied the following new Hong Kong Financial Reporting Standards (the "HKFRSs") that have been issued but not yet been effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 Amendment	Capital disclosures
HKFRS 7	Financial instrument: Disclosures
HK(IFRIC) — Interpretation 8	Scope of HKFRS 2
HK(IFRIC) — Interpretation 9	Reassessment of embedded derivatives
HK(IFRIC) — Interpretation 10	Interim Financial reporting and impairment

3. Turnover

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

4. Segment information

Business segments

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

4. Segment information *(continued)*

Geographical segments

The following table presents revenue and results information for the geographical segments of the Group:

	UNAUDITED Six months ended September 30,					
	Hong Kong		People's Republic of China		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue						
Sales to external customers	55,853	57,360	556	449	56,409	57,809
Segment results	(4,164)	(1,093)	189	51	(3,975)	(1,042)

5. Loss from operations

	UNAUDITED Six months ended September 30,	
	2006	2005
	HK$'000	*HK$'000*
Cost of inventories sold	18,900	18,244
Depreciation	1,099	988
Loss on disposal of property, plant and equipment	692	942
Finance cost —		
Interest expense on:		
Bank loans and overdrafts	100	44
Obligation under finance leases	5	6
Other loans not wholly repayable within five years	1	2

6. Tax expense

	UNAUDITED Six months ended September 30,	
	2006	2005
	HK$'000	*HK$'000*
Provision for the period:		
Hong Kong	—	—
Overseas	—	34
Over provision for prior year:		
Hong Kong	—	69
	—	103

No provision for Hong Kong profits tax (2005: Nil) has been made since the Group did not generate any assessable profits in Hong Kong during the period.

The Company's subsidiary in The People's Republic of China did not generate any taxable profit during the period. In the corresponding period in 2005, the Company's subsidiary in The People's Republic of China was subject to Enterprise Income Tax at a rate of 15%. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. Dividend

The Directors have resolved that no interim dividend be declared in respect of the six months ended September 30, 2006 (2005: Nil).

8. Loss per share

The calculation of basic loss per share is based on the unaudited loss for the six months ended September 30, 2006 of HK$4,081,000 (2005: HK$1,197,000) and the weighted average of 200,130,000 (2005: 200,124,000) ordinary shares in issue during the period.

Diluted loss per share for the period ended September 30, 2006 and September 30, 2005 had not been presented as the potential ordinary shares outstanding during the periods ended September 30, 2006 and September 30, 2005 were anti-dilutive.

9. Property, plant and equipment

During the period, the Group spent approximately HK$2,347,000 (2005: HK$1,237,000) principally in leasehold improvements for newly established and existing retail outlets.

10. Trade receivables

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

	UNAUDITED At September 30, 2006 *HK$'000*	AUDITED At March 31, 2006 *HK$'000*
0 — 30 days	505	436
31 — 60 days	—	—
Over 60 days	243	627
	748	1,063

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

11. Trade payables

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

	UNAUDITED At September 30, 2006 *HK$'000*	AUDITED At March 31, 2006 *HK$'000*
0 — 30 days	2,346	1,744
31 — 60 days	708	792
Over 60 days	343	231
	3,397	2,767

12. Share capital

	UNAUDITED At September 30, 2006, Number of Shares *'000*	UNAUDITED At September 30, 2006 *HK$'000*	AUDITED At March 31, 2006 Number of Shares *'000*	AUDITED At March 31, 2006 *HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	1,000,000	100,000	1,000,000	100,000
Issued and fully paid:				
At the beginning of the period/year	200,130	20,013	200,060	20,006
Issued on exercise of share option	–	–	70	7
At the end of the period/year	200,130	20,013	200,130	20,013

13. Operating lease commitments

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

	UNAUDITED At September 30, 2006 *HK$'000*	AUDITED At March 31, 2006 *HK$'000*
Within one year	29,146	30,093
In the second to fifth years, inclusive	17,209	21,244
	46,355	51,337

14. Contingent liabilities

At September 30, 2006, the Group had no significant contingent liabilities (March 31, 2006: Nil)

At September 30, 2006, the Company had guarantee provided to a bank against facilities utilised by a subsidiary as follow:

	THE COMPANY	
	UNAUDITED	AUDITED
	At	At
	September 30,	March 31,
	2006	2006
	HK$'000	*HK$'000*
Bank loans	*5,653*	*4,867*

15. Connected transaction

During the year ended March 31, 2006, Gay Giano International Limited, a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Boldsmore International Limited ("Boldsmore"), a fellow subsidiary of the Company. Pursuant to the agreement, Boldsmore leased an office and a warehouse to the Group for a term of two year from November 1, 2005 to October 31, 2007 at a monthly rent of HK$220,000.

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

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

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

As at September 30, 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Long positions in ordinary shares of the Company

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

Notes:

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

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

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

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

As at September 30, 2006, the directors had interests in share options to subscribe for shares in the Company under the Old Scheme (as defined in the Section "Share option scheme" below) as follows:

			Number of share options			
Name of directors	Exercise period of share options	Exercise price of share options *HK$*	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Outstanding at end of the year
Cheung Yin Sheung Subraina	February 5, 2001 to February 4, 2011	0.2528	1,800,000	–	–	1,800,000
Tong Kwong Fat	February 5, 2001 to February 4, 2011	0.2528	1,800,000	–	–	1,800,000
Yung Wing Sze Vivian	February 5, 2001 to February 4, 2011	0.2528	1,170,000	–	–	1,170,000
To Ming Oi Wendy	February 5, 2001 to February 4, 2011	0.2528	3,000,000 *(Note)*	–	–	3,000,000

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

Save as disclosed above, none of directors or chief executives or their associates held any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation as at September 30, 2006 which had to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the six months ended September 30, 2006, none of the directors or management shareholders of the Company (as defined in the Listing Rules) has an interest in a business which compete or may corporate with the business of the Group.

SHARE OPTION SCHEME

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

On September 10, 2002, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme") under which the board of directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time. Other details of the New Scheme were disclosed in the circular dated July 29, 2002. As at September 30, 2006, no options have been granted under the New Scheme.

SHARE OPTION SCHEME *(continued)*

Details of the movements in the share options granted and exercised during the period ended September 30, 2006 under the Old Scheme are as follows:

Name or category of participant	Date of grant of share options *(Note 1)*	Exercisable period of share options	Number of share options						Exercise price share of options *HK$ (Note 2)*
			At April 1, 2006	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	At September 30, 2006	
Directors									
Cheung Yin Sheung Subraina	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	–	–	–	–	1,800,000	0.2528
Tong Kwong Fat	February 5, 2001	February 5, 2001 to February 4, 2011	1,800,000	–	–	–	–	1,800,000	0.2528
Yung Wing Sze Vivian	February 5, 2001	February 5, 2001 to February 4, 2011	1,170,000	–	–	–	–	1,170,000	0.2528
			4,770,000	–	–	–	–	4,770,000	
Other employees									
In aggregate	February 5, 2001	February 5, 2001 to February 4, 2011	10,390,000	–	–	(40,000)	–	10,350,000	0.2528
			15,160,000	–	–	(40,000)	–	15,120,000	

Notes:

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

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

SHARE OPTION SCHEME *(continued)*

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

According to the records entered into the register required to be kept by the Company pursuant to Section 336 of the SFO, so far as the directors of the Company are aware of and having made due enquiries, as at September 30, 2006, the interests and short positions of the following parties (other than the directors or chief executives of the Company as disclosed above), in the shares or underlying shares of the Company were as follows:

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

Note:

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

Save as disclosed above, as at September 30, 2006, the Company was not notified by any person (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

BUSINESS REVIEW AND PROSPECT

Business Review

The operating environment in Hong Kong is challenging in the first half of this fiscal year. The result of the Group for the six-month period ended September 30, 2006 recorded a consolidated loss of approximately HK$4.1 million. (2005: approximately HK$1.2 million)

The Group continued to focus on the apparel retail market in Hong Kong. The turnover of the Group for the first half of the fiscal year was approximately HK$56.4 million, representing a decrease of 2% when compared with the same period in last year. The decrease in turnover was mainly caused by the intense price competition in apparel retail market and the unexpected change in climate in Hong Kong.

The management team of the group applied various strategic measures to maintain the gross profit margin of the Group at a relatively high level. However, facing the inflationary pressure in both the imported raw material and fashion accessories and the keen price competition in apparel retail market, the gross profit margin of the Group for the period ended September 30, 2006 was slightly decreased by 2% from 68% in last year same period to 66% in this period.

The Group keeps on deploying stringent control on operating costs. The ratio of distribution costs and the administrative expenses to turnover for the period were approximately 40% (2005: 37%) and 35% (2005: 34%) respectively. The increase in operative expenditure is mainly caused by the inflation in retail rental and other operating costs.

Facing the inflationary trend in the rental market, the Group continued its prudential strategy in distribution channel development. To achieve the goal of retail network optimization, certain shops were renovated or relocated so as to enhance the brand image and the distributional efficiency of the Group. On the other hand, a new retail outlet was opened in Metro City, which is located in Tseung Kwan O, in September 2006.

BUSINESS REVIEW AND PROSPECT *(continued)*

Prospect

Despite the challenging operative environment in Hong Kong, from our experience, the result of the second half of the year will be improved due to the adjustments of the pace of our operation so as to catch up the market changes and the seasonal factor of the apparel retail market in Hong Kong. Look ahead, we believe that our effort in brand loyalty building, effective operational and financial strategies, along with our sophisticated yet contemporary apparel products and effective distributional networks, will support the organic growth of the Group and allow us to gain access to additional business opportunities that may be presented to the Group in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

At as September 30, 2006, net current assets and current ratio of the Group were approximately HK$29.9 million and 3.1 respectively. The current assets mainly comprised inventories of approximately HK$31.3 million, prepayments, deposits and other receivables of approximately HK$4.9 million, trade receivables of approximately HK$0.7 million and cash and cash equivalents of approximately HK$3.3 million. The Group had total assets of approximately HK$64.1 million, current liabilities of approximately HK$14.0 million, non-current liabilities of approximately HK$1.8 million and shareholders' equity of approximately HK$48.3 million.

As at September 30, 2006, the overall gearing ratio of the Group is approximately 13% as total borrowings of approximately HK$6.2 million to net worth of approximately HK$48.3 million.

The Group recorded a net cash used in operating activities of approximately HK$7.6 million for the period and repaid aggregate other loans and the obligation under finance lease of approximately HK$0.1 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Treasury Policies

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks and financial institutions in Hong Kong. As of September 30, 2006, the total outstanding short-term borrowings was approximately HK$5.9 million. Borrowing methods used by the Group mainly include bank loans and other loans from financial institutions. The interest rates of most of these loans are determined by reference to the Hong Kong dollar prime rate. The Group had no interest rate hedging arrangement during the period under review. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

Capital Expenditure

Capital expenditure amounted to approximately HK$2.3 million for the period under review. These expenditure were mainly used in retail network improvement. There were no material capital commitments at September 30, 2006.

Pledge of Assets and Contingent Liabilities

At September 30, 2006, the Group pledged leasehold land and buildings in Hong Kong with an aggregate net book value of approximately HK$5.4 million. At September 30, 2006, the Group had no significant contingent liabilities.

Investment in Properties

The Group's leasehold land and building were valued at approximately HK$5.4 million at March 31, 2006 by Messrs Savils Valuation and Professional Services Limited on an open market, existing use basis.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Employees and Remuneration Policies

As at September 30, 2006, the Group had 180 full-time employees in Hong Kong and 344 full-time employees in the PRC. The total number of full-time employees of the Group is 524. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance. The Group has a share option scheme for the benefit of its directors and eligible employees of the Group.

Foreign Exchange Exposure

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

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 period under review.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the code provisions (the "Code Provision") set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules during the six months ended September 30, 2006.

Directors' Securities Transactions

The Company has adopted a model code as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors of the Company, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the six months ended September 30, 2006.

Audit Committee

The Company has established an audit committee on March 14, 2000 with written terms of reference in accordance with the requirements of the CG Code. The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr. Chan Ka Ling Edmond, Mr. Lo Wa Kei Roy and Mr. Ching Kwok Ho Samuel. Mr. Chan Ka Ling Edmond is the chairman of the audit committee. The audit committee acts as an important link between the Board and the Company's auditors in matters within the scope of the group audit. The duties of the audit committee are to review and provide supervision over the financial reporting process of the Group. The audit committee meets regularly with the management and the external auditors to discuss the accounting principles and practices adopted by the Group and financial reporting matters. The financial statements of the Group for the period ended September 30, 2006 have been reviewed by the audit committee.

Remuneration Committee

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

APPRECIATION

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

By order of the Board
Cheung Yin Sheung Subraina
Chairman

Hong Kong, December 8, 2006

As at the date of this report, the directors of the Company is comprised of seven directors, of which three are executive directors, namely Ms. Cheung Yin Sheung Subraina, Mr. Tong Kwong Fat and Ms. Yung Wing Sze Vivian, a non-executive director, namely Ms. To Ming Oi Wendy, and three are independent non-executive directors, namely Mr. Chan Ka Ling Edmond, Mr. Lo Wa Kei Roy and Mr. Ching Kwok Ho Samuel.