GRANEAGLE Holdings Limited

(Stock Code: 147)

ANNUAL REPORT 2006

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive

Kong Ho Pak *(Chairman)*
Ling Tai Yuk, John *(C.E.O.)*
Pang Hon Chung

Non-Executive

Ng Tze Kin, David
Chau Wai Yin, Jonathan

Independent Non-Executive

Leung Shu Yin, William
Lee Tsoh Ching, Jonathan
Keir, James

COMPANY SECRETARY

Tam Shuit Mui, Amy

AUDITORS

Deloitte Touche Tohmatsu

AUDIT COMMITTEE

Leung Shu Yin, William *(Chairman)*
Lee Tsoh Ching, Jonathan
Keir, James
Ng Tze Kin, David

REMUNERATION COMMITTEE

Chau Wai Yin, Jonathan *(Chairman)*
Lee Tsoh Ching, Jonathan
Keir, James

NOMINATION COMMITTEE

Chau Wai Yin, Jonathan *(Chairman)*
Lee Tsoh Ching, Jonathan
Keir, James

PRINCIPAL OFFICE

Suite 1114
Lippo Sun Plaza
28 Canton Road
Tsimshatsui, Kowloon
Hong Kong

REGISTRARS (In Hong Kong)

Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East,
Hong Kong

REGISTRARS (in Bermuda)

Butterfield Corporate Services, Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda.

KONG HO PAK — Executive Director and Chairman

Mr. Kong Ho Pak, aged 81, is the chairman of Lotus International Limited which is engaged in investment, trading, tourism, engineering and apparel. Mr. Kong has over 40 years of experience in business investment and more than 10 years of experience in the textile industry. Mr. Kong is a director of Koniko Company Ltd. ("Koniko"), a wholly-owned subsidiary of the Company, which is engaged in the manufacturing of high end ladies apparel including sportswear, jacket suits and dresses.

LING TAI YUK, JOHN — Executive Director and Chief Executive Officer

Mr. Ling Tai Yuk, John, aged 69, has over 30 years of experience in design, sales, merchandising and manufacturing in the fashion industry. Mr. Ling is also a director of Koniko.

PANG HON CHUNG — Executive Director

Mr. Pang Hon Chung, aged 55, holds a Master's Degree in Business Administration, and is a member of Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Pang has extensive experience in business management and is a director and the general manager of Lotus International Limited. He is also an independent non-executive director of Tonic Industries Holdings Limited.

NG TZE KIN, DAVID — Non-Executive Director

Mr. Ng Tze Kin, David, aged 56, holds a Master's Degree in Commerce from Macquarie University, Sydney and is an Australian Chartered Accountant and Chartered Secretary. Mr. Ng had worked for PricewaterhouseCoopers Hong Kong for 8 years and is currently the managing director of a corporate practice in Hog Kong.

CHAU WAI YIN, JONATHAN — Non-Executive Director

Mr. Chau Wai Yin, Jonathan, aged 43, holds a Master's Degree in Business Administration from University of California at Los Angeles. Mr. Chau has over 16 years of experience in the fields of finance and investments and has worked for various financial institutions and publicly listed companies in the area of mergers, acquisitions, investments and fund raising in the United States and Greater China.

LEUNG SHU YIN, WILLIAM — Independent Non-Executive Director

Mr. Leung Shu Yin, William, aged 56, graduated from Hong Kong Polytechnic. Mr. Leung is currently a practising director of three CPA firms in Hong Kong. He is also presently an Independent Non-Executive Director of Mainland Headwear Holdings Ltd., Lai Sun Garment (International) Ltd, Gold-Face Holdings Ltd. and Lai Sun Development Co. Ltd.

LEE TSOH CHING, JONATHAN — Independent Non-Executive Director

Mr. Lee Tsoh Ching, Jonathan, aged 69, has over 45 years of experience in manufacturing and trading from textile industry.

KEIR, JAMES — Independent Non-Executive Director

Mr. Keir, James , aged 69, has over 43 years of experience in jewelry manufacturing and retailing.

CHAIRMAN'S STATEMENTS

FINANCIAL RESULTS

The Group's consolidated turnover and profit before taxation for the year ended March 31, 2006 amounted to approximately HK$153 million and HK$12.3 million respectively, representing a decrease of 13% and an increase of 5% respectively from last year. The Group's decrease in turnover was attributed to the uncertainties of the trade environment during the negotiations between the United States ("US") and the People's Republic of China (the "PRC") in the last quarter of 2005, US importers and buyers have held up and transferred their orders of garment products to other countries. However, a three-year agreement on imports of Chinese clothing and textiles was reached between the US and the PRC in November 2005 and has been effective from January 1, 2006 till December 31, 2008. This agreement has removed the uncertainties for buyers and create a stable and predictable environment for the US importers to place orders again starting from the first quarter of 2006.

The increase in profit before taxation was due to the higher profit margin and also an increase in the other operating income. During the year, the Group has changed the composition of the Group's garment product mix by increasing the sales of its high-end lines of ladies fashion, which contributing to the higher selling price and profit margin. The Group's gross profit margin increased to 15.3% in 2006 from 13.8% in 2005. The increase in other operating income was due to the increase in bank interest income which attributed to the increasing interest rate. The demand for the Group's garment products from its US customers remains stable as evidenced by the Group's five months' worth of back orders.

The Group was able to maintain overheads in line with the level of its business activities. The Group's 2006 profit attributable to shareholders increased by 4.9% to reach HK$11.1 million for the year and the Group's basic earnings per share was 6.62 HK cents, an increase of 4.9% from 6.31 HK cents in 2005.

FINANCIAL POSITION AND LIQUIDITY

The Group's financial position remained strong during the year, allowing the Group to rely principally on internal resources to fund its operation and investment activities. As at March 31, 2006, the Group's net currents assets were HK$73 million, with cash and bank balances of HK$51 million as compared to HK$64 million in net current assets and HK$40 million in cash and bank balances as at March 31, 2005. As at March 31, 2006, the Group's gearing ratio and current ratio were 0% (2005: 0%) and 6.8 times (2005: 3.6 times) respectively. The gearing ratio of the Group is expressed as a percentage of total borrowings to shareholders' funds.

As at March 31, 2006, the Company pledged its bank deposit of HK$8.6 million to secure the banking facilities granted to the Company. The Company has contingent liabilities of HK$20 million in the form of a corporate guarantee to secure general banking facilities granted to a subsidiary. The Group's exposure to foreign currency risk is insignificant because the majority of its income and expenses are US Dollar based.

EMPLOYEES

The Group maintains 20 employees, whose salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include mandatory provident fund and an education subsidy to encourage staff's professional development. The Group also has a discretionary share option scheme in place designed to award employees for their performance. There was no share option granted to any employee during the year.

FUTURE PLAN AND PROSPECTS

The Group remains optimistic about the prospect of its core business. The bilateral agreement between the PRC and the US, as mentioned above, has strengthened the confidence of US importers to place orders again since the first quarter of 2006. Therefore, the future of our garment business will be on track. In fact, we are planning to expand our production facilities in the next three years for the possible booming of sales.

Regarding our health supplement business, due to the release of our Chief Operating Officer who is also the key member of our Research and Development team of our health supplement products, the Board of Directors decided to put on hold of the Group's health supplement business until we find a replacement as the successor.

APPRECIATION

On behalf of the Board, I would like to extend my appreciation to our management team and employees for their efforts during the past year. I would like to thank our business associates and shareholders for their confidence and continued support.

On behalf of the Board

Kong Ho Pak
Chairman

Hong Kong, July 7, 2006

The Board is committed to promoting good corporate governance to safeguard the interests of shareholders. The Company set out its corporate governance practices by reference to the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Except for the deviations discussed below, the Company has applied the principles in the Code and complied with the code provisions set out in the Code for the year ended March 31, 2006.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the Directors' transactions in the securities of the Company on terms no less exacting than Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Specific enquiry has been made of all the Directors of the Company and they have confirmed their compliance with the required standard set out in the Model Code and the Company's code of conduct in this respect throughout the year ended March 31, 2006 and up to the date of publication of this Annual Report.

BOARD OF DIRECTORS

The Board of Directors is accountable to the shareholders for the leadership and management and control of the business of the Company. The Board delegates to the Chief Executive Officer and his Management team day-to-day management of the Company's business, including the preparation of annual and interim accounts and implementation of internal controls, in accordance with the strategy, policies and programs approved by the Board.

The Board of Directors held 5 meetings during the financial year. The attendance of individual members of the Board and other committees during the year ended March 31, 2006 is setout in the following table:

	Meetings attended/Eligible to attend			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Kong Ho Pak *(Chairman of the Board)*	5/5	–	–	–
Ling Tai Yuk, John *(Chief Executive Officer)*	3/5	–	–	–
Pang Hon Chung	4/5	–	–	–
Non-Executive Directors				
Ng Tze Kin, David	5/5	4/4	–	–
Chau Wai Yin, Jonathan *(Chairman of Remuneration Committee and Nomination Committee)*	4/5	–	1/1	1/1
Independent Non-Executive Directors				
Leung Shu Yin, William *(Chairman of Audit Committee)*	5/5	4/4	–	–
Lee Tsoh Ching, Jonathan	5/5	4/4	1/1	1/1
James Keir	5/5	4/4	1/1	1/1

The Company's Non-executive Directors are not appointed for specific terms as required by code provision A.4.1 of the Code. However, in order to be more consistent with code provision A.4.1, the relevant Bye-law of the Company was amended, at the Company's Annual General Meeting on September 16, 2005, to ensure that every Director retire by rotation at least once every three years. Therefore, the Board considers that it is not necessary to appoint the non-executive directors for specific terms.

The Company considers that its Non-executive Directors and Independent Non-executive Directors bring to the Board a good mix of expertise and experience in the fields of accounting, investment and garment businesses. At least one of the Independent Non-executive Directors has appropriate accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules. Pursuant to the requirements of the Listing Rules The Remuneration Committee has held 1 meeting in the year., each Independent Non-executive Director has given the Company an annual confirmation in writing of his independence from the Company. The Company considers all the Independent Non-executive Directors to be Independent with due regard to the guidelines as set out in Rule 3.13 of the Listing Rules.

The Board members have no financial, business, family or other material/relevant relationships with each other apart from the below. Mr. Kong Ho Pak and Mr. Ling Tai Yuk, John are brothers-in-law. Besides, they are also business partners. They are both the directors and shareholders of a private company incorporated in Hong Kong.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Ling Tai Yuk, John was both the Chairman and the Chief Executive Officer ("CEO") of the Company until May 30, 2005. To comply with the code provision A.2.1 of the Code, Mr. Kong Ho Pak was appointed as the Chairman of the Company on May 30, 2005 and responsible for the management of the Board. Mr. Ling Tai Yuk, John remains as the CEO and responsible for the day-to-day management of the Company's businesses.

BOARD COMMITTEES

Currently the Company has set up three board committees, namely, Remuneration Committee, Nomination Committee and Audit Committee.

(a) Remuneration Committee

The Remuneration Committee was established in May 2005. It is responsible for overseeing the establishment and operation of formal and transparent procedures for developing the remuneration packages of directors. It also provides effective supervision and administration of the Company's share option schemes. The committee's authority and duties are set out in written terms of reference and are available on request.

Members of the Remuneration Committee are:

Chau Wai Yin, Jonathan *(Chairman)*
Lee Tsoh Ching, Jonathan
James Keir

The Company's objectives for its remuneration policy are to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to Directors and senior management, market rates, director's workload and responsibilities and general economic situation would be taken into consideration.

The Remuneration Committee has held 1 meeting in the year. The following is a summary of work performed by the Remuneration Committee during the year:

i) make recommendation to the Company's remuneration policy for the senior management and Directors;

ii) recommendation for Non-Executive Directors' fees for the year to the Board for approval;

iii) review and approval of the remuneration packages for Executive Directors.

Details of emoluments of each director are set out in note 8 to the financial statements.

(b) Nomination Committee

The Nomination Committee was established in May 2005. It is responsible for reviewing the structure, size and composition of the Board and make recommendations to the Board regarding any proposed changes. The committee's authorities and duties are set out in written terms of reference and are available on request.

The Committee's objectives are to ensure formal, fair and transparent procedures for the new appointment and re-appointment of directors to the Board.

Members of the Nomination Committee are:

Chau Wai Yin, Jonathan *(Chairman)*
Lee Tsoh Ching, Jonathan
James Keir

The Nomination Committee has held 1 meeting in the year. The following is a summary of work performed by the Nomination Committee during the year:

i) review the structure, size and composition of the Board;

ii) recommendation to the Board for approval relating to the retiring directors, namely Ling Tai Yuk, John, Pang Hon Chung and Ng Tze Kin, David, for re-election at the annual general meeting 2006;

iii) consideration of the independence of all the independent Non-Executive Directors.

(c) Audit Committee

The Company has established the Audit Committee in December 1999. The Audit Committee consists of 3 Independent Non-executive Directors and 1 Non-executive Director. One of the Independent Non-executive Directors has the appropriate professional qualification, accounting or related financial management expertise. The Audit Committee is chaired by Mr. Leung Shu Yin William and the other members include Mr. Ng Tze Kin, David, Mr. Lee Tsoh Ching, Jonathan and Mr. James Keir.

During the year, the terms of reference of the Audit Committee have been revised to include the duties specified in the Code. The revised terms of reference of the Audit Committee is available or request. The principal duties of the Audit Committee include, among other things, oversight of the relationship with external auditors, review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures.

The Audit Committee held 4 meetings in the year. The following is a summary of work performed by the Audit Committee during the year:

i) review of the annual reports and results announcement for the year ended March 31, 2005, with a recommendation to the Board for approval;

ii) review of the external auditor's independence and report, approve the auditor's remuneration and recommend to the Board for the re-appointment of the external auditors at the 2005 annual general meeting;

iii) review the company's financial controls, internal control and risk management systems and discuss with the management;

iv) review of the interim report and the interim results announcement for the six months ended September 30, 2005, with a recommendation to the Board for approval;

v) review of transactions with the connected parties.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group and they are not aware of any events or conditions that may affect the Company's ability to continue as a going concern. The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on page 15.

The Board is in the process of reviewing the effectiveness of the system of internal control of the Group. The Company's internal control systems review requirement under the code provision C.2.1 shall apply to the Company's 2006/07 annual report.

AUDITORS' REMUNERATION

The amount of fees charged by the Auditors generally depends on the scope and volume of the auditors' work. For the year ended March 31, 2006, the remuneration to the Auditors of the Company were approximately HK$443,000 for audit services and HK$31,500 for non-audit services comprising tax and consultancy services.

INVESTOR AND SHAREHOLDER RELATIONS

The Group responds to requests for information and queries from the investors. The annual general meeting provides a useful forum for shareholders to raise comments and exchange views with the Board. The Board welcomes the views of shareholders on matters affecting the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or management directly.

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended March 31, 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 24 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended March 31, 2006 are set out in the consolidated income statement on page 16.

The directors recommend the payment of a final dividend of 3 HK cents per share to the shareholders on the register of member on September 15, 2006, amounting to approximately HK$5,011,000.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 17 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, property, plant and equipment amounting to approximately HK$789,000 were acquired by the Group for the expansion of its operations. Details of movements in property, plant and equipment during the year are set out in note 11 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at March 31, 2006 were as follows:

	2006	2005
	HK$'000	HK$'000
– Contributed surplus	**5,741**	9,082
– Accumulated profits	**22,362**	14,653
	28,103	23,735

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

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

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Ling Tai Yuk, John
Kong Ho Pak
Pang Hon Chung

Independent non-executive directors:

Keir, James
Lee Tsoh Ching, Jonathan
Leung Shu Yin, William

Non-executive directors:

Chau Wai Yin, Jonathan
Ng Tze Kin, David

In accordance with the Bye-laws of the Company, Messrs. Ling Tai Yuk, John, Pang Hon Chung and Ng Tze Kin, David shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office of each director, including the non-executive directors, is for the period up to his retirement by rotation in accordance with the Bye-laws of the Company.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at March 31, 2006, the interests of the directors and their associates in the shares of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position

Ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Ling Tai Yuk, John	Beneficial owner	26,563,336	15.9%
	Held by a controlled corporation *(Note)*	44,705,322	26.8%
		71,268,658	42.7%
Kong Ho Pak	Beneficial owner	6,647,530	4.0%
Pang Hon Chung	Beneficial owner	2,748,000	1.6%
Ng Tze Kin, David	Beneficial owner	507,000	0.3%
Chau Wai Yin, Jonathan	Beneficial owner	10,000	0.01%

Note: The shares are held by Accura Overseas Limited, a company incorporated in the British Virgin Islands, wholly and beneficially owned by Mr. Ling Tai Yuk, John.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at March 31, 2006.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the share option scheme (the "Scheme") adopted on September 17, 2004 by a resolution passed by the Company's shareholders on September 17, 2004, the directors of the Company may grant options as incentives to any directors or full-time employees of the Company or any of its subsidiaries ("Eligible Employees") for the shares in the Company within a period of ten years commencing from September 17, 2004. No options have been granted under the Scheme since its adoption.

Details of the scheme is set out in note 21 to the financial statements.

Save as disclosed above, at no time during the year was the 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 debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At March 31, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that Mr. Ling Tai Yuk, John and his controlled corporation stated under paragraph headed "Directors' interests in shares and underlying shares" are the substantial shareholders of the Company.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at March 31, 2006.

DIRECTORS' INTEREST IN CONTRACTS

During the year, the Group paid rental charges amounting to HK$622,000 to Crown Regent Enterprise Limited, a company in which Mr. Ling Tai Yuk, John, a director of the Company, has a beneficial interest and HK$237,000 to Progressive Industries ("Progressive"), of which Mr. Ling Tai Yuk, John is the sole proprietor.

In addition, the Group also paid a consultancy fee of HK$240,000 to Infinite Profits Investment Ltd., a company in which Mr. Chau Wai Yin, Jonathan, a director of the Company, has a beneficial interest.

During the year, the Company paid a consultancy fee of HK$120,000 to Yin Ping Corporate Services Ltd., a company in which Mr. Pang Hon Chung's spouse and brother have controlling and beneficial interests.

In addition, the Company also paid a consultancy fee of HK$37,600 to Hong Kong Great Wall Certified Public Accountants Limited, a company in which Mr. Ng Tze Kin, David have controlling and beneficial interest.

Save as disclosed above, no contract of significance to which the 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.

DIRECTORS' INTEREST IN COMPETING BUSINESSES

In accordance with rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), Mr. Ling Tai Yuk, John, a director of the Company, is deemed to have an interest in a business that may compete with the subsidiaries of the Company in the garment industry, as mentioned below:

1. He is a director and a substantial shareholder of Casual Center Garment Industries Limited ("Casual Center"), which is engaged in the manufacture and trading of garments;

2. He is a director of Pace Fashion Industries Limited ("Pace Fashion"), the principal activities of which are the leasing of properties to companies engaged in the manufacture of garments, the trading of garments and the design and sale of sample garment products; and

3. He is the sole proprietor of Progressive which is engaged in the trading of fabric and garments.

The Audit Committee is satisfied that there are sufficient internal controls to ensure that the Group is capable of carrying on its business independent of, and at arm's length from, Casual Center, Pace Fashion and Progressive.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 21 to the financial statements.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

Principal corporate governance policies adopted by the Company are set out in the Corporate Governance Report on pages 6 to 9.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended March 31, 2006.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended March 31, 2006:

1. The Group's largest customer and five largest customers accounted for approximately 91% (2005: 91%) and 100% (2005: 100%) respectively of the Group's total turnover for the year.

2. The Group's largest supplier and five largest suppliers accounted for approximately 17.5% (2005: 16%) and 45% (2005: 47%) respectively of the Group's total purchases for the year.

According to the understanding of the directors, none of the directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest customers or suppliers at any time during the year.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Ling Tai Yuk, John
DIRECTOR

Hong Kong, July 7, 2006

Deloitte.
德勤

TO THE SHAREHOLDERS OF GRANEAGLE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Graneagle Holdings Limited (the "Company") and its subsidiaries (the "Group") on pages 16 to 39 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated 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 consolidated financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed 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 consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at March 31, 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
July 7, 2006

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Turnover	6	**152,761**	176,258
Cost of sales		**(129,353)**	(151,867)
Gross profit		**23,408**	24,391
Other operating income		**1,248**	200
Distribution costs		**(1,106)**	(1,131)
Administrative expenses		**(11,273)**	(11,759)
Profit before taxation		**12,277**	11,701
Taxation charge	7	**(1,225)**	(1,165)
Profit for the year	8	**11,052**	10,536
Earnings per share – basic	10	**6.62 HKcents**	6.31 HKcents

At March 31, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	11	**3,477**	4,438
Current assets			
Inventories	12	**22,696**	32,283
Trade and other receivables	13	**11,619**	16,418
Pledged bank deposit	20	**8,579**	8,144
Bank balances and cash	14	**42,831**	32,072
		85,725	88,917
Current liabilities			
Trade and other payables	15	**12,326**	23,903
Taxation payable		**341**	759
		12,667	24,662
Net current assets		**73,058**	64,255
Total assets less current liabilities		**76,535**	68,693
Non-current liability			
Deferred taxation	16	**127**	204
		76,408	68,489
Capital and reserves			
Share capital	17	**1,670**	1,670
Reserves		**74,738**	66,819
Equity attributable to equity holders of the Company		**76,408**	68,489

The financial statements on pages 16 to 39 were approved and authorised for issue by the Board of Directors on July 7, 2006 and are signed on its behalf by:

Ling Tai Yuk, John
DIRECTOR

Kong Ho Pak
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2006

	Share capital HK$'000	Contributed surplus *(note 18)* HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Translation reserve HK$'000	Accumulated (losses) profit HK$'000	Total HK$'000
Balance at April 1, 2004	1,670	64,078	3,781	7,903	–	(16,138)	61,294
Profit for the year and total recognised income for the year	–	–	–	–	–	10,536	10,536
Dividend paid	–	(3,341)	–	–	–	–	(3,341)
Balance at March 31, 2005	1,670	60,737	3,781	7,903	–	(5,602)	68,489
Opening adjustment on change in accounting policy *(note 2)*	–	–	–	(7,903)	–	7,903	–
At April 1, 2005, as restated	1,670	60,737	3,781	–	–	2,301	68,489
Exchange difference arising on translation of foreign operations	–	–	–	–	208	–	208
Profit for the year	–	–	–	–	–	11,052	11,052
Total recognised income for the year	–	–	–	–	208	11,052	11,260
Dividend paid	–	(3,341)	–	–	–	–	(3,341)
Balance at March 31, 2006	**1,670**	**57,396**	**3,781**	**–**	**208**	**13,353**	**76,408**

For the year ended March 31, 2006

	2006 HK$'000	2005 HK$'000
Operating activities		
Profit before taxation	**12,277**	11,701
Adjustments for:		
Interest income	**(1,069)**	(192)
Allowance for inventories	**1,701**	722
Depreciation	**1,747**	2,490
Gain on disposal of property, plant and equipment	**(4)**	(9)
Operating cash flows before movements in working capital	**14,652**	14,712
Decrease (increase) in inventories	**7,886**	(4,411)
Decrease (increase) in trade and other receivables	**4,799**	(3,070)
Decrease in trade and other payables	**(11,577)**	(470)
Cash generated from operating activities	**15,760**	6,761
Hong Kong Profits Tax paid	**(1,720)**	(552)
Net cash generated from operating activities	**14,040**	6,209
Investing activities		
Interest received	**1,069**	192
Purchase of property, plant and equipment	**(789)**	(986)
Proceeds from disposals of property, plant and equipment	**7**	26
Increase in pledged bank deposit	**(435)**	(113)
Net cash used in investing activities	**(148)**	(881)
Cash used in financing activity		
Dividend paid	**(3,341)**	(3,341)
Net increase in cash and cash equivalents	**10,551**	1,987
Cash and cash equivalents at April 1	**32,072**	30,085
Effect of foreign exchange rate changes	**208**	–
Cash and cash equivalents at March 31		
Bank balances and cash	**42,831**	32,072

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of the registered office and principal place of business of the Company is Suite 1114, Lippo Sun Plaza, 28 Canton Road, Tsimshatsui, Kowloon, Hong Kong.

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

The Company is an investment holding company. Its subsidiaries are principally engaged in garment manufacture and trading and details are set out in note 24.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after January 1, 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following area that has an effect on how the results for the current and/or prior accounting years are prepared and presented:

Financial instruments

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

Financial assets and financial liabilities other than debt and equity securities

From January 1, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statements of Standard Accounting Practice 24 "SSAP 24") in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. There is no significant impact on the Group's financial position and operating results.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Business combinations

In the current year, the Group has applied HKFRS 3 "Business combinations" ("HKFRS 3") which is effective for business combinations for which the agreement date is on or after January 1, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to April 1, 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill (capital reserve) on April 1, 2005 of HK$7,903,000 with a corresponding decrease to accumulated losses.

The Group has not early applied the following new Standards or INT that have been issued but are not yet effective. The directors do not anticipate that the application of these Standards or INTs will have a material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]
HK(IFRIC) – INT 8	Scope of HKFRS 2 [5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives [6]

[1] *Effective for annual periods beginning on or after January 1, 2007.*

[2] *Effective for annual periods beginning on or after January 1, 2006.*

[3] *Effective for annual periods beginning on or after December 1, 2005.*

[4] *Effective for annual periods beginning on or after March 1, 2006.*

[5] *Effective for annual periods beginning on or after May 1, 2006.*

[6] *Effective for annual periods beginning on or after June 1, 2006.*

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Property, plant and equipment

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

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods in the normal course of business, net of discount and sales related tax.

Sales of goods are recognised when goods are delivered to customers and title has passed.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

Leasing

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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 differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is recognised 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 differences 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 in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to 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.

Textile quotas

The cost of acquiring, temporary textile quotas are dealt with in the income statement in the year in which they are utilised. Textile quotas allocated by the authorities are not capitalised and are not included as assets in the balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets include loans and receivable. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade and other receivables, pledged bank deposits and bank and cash are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities include trade and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's consolidated balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit scheme

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, management had made the following estimates that have the most significant effect on the amounts recognised in the financial statements.

Inventories

Note 3 describes that inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Trade receivables

Note 3 describes that trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Specific allowance is only made for trade receivables that are unlikely to be collected. If the financial conditions of these debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, pledged bank deposit, bank balances and cash and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group have sales and trade receivables, and pledged bank deposit denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at March 31, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The credit risk on trade receivables is concentrated on a few of customers. Trade receivables attributable to the Group's largest and second largest customer represented approximately 93% and 7% (2005: 79% and 21%) of the total trade receivables at the balance sheet date. The aggregate balance of the related trade receivables amounted to approximately HK$11,195,000 at March 31, 2006. However, the management considers the strong financial background and good creditability of these customers, there is no significant credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

6. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold during the year.

(A) Business segments

The Group's entire turnover and the group's entire assets are contributed by its garment business and therefore no business segment analysis is presented.

(B) Geographical segments

The Group's operations are located in Hong Kong. All the Group's turnover and contribution to results were derived from the sales to the United States of America ("USA").

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
USA	**11,195**	16,025	**–**	–
Hong Kong	**42,950**	37,260	**–**	–
Mainland China (the "PRC")	**35,057**	40,070	**789**	986
	89,202	93,355	**789**	986

7. TAXATION CHARGE

	2006 HK$'000	2005 HK$'000
The taxation charge comprises:		
Hong Kong Profits Tax		
– current year	**(1,304)**	(1,289)
– overprovision in prior years	**2**	–
	(1,302)	(1,289)
Deferred taxation		
– deferred taxation credit *(note 16)*	**77**	124
	(1,225)	(1,165)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

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

	2006 HK$'000	2005 HK$'000
Profit before taxation	**12,277**	11,701
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	**(2,148)**	(2,048)
Tax effect of expenses that are not deductible in determining taxable profit	**(89)**	(433)
Tax effect of income that is not taxable in determining taxable profit	**82**	246
Tax exemption for operations in other jurisdictions	**1,305**	1,288
Overprovision in prior years	**2**	–
Tax effect of unrecognised tax losses	**(597)**	(466)
Effect of different tax rate of a subsidiary operating in other jurisdiction	**220**	188
Others	**–**	60
Tax charge for the year	**(1,225)**	(1,165)

8. PROFIT FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments *(note 8(a))*	**820**	687
Other staff costs	**4,344**	4,501
Other staff's retirement benefit scheme contributions	**158**	164
Total staff costs	**5,322**	5,352
Auditors' remuneration:		
– current year	**443**	380
– overprovision in prior years	**–**	(5)
Allowance for inventories	**1,701**	722
Depreciation	**1,747**	2,490
Net exchange loss	**330**	208
Operating lease rentals in respect of:		
– rented premises	**914**	809
– motor vehicle	**236**	240
Textile quota expenses	**1,150**	10,508
Cost of inventories recognised as expense	**128,203**	141,359
and after crediting:		
Bank interest income	**1,069**	192
Gain on disposals of property, plant and equipment	**4**	9

8. PROFIT FOR THE YEAR *(continued)*

Note:

(a) Information regarding directors' and employees' emoluments

The emoluments paid or payable to each of the eight (2005: ten) directors were as follows:

	Ling Tai Yuk, John HK$'000	Kong Ho Pak HK$'000	Pang Hon Chung HK$'000	Keir, James HK$'000	Lee Tsoh Ching, Jonathan HK$'000	Leung Shu Yin, William HK$'000	Chau Wai Yin, Jonathan HK$'000	Ng Tze Kin, David HK$'000	2006 Total HK$'000
Fees	**50**	**50**	**50**	**50**	**50**	**80**	**50**	**50**	**430**
Other emoluments									
Salaries and other benefits	**390**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**390**
	440	**50**	**50**	**50**	**50**	**80**	**50**	**50**	**820**

	Ling Tai Yuk, John HK$'000	Kong Ho Pak HK$'000	Pang Hon Chung HK$'000	Keir, James HK$'000	Lee Tsoh Ching, Jonathan HK$'000	Leung Shu Yin, William HK$'000	Chau Wai Yin, Jonathan HK$'000	Ng Tze Kin, David HK$'000	Wu Wing Kit HK$'000	Wu Kin Kwok, Alan HK$'000	2005 Total HK$'000
Fees	50	50	50	25	25	14	8	33	25	17	297
Other emoluments											
Salaries and other benefits	390	–	–	–	–	–	–	–	–	–	390
	440	50	50	25	25	14	8	33	25	17	687

8. PROFIT FOR THE YEAR *(continued)*

(b) Employees

The five highest paid individuals of the Group included one director (2005: one director), whose emoluments are disclosed above. The emoluments of the remaining four (2005: four) highest paid employees were as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and others	**1,880**	1,676
Retirement benefit scheme contributions	**46**	44
	1,926	1,720

The emoluments of each of the four (2005: four) highest paid employees were below HK$1,000,000.

9. DIVIDEND

	2006	2005
	HK$'000	HK$'000
Proposed final dividend of 3 HK cents per share (2005: 2 HK cents per share)	**5,011**	3,341

The final dividend of 3 HK cents per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the year of HK$11,052,000 (2005: HK$10,536,000) and on 167,031,016 (2005: 167,031,016) ordinary shares in issue during the year.

No diluted earnings per share figures have been shown as there were no potential ordinary shares outstanding in both years.

11. PROPERTY, PLANT AND EQUIPMENT

	Machinery and equipment HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
COST					
At April 1, 2004	16,074	3,882	2,709	1,952	24,617
Additions	651	303	–	32	986
Disposals	(290)	(91)	–	–	(381)
At March 31, 2005	16,435	4,094	2,709	1,984	25,222
Additions	374	415	–	–	789
Disposals	(166)	(151)	–	–	(317)
At March 31, 2006	**16,643**	**4,358**	**2,709**	**1,984**	**25,694**
DEPRECIATION					
At April 1, 2004	11,536	3,134	2,061	1,927	18,658
Provided for the year	1,925	328	196	41	2,490
Eliminated on disposals	(274)	(90)	–	–	(364)
At March 31, 2005	13,187	3,372	2,257	1,968	20,784
Provided for the year	1,266	281	184	16	1,747
Eliminated on disposals	(166)	(148)	–	–	(314)
At March 31, 2006	**14,287**	**3,505**	**2,441**	**1,984**	**22,217**
NET BOOK VALUES					
At March 31, 2006	**2,356**	**853**	**268**	**–**	**3,477**
At March 31, 2005	3,248	722	452	16	4,438

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Machinery and equipment	5 – $33^1/_3$%
Furniture and office equipment	10 – $33^1/_3$%
Motor vehicles	10 – 20%
Leasehold improvements	10 – 20%

12. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Raw materials	**13,931**	13,528
Work in progress	**6,047**	13,098
Finished goods	**2,718**	5,657
	22,696	32,283

13. TRADE AND OTHER RECEIVABLES

The following is an aged analysis of trade receivables:

	2006	2005
	HK$'000	HK$'000
0 – 30 days	**10,956**	16,025
31 – 60 days	**239**	–
	11,195	16,025

Credit policy:

Apart from payment by letter of credit, settlement is generally on an open account basis with credit terms ranging from 30 days to 60 days following the month of sale.

All trade receivables are denominated in United States dollars and subject to currency risk.

It is the policy of the Group to allow settlement on an open account basis only by customers who have a good payment record and well-established relationships with the Group. The credit period for such customers is reviewed periodically in response to financial conditions, orders on hand and other credit information.

The fair value of the Group's trade and other receivables at March 31, 2006 approximates to the corresponding carrying amount.

14. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits carry interest rate of 4.4% (2005: 2%) with an original maturity of three months or less. The carrying amount of bank balances and cash approximates their fair value.

15. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$9,322,000 (2005: HK$18,553,000) and over 99% are aged within 90 days.

The fair value of the Group's trade and other payables at March 31, 2006 approximates to the corresponding carrying amount.

16. DEFERRED TAXATION

A summary of the deferred tax liability recognised and movement thereon during the current and prior year is as follows:

	Accelerated tax depreciation
	HK$'000
At April 1, 2004	328
Credit to income for the year	(124)
At March 31, 2005	204
Credit to income for the year	(77)
At March 31, 2006	**127**

At the balance sheet date, the Group has unused tax losses of HK$12,343,000 (2005: HK$10,239,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

17. SHARE CAPITAL

	April 1, 2004, March 31, 2005 and March 31, 2006 Number of ordinary shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each	50,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each	167,031,016	1,670

18. CONTRIBUTED SURPLUS

The contributed surplus of the Group represents the difference between the nominal value of the shares and share premium of the then holding company and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation on May 25, 1993, together with the amounts transferred from share capital and share premium account as a result of the capital reduction taken place in August 2001, less dividends paid, amounts utilised on redemption of shares and amount eliminated against accumulated losses.

19. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of rented premises and a motor vehicle under non-cancellable operating leases with an average lease term of 1 year which fall due as follows:

	2006		2005	
	Rented premises HK$'000	**Motor vehicle HK$'000**	Rented premises HK$'000	Motor vehicle HK$'000
Within one year	**665**	**150**	513	230

20. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged its bank deposit of HK$8,579,000 (2005: HK$8,144,000) to secure the banking facilities granted to the Group. The pledged deposit is denominated in United States dollars and subject to currency risk.

The deposits carry fixed interest rate of 4.4% (2005: 2.4%). The pledged bank deposits will be released upon expiry or cancellation of the banking facilities. The fair value of bank deposits at March 31, 2006 approximates to the corresponding carrying amount.

21. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted on September 17, 2004 pursuant to a resolution passed by the Company's shareholders on September 17, 2004 for the primary purposes of providing incentives to any directors or full-time employees of the Company or any of its subsidiaries ("Eligible Employees") and will expire on September 16, 2014. Under the Scheme, the Board of Directors of the Company is authorised to grant options at a consideration of HK$1 per option to the Eligible Employees to subscribe for shares in the Company.

The maximum number of shares issued or which may be issuable under the Scheme cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme at the date of adoption. The number of shares in respect of which options granted and may be granted to any Eligible Employee is not permitted to exceed 30% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer together with the payment of nominal consideration of HK$1 per option by the grantee.

An option may be exercised at any time during a period not exceeding twelve months commencing after the date the option is accepted. The expiry of the option may be determined by the Board of Directors of the Company which shall not later than the last day of such period.

The exercise price is determined by the Directors of the Company, and will not be less than the greater of: (i) the closing price of the Company on the offer date; (ii) the average of the closing price of the Company's shares for the 5 trading days immediately preceding the offer of the options and (iii) the nominal value per share of the Company.

No options have been granted under the Scheme since its adoption.

22. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes 5% of relevant payroll costs to the Scheme, which is matched by employees.

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

23. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

	2006	2005
	HK$'000	HK$'000
Rental charges paid to related companies *(note a)*	**859**	824
Consultancy fees paid to related companies *(note b)*	**398**	460

These transactions were carried out in accordance with the terms of the relevant agreements governing such transactions.

Notes:

(a) A director of the Company, Mr. Ling Tak Yuk, John, controls and has beneficial interests in these related companies.

(b) The spouse of a director controls and has beneficial interests in one of these three related companies. For the other related companies, two other directors of the Company control and have beneficial interests in these two companies separately.

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 8.

24. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at March 31, 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued ordinary share capital/ registered capital*	Proportion of nominal value of issued capital/ registered capital held by the Company %	Principal activities
Directly held				
High Dragon Limited	British Virgin Islands	US$1	100	Investment holding
Invigo Overseas Limited	British Virgin Islands	US$1	100	Investment holding
Windstar Pacific Limited	British Virgin Islands	US$1	100	Investment holding
Indirectly held				
Koniko Company Limited	Hong Kong	HK$20 Deferred** non-voting shares HK$22,143,000	100	Garment manufacture and trading
北京京馳健康食品研發有限公司	PRC***	US$1,650,000	100	Development of health food

* All are ordinary shares unless otherwise stated.

** None of the deferred non-voting shares are held by the Group. The deferred non-voting shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

*** It is a wholly foreign owned enterprise established in the PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

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

25. BALANCE SHEET INFORMATION OF THE COMPANY

	As at March 31	
	2006	2005
	HK$'000	HK$'000
Non-current assets		
Property, plant and equipment	**1**	2
Investment in subsidiaries	**–**	–
	1	2
Current assets		
Other receivables	**188**	188
Amounts due from subsidiaries	**25,169**	23,740
Pledged bank deposit	**8,579**	8,144
Bank balances	**88**	91
	34,024	32,163
Current liabilities		
Other payables	**313**	299
Amounts due to subsidiaries	**158**	2,680
	471	2,979
Net current assets	**33,553**	29,184
Total assets less current liabilities	**33,554**	29,186
Capital and reserves		
Share capital	**1,670**	1,670
Reserves	**31,884**	27,516
Equity attributable to equity holders of the Company	**33,554**	29,186

Profit of the Company for the year ended March 31, 2006 amount to approximately HK$7,708,000 (2005: HK$8,148,000).

FINANCIAL SUMMARY

RESULTS

	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**152,761**	176,258	165,307	175,914	189,107
Profit before taxation	**12,277**	11,701	8,191	4,927	3,127
Taxation (charge) credit	**(1,225)**	(1,165)	2,103	(1,034)	(894)
Profit for the year	**11,052**	10,536	10,294	3,893	2,233

ASSETS AND LIABILITIES

	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**89,202**	93,355	86,017	68,119	79,502
Total liabilities	**(12,794)**	(24,866)	(24,723)	(17,119)	(30,725)
Shareholders' funds	**76,408**	68,489	61,294	51,000	48,777