

CHANCO INTERNATIONAL GROUP LIMITED

卓高國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)



Interim Report

2003





The Board of Directors (the “Directors”) of Chanco International Group Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2003 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the six months ended 30th September, 2003*

	Note	Six months ended 30th September,	
		2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
Turnover	2	76,768	72,004
Cost of sales		(50,470)	(46,740)
Gross profit		26,298	25,264
Other revenue		521	210
Selling and distribution costs		(1,689)	(2,254)
Administrative and other operating expenses		(6,597)	(5,405)
Profit before taxation	3	18,533	17,815
Taxation	4	(1,510)	(1,366)
Profit attributable to shareholders		17,023	16,449
Dividends	5	5,733	21,000
Basic earnings per share	6	HK5.4 cents	HK6.8 cents
Diluted earnings per share	6	HK5.4 cents	N/A



## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September, 2003

	Note	30th September, 2003 Unaudited HK\$'000	31st March, 2003 Audited HK\$'000
<b>Non-current assets</b>			
Fixed assets		7,079	7,432
<b>Current assets</b>			
Inventories		22,892	18,785
Trade receivables	7	18,375	12,155
Other receivables, deposits and prepayments		1,303	1,632
Amounts due from shareholders		—	909
Bank balances and cash		62,184	54,315
		104,754	87,796
<b>Current liabilities</b>			
Trade payables	8	9,265	4,415
Other payables and accrued charges		4,600	4,032
Taxation payable		872	263
		14,737	8,710
<b>Net current assets</b>			
		90,017	79,086
<b>Total assets less current liabilities</b>			
		97,096	86,518
<b>Financed by:</b>			
Share capital	9	3,185	3,077
Reserves		87,960	83,218
Proposed interim dividend		5,733	—
Shareholders' funds		96,878	86,295
Deferred taxation		218	223
		97,096	86,518



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2003

	Unaudited			
	Six months ended 30th September, 2003			
	Share capital	Share premium	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April, 2003	3,077	26,258	56,960	86,295
Final dividend paid for year ended 31st March, 2003	—	—	(12,725)	(12,725)
Profit for the period	—	—	17,023	17,023
Exercise of share options	108	6,177	—	6,285
<b>As at 30th September, 2003</b>	<b>3,185</b>	<b>32,435</b>	<b>61,258</b>	<b>96,878</b>
Representing:—				
Share Capital				3,185
Reserves				87,960
Interim dividend proposed				5,733
				<b>96,878</b>

	Unaudited			
	Six months ended 30th September, 2002			
	Share capital	Share issuance costs	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April, 2002	10	—	41,343	41,353
Profit for the period	—	—	16,449	16,449
Interim dividend	—	—	(21,000)	(21,000)
Share issuance costs	—	(1,942)	—	(1,942)
<b>As at 30th September, 2002</b>	<b>10</b>	<b>(1,942)</b>	<b>36,792</b>	<b>34,860</b>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30th September, 2003*

	<b>Six months ended 30th September,</b>	
	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
Net cash inflow from operating activities	14,446	20,001
Net cash used in investing activities	(137)	(4,367)
Net cash used in financing activities	(6,440)	(22,942)
Increase/(decrease) in cash and cash equivalents	7,869	(7,308)
Cash and cash equivalents at the beginning of the period	54,315	30,792
Cash and cash equivalents at the end of the period	62,184	23,484
Analysis of balances of cash and cash equivalents Bank balances and cash	62,184	23,484



## NOTES TO THE ACCOUNTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Company was incorporated in the Cayman Islands on 12th April, 2002 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”).

On 17th February, 2003 pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the ultimate holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the section “Corporate reorganisation” in Appendix V to the prospectus of the Company dated 28th February, 2003. The shares of the Company were listed on the Stock Exchange on 12th March, 2003 (the “Listing Date”).

The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice (“SSAP”) 2.127 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants (“HKSA”). The consolidated accounts of the Group for the six months ended 30th September, 2003, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

These unaudited condensed accounts are prepared in accordance with SSAP 25 “Interim financial reporting” issued by the HKSA.

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March, 2003 except that the Group has changed its accounting policy following its adoption of SSAP 12 “Income Taxes” issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2003.

#### **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been made.

## 2. SEGMENT INFORMATION

### Primary reporting format — business segments

	Unaudited			
	Six months ended 30th September, 2003			
	Small leather		Leather HK\$'000	Group HK\$'000
Belts HK\$'000	goods HK\$'000			
Turnover	75,102	1,294	372	76,768
Results				
Segment results	23,951	540	118	24,609
Unallocated revenue				521
Unallocated costs				(6,597)
Profit before taxation				18,533
Taxation				(1,510)
Profit attributable to shareholders				17,023



	Unaudited			
	Six months ended 30th September, 2002			
	Belts	Small leather goods	Leather	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	70,894	1,025	85	72,004
Results				
Segment results	22,558	432	20	23,010
Unallocated revenue				210
Unallocated costs				(5,405)
Profit before taxation				17,815
Taxation				(1,366)
Profit attributable to shareholders				16,449

#### Secondary reporting format — geographical segments

	Turnover	
	Six months ended 30th September,	
	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
Japan	45,070	37,010
Europe	7,722	11,634
The United States of America ("US")	8,648	14,683
Hong Kong	6,643	6,563
The People's Republic of China, other than Hong Kong ("PRC")	4,009	—
Others	4,676	2,114
	76,768	72,004

Sales are based on the countries in which the customers located. There are no sales between the segments.



### 3 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	<b>Six months ended 30th September,</b>	
	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
Bad debts written off and provision for bad debts	42	27
Cost of inventories sold		
— material costs	40,058	36,949
— production overheads	10,412	9,791
Depreciation of fixed assets	769	491
Operating lease rentals in respect of land and buildings	1,740	1,603
Provision for obsolete inventories	613	305
Staff costs (excluding directors' emoluments)	2,623	2,461

### 4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>Six months ended 30th September,</b>	
	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
Current taxation:		
— Hong Kong profits tax	1,515	1,264
Deferred taxation	(5)	102
	1,510	1,366

Pursuant to the relevant laws and regulations in the PRC, the Group's subsidiary is exempted from PRC income tax of two years starting from the first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made in the accounts during the period as it was the first profitable period reported by the Group's subsidiary in the PRC.



## 5. DIVIDENDS

At a meeting held on 20th November, 2003, the Directors declared an interim dividend of HK1.8 cents per share aggregating a total of HK\$5,733,000 for the six months ended 30th September, 2003. The amount of proposed interim dividend is based on 318,500,000 shares in issue at 20th November, 2003.

For the period ended 30th September, 2002, interim dividends of HK\$21,000,000 had been paid by a subsidiary to its then shareholders prior to the Reorganization. The rate of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of these accounts.

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$17,023,000 and the weighted average of 312,610,383 ordinary shares in issue during the period.

The basic earnings per share for six months ended 30th September, 2002 is based on the Group's profit attributable to shareholders of HK\$16,449,000 and an aggregate of 242,004,000 shares comprising 1,000 shares issued upon incorporation of the Company, 999,000 shares issued upon completion of the Reorganization and 241,004,000 shares issued pursuant to the capitalization issue, which were deemed to have been in issue throughout the period ended 30th September, 2002.

The calculation of diluted earnings per share is based on 312,610,383 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 1,169,901 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

Diluted earnings per share for the six months ended 30th September, 2002 has not been calculated as there were no diluting events during that period.

## 7. TRADE RECEIVABLES

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

	30th September, 2003 Unaudited HK\$'000	31st March, 2003 Audited HK\$'000
Current to 30 days	12,652	10,078
31 – 60 days	2,151	1,394
61 – 90 days	1,796	340
91 – 120 days	84	12
121 – 365 days	1,692	331
	18,375	12,155



## 8. TRADE PAYABLES

Details of the ageing analysis are as follows:

	30th September, 2003 Unaudited HK\$'000	31st March, 2003 Audited HK\$'000
Current to 30 days	6,202	3,201
31 – 60 days	2,505	1,152
61 – 90 days	356	10
Over 90 days	202	52
	9,265	4,415

## 9. SHARE CAPITAL

	30th September, 2003 Unaudited HK\$'000	31st March, 2003 Audited HK\$'000
Authorised: 2,000,000,000 ordinary shares of HK\$0.01 each	20,000	20,000
	Issued and fully paid Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$'000
At 31st March, 2003	307,664,000	3,077
Exercise of share options	10,836,000	108
At 30th September, 2003	318,500,000	3,185



Options exercised on 19th June, 2003, 21st July, 2003, 4th August, 2003, 13th August, 2003 and 30th September, 2003 resulted in 6,760,000, 496,000, 200,000, 3,000,000 and 380,000 shares being issued at HK\$3,920,800, HK\$287,680, HK\$116,000, HK\$1,740,000 and HK\$220,400 each respectively:

	HK\$'000
Ordinary share capital — at par	108
Share premium	6,177
<b>Proceeds</b>	<b>6,285</b>

	HK\$'000
Fair value of shares issued at exercise dates of:	
— 19th June, 2003	4,867
— 21st July, 2003	347
— 4th August, 2003	162
— 13th August, 2003	2,340
— 30th September, 2003	331

Details of the movements in share options during the six months ended 30th September, 2003 are disclosed under the section headed "Share Option" below.

#### 10. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30th September, 2003 (31st March, 2003: Nil).

#### 11. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	<b>Six months ended 30th September,</b>	
	2003 Unaudited HK\$'000	2002 Unaudited HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	120	100

The Group has occupied a property owned by Mr. Chan Woon Man and Ms. Tsang Sau Lin. Pursuant to a tenancy agreement dated 30th April, 2002 between the landlords and Sun Ray Manufactory, Limited, the Group leases the property at a monthly rental of HK\$20,000 commencing on 1st May, 2002. The Directors are of the opinion that the leasing transactions are conducted in the ordinary course of business of the Group.



## INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK1.8 cents per ordinary share for the six months ended 30th September, 2003. The interim dividend will be paid on Monday, 15th December, 2003 to members whose names appear on the register of members of the Company at the close of business on Monday, 11th December, 2003.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

The Group's unaudited turnover for the six months ended 30th September, 2003 was approximately HK\$76.7 million, representing a mild increase of approximately 6.6% compared with that of the same period last year. The growth in turnover was mainly attributable to the preliminary success of the Group's marketing strategy to penetrate into the PRC market during the period. The Group's sales of small leather goods recorded approximately HK\$1.3 million, representing a growth of approximately 26% compared with that of the same period last year. The overall gross profit margin of the Group dropped from approximately 35% for the six months ended 30th September, 2002 to approximately 34.2% for the current period. The decrease in gross profit margin was the result of the increase in the price of leather during the period under review.

Profit attributable to shareholders increased from approximately HK\$16.4 million for the six months ended 30th September, 2002 to approximately HK\$17 million for the current period. Basic earnings per share were approximately HK6.8 cents as compared to approximately HK5.4 cents in 2002.

### Geographical analysis

Japan remained as the largest export market of the Group, which accounted for approximately 59% of the total turnover, reaching approximately HK\$45 million for the six months ended 30th September, 2003, or an increase of approximately 22% over the same period in 2002. The sales in the U.S. and European markets reached approximately HK\$8.6 million and HK\$7.7 million, representing about 11% and 10% respectively of the Group's total turnover. Sales in the U.S. and European markets were adversely affected by the outbreak of Severe Acute



Respiratory Syndrome (“SARS”), which led to the slow down of sales order from these regions and resulted in the drops of sales by approximately 41% and 34% respectively. For the sales market in Hong Kong, approximately HK\$6.6 million of sales was recorded for the six months ended 30th September, 2003, representing about 8.7% of the Group’s total turnover. The sales performance in Hong Kong kept up with that of the same period last year due to the Group’s active marketing campaigns which successfully obtained new customers and the revenue contributions from the Group’s own brand products — **Stranger**, which offset the unfavourable impacts of the outbreak of SARS during the period under review.

Since March 2003, the Group has expanded into the PRC market and has recorded encouraging results for the period ended 30th September, 2003. Approximately HK\$4 million of sales was recorded, accounting for approximately 5.2% of the Group’s total turnover. The Group is confident that the market share in the PRC market will further enlarge and make up a larger proportion of the Group’s total turnover in the foreseeable future.

The Group’s export sales to Australia, Taiwan, the Philippines, Canada, Singapore and Malaysia continued to grow. The Group’s sales to other countries increased by approximately 121% to approximately HK\$4.7 million for the six months ended 30th September, 2003 (2002: HK\$2.1 million).

## **Business review**

### *Market expansion in the PRC*

Since March 2003, the Group has started penetrating into the PRC market. For the six months ended 30th September, 2003, the Group achieved encouraging results from the sales in the PRC and laid down a solid foundation for its future market penetration in the PRC. Currently, the sales orders received by the Group mainly came from the Group’s existing customers, who had extensive sales networks accessing to numerous sales points in the major cities in the PRC. During the period under review, the Group successfully engaged a customer which is a renowned domestic fashion and accessories enterprise with significant market presence in the PRC. In addition, a major customer of the Group based in Japan with high market recognition established six sales outlets in Shanghai. Being the sole supplier of this customer, the Group will definitely benefit from this business relationship and scalable sales orders are expected to receive from



this customer. In the long run, the Group will actively seek cooperation with more prospective large scale chain stores with well-developed sales platform so as to increase the sales in this blooming market.

#### *Continual brand building — **Stranger***

The Group has been exerting continuous efforts in promoting its own brand names. During the period under review, the Group has been leveraging on the sales network of the young fashion apparel retailer, *Bauhaus*, to sell its own brand name products, **Stranger**. In addition, the Group will open up sales counters in sizeable department stores in Hong Kong in early 2004 as another distribution channel for selling and promoting its brand name products. The sales counters will be functioned as product show rooms for **Stranger** with various products with a view to establish a distinctive brand amongst the youngsters. Trade show, especially those well-known and grand-scaled ones, is an effective marketing tool. The Group participated in the trade show in Dailan in September 2003 to raise the public awareness of the Group's ODM and OEM products and its own brand name products in the PRC market. The Group will continue to execute various promotional plans, such as placing advertisements in the local mass media and expanding its marketing team so as to enhance its product awareness, explore new target customers, as well as attain further sales boost.

#### *Series of products enhancing product diversification*

The Group has positioned itself to become a leading international leather accessories designer and manufacturer, while also dedicated to providing customers with a wide range of leather products. In conjunction with the strong and innovative designing and product development teams, the Group is capable of developing products to meet the demand of its target customers. Recently, the Group has additionally employed experienced personnel specializing in designing and promoting handbags and other leather or non-leather accessories as the head of product design and development department. The product development of backpacks has been underway during the period under review. The Group is dedicated to expanding its product mix and selling its new series of accessories products including backpacks, handbags, bum bags, wallets and T-shirts, etc. in the coming future.



### *Vertical integration and production cost reduction*

The Group intends to become an integrated manufacturer of leather accessories by growing vertically to include the business of raw material supply of the production process. In August, the Group signed a Memorandum of Understanding (“MOU”) with a Hong Kong leather processing company whose production facilities are located in Dongguan, the PRC. Pursuant to the MOU, the Group proposes to form a joint venture company (the “JV”) with the leather processing company and the JV will principally engage in the trading and manufacturing of leather to worldwide market. Substantial resources will be placed on research and development of leather processing technology in order to design a new variety of trendy and quality leather. In addition, through the establishment of the JV, the overall production efficiencies of the Group can be enhanced as a result of better control and supply of leather materials enabling the capability to meet with ad-hoc bulk orders. Quality and quantity of raw material supply can also be further secured, granting the Group’s another competitive strength.

### *Use of Proceeds*

The proceeds from the Company’s issue of new shares at the time of listing of its shares on the Stock Exchange on the Listing Date, after deduction of related issuance expenses, amounted to approximately HK\$29.3 million. The use of the proceeds since its Listing Date and up to 30th September, 2003 was as follows:

- as to approximately HK\$406,000 for further development of the Group’s production facilities in Dongguan;
- as to approximately HK\$150,000 for strengthening the Group’s production development capability and diversifying the Group’s product categories;
- as to approximately HK\$300,000 for promotion of activities and further development of the Group’s brand recognition; and
- as to approximately HK\$3 million as general working capital of the Group.

As at 30th September, 2003, the balance of the proceeds of approximately HK\$25.4 million was placed on short-term deposits with licensed banks in Hong Kong.



## Liquidity, Financial Resources and Capital Structure

As at 30th September, 2003, the Group's cash and bank deposits were approximately HK\$62 million, compared to approximately HK\$54 million as at 31st March, 2003.

As at 30th September, 2003, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8 million were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$104.7 million as at 30th September, 2003 (31st March, 2003: HK\$87.8 million) and total current liabilities of approximately HK\$14.7 million (31st March, 2003: HK\$8.7 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 7.1 times as at 30th September, 2003 (31st March, 2003: 10.1 times).

Supported by its strong financial position, the Group did not raise any bank loan during the period.

The Group recorded an increase in shareholders' funds from approximately HK\$86.3 million as at 31st March, 2003 to approximately HK\$96.8 million as at 30th September, 2003.

### Treasury Policy

Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars.

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi or United States dollars such that the Group does not have significant exposure to foreign exchange fluctuation.

### Charges on Assets

The Group did not have any assets pledged for general facilities granted by banks.



## **Material Acquisitions/Disposals**

The Group had no material acquisitions/disposals for the six months ended 30th September, 2003.

## **Employee Information**

As at 30th September, 2003, the Group had 25 full-time employees in Hong Kong and 72 in the PRC. The Group remunerated its employees mainly based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company.

## **Closure of Register of Members**

The register of members of the Company will be closed from Monday, 8th December, 2003 to Thursday, 11th December, 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Friday, 5th December, 2003.

## **OTHER INFORMATION**

### **Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures**

As at 30th September, 2003, the interests and short positions of the Directors and chief executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept pursuant to section 352 of the SFO; or otherwise notified to the Company



and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) were as follows:

### Long position in the shares and underlying shares of the Company

Name	Capacity	Type of interest	Aggregate long position in shares and underlying shares	Approximate % of the issued share capital
Chan King Hong Edwin	Interest of a controlled corporation	Corporate	47,727,352 (Note 1(a))	14.99
	Beneficial owner	Personal	3,181,200 (Note 4)	1.00
	Interest of spouse	Family	3,181,200 (Note 1(b))	1.00
Chan King Yuen Stanley	Interest of a controlled corporation	Corporate	47,727,352 (Note 2)	14.99
	Beneficial owner	Personal	3,181,200 (Note 4)	1.00
Chan Wai Po Rebecca	Interest of a controlled corporation	Corporate	39,204,648 (Note 3)	12.31
	Beneficial owner	Personal	3,181,200 (Note 4)	1.00

Notes:

- 1(a) 47,727,352 shares are held by Leopark Worldwide Inc., a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Hong Edwin.
- 1(b) An option to subscribe for 3,181,200 shares of the Company was granted to Ms. Li Shuk Han on 24th September, 2003, who is the spouse of Mr. Chan King Hong Edwin. By virtue of the SFO, Mr. Chan King Hong Edwin is taken to be interested in these 3,181,200 long positions held by Ms. Li Shuk Han.
- 2 47,727,352 shares are held by New Paramount Profits Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Yuen Stanley.
- 3 39,204,648 shares are held by Prevail Assets Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Ms. Chan Wai Po Rebecca.
- 4 On 24th September, 2003, each of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca was granted an option to subscribe for 3,181,200 shares of the Company. Details of the options are stated under the section headed “Share Option” below.



Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 30th September, 2003 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### Substantial Shareholders

As at 30th September, 2003, the parties which had interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, were as follows:

#### *Long position in the shares and underlying shares of the Company*

Name	Capacity	Type of interest	Aggregate long position in shares and underlying shares	Approximate % of the issued share capital
Leopark Worldwide Inc.	Beneficial owner	Corporate	47,727,352 (Note i)	14.99
New Paramount Profits Limited	Beneficial owner	Corporate	47,727,352 (Note i)	14.99
Prevail Assets Limited	Beneficial owner	Corporate	39,204,648 (Note i)	12.31
Smarty Worldwide Limited	Beneficial owner	Corporate	39,204,648 (Note ii)	12.31
Li Shuk Han	Interest of spouse	Family	50,908,552 (Note iii)	15.99
	Beneficial owner	Personal	3,181,200 (Note iv)	1.00



Notes:

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed “Directors Interests and Short Positions in Shares, Underlying Shares and Debentures” above.
- (ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man. In addition, an option to subscribe for 3,181,200 shares of the Company was granted to Mr. Chan Woon Man on 24th September, 2003.
- (iii) These long positions are held by Mr. Chan King Hong Edwin. By virtue of the SFO, Ms. Li Shuk Han, who is the spouse of Mr. Chan King Hong Edwin, is taken to be interested in these long positions.
- (iv) An option to subscribe for 3,181,200 shares of the Company was granted to Ms. Li Shuk Han on 24th September, 2003.

Save as disclosed above, no other interest or short position in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO or to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at 30th September, 2003.

### **Share Option**

Pursuant to the written resolutions of all the shareholders of the Company passed on 18th February, 2003, the Company adopted a share option scheme (the “Share Option Scheme”).



Details of the movements in share options during the six months ended 30th September, 2003 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1st April, 2003	Number of share options				Outstanding as at 30th September, 2003	Exercisable period	Exercise price per share
			Granted	Exercised	Cancelled	Lapsed			
<b>(a) Executive directors</b>									
Chan King Hong	24th	—	3,181,200	—	—	—	3,181,200	24th	0.830
Edwin	September, 2003	—	(Note ii)	—	—	—	—	September, 2003 – 23rd September, 2013	—
Chan King Yuen	24th	—	3,181,200	—	—	—	3,181,200	24th	0.830
Stanley	September, 2003	—	(Note ii)	—	—	—	—	September, 2003 – 23rd September, 2013	—
Chan Wai Po	24th	—	3,181,200	—	—	—	3,181,200	24th	0.830
Rebecca	September, 2003	—	(Note ii)	—	—	—	—	September, 2003 – 23rd September, 2013	—
<b>(b) Employees, in aggregate</b>									
	26th May, 2003	—	8,352,000	7,836,000	—	—	516,000	26th May, 2003 – 25th May, 2013	0.580
	24th September, 2003	—	6,362,400	—	—	—	6,362,400	24th September, 2003 – 23rd September, 2013	0.830
<b>(c) Others, in aggregate</b>									
	26th May, 2003	—	6,000,000	3,000,000	—	—	3,000,000	26th May, 2003 – 25th May, 2013	0.580
<b>Total</b>			<b>30,258,000</b>	<b>10,836,000</b>			<b>19,422,000</b>		

Notes:

- (i) The closing price of the shares of the Company immediately before 26th May, 2003 at which the share options were granted was HK\$0.580.
- (ii) The closing price of the shares of the Company immediately before 24th September, 2003 at which the shares options were granted was HK\$0.800.
- (iii) The weighted average closing price of the shares immediately before the dates on which the options were exercised was approximately HK\$0.730.
- (iv) All the options were immediately vested upon granted.



- (v) The share options granted under the Share Option Scheme are not recognised in the financial statements until they are exercised.

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.

### **Purchase, Redemption or Sale of Listed Securities of the Company**

The Company has not redeemed any of its shares since its Listing Date. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities since the Listing Date.

### **Code of Best Practice**

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since the shares of the Company were listed on the Stock Exchange on 12th March, 2003.

### **Audit Committee**

The Company established an audit committee (the "Audit Committee") on 18th February, 2003. The written terms of reference which disclose the authority and duties of the Audit Committee were prepared and accepted with reference to "A Guide from the Foundation of an Audit Committee" published by the HKSA and in compliance with the Code of Best Practice set out in Appendix 14 to the Listing Rules.

The Audit Committee comprises two independent non-executive Directors, namely, Ms. Chau Cynthia Sin Ha and Mr. Fong Pui Sheung David. The unaudited interim financial statements for the six months ended 30th September, 2003 have been reviewed by the Audit Committee.

By order of the Board  
**Chan King Hong Edwin**  
Chairman

Hong Kong, 20th November, 2003