



CHANCO INTERNATIONAL GROUP LIMITED

卓高國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)



0264

THE PREMIER DESIGNER & MANUFACTURER OF
QUALITY LEATHER ACCESSORIES

INTERIM REPORT 2005

CORPORATE INFORMATION

Directors

Executive Directors

Chan King Hong Edwin
(*Chairman & Chief Executive Officer*)
Chan King Yuen Stanley
Chan Wai Po Rebecca

Independent Non-executive Directors

Chau Cynthia Sin Ha *JP*
Fong Pui Sheung David
Or Kam Chung Janson

Qualified accountant and company secretary

Lau Wai Hung *FCCA CPA*

Audit committee

Fong Pui Sheung David (*Chairman*)
Chau Cynthia Sin Ha *JP*
Or Kam Chung Janson

Remuneration committee

Or Kam Chung Janson (*Chairman*)
Fong Pui Sheung David
Chau Cynthia Sin Ha *JP*

Nomination Committee

Chau Cynthia Sin Ha *JP* (*Chairman*)
Fong Pui Sheung David
Or Kam Chung Janson

Registered office

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

Head office and principal place of business in Hong Kong

3rd Floor, Victory Industrial Building
Nos. 151/157 Wo Yi Hop Road
Kwai Chung
New Territories
Hong Kong

Principal bankers

Nanyang Commercial Bank Limited
Wing Hang Bank Limited

Auditors

BDO McCabe Lo Limited
Certified Public Accountants

Legal adviser on the Cayman Islands law

Conyers Dill & Pearman

Cayman Islands principal share registrar and transfer office

Butterfield Fund Services (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman

Hong Kong branch share and registrar and transfer office

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Company website

www.chancogroup.com

Stock code

264

FINANCIAL HIGHLIGHT

For the six months ended
30th September,

	2005 Unaudited HK\$'000	2004 Unaudited HK\$'000	Change %
Operating results			
Turnover	129,289	95,877	+34.8
Gross Profit	43,109	30,801	+40.0
Profit before taxation	25,323	21,167	+19.6
Profit attributable to shareholders	22,995	19,446	+18.3
Business performance ratios			
Gross profit margin	33.3%	32.1%	+3.7
Net profit margin	17.8%	20.3%	-12.3
Return on shareholders' equity	15.3%	16.3%	-6.1
Share data			
Shares in issue ('000)	318,500	318,500	–
Shares closing price (as at period end date)	HK\$0.67	HK\$0.54	+24.1
Market capitalization (HK\$'000)	213,395	171,990	+24.1
Basic earnings per share	HK7.2 cents	HK6.1 cents	+18.0
Interim dividend per share	HK2.4 cents	HK2.0 cents	+20.0
Net asset value per share	HK\$0.47	HK\$0.38	+23.7

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, 2005 as follows:-

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

		Six months ended 30th September,	
		2005	2004
	<i>Notes</i>	Unaudited HK\$'000	Unaudited HK\$'000
Turnover	4	129,289	95,877
Cost of sales		(86,180)	(65,076)
Gross profit		43,109	30,801
Other income		905	354
Selling and distribution costs		(6,606)	(2,232)
Administrative and other operating expenses		(12,085)	(7,756)
Profit before taxation	5	25,323	21,167
Taxation	6	(2,328)	(1,721)
Profit attributable to shareholders		22,995	19,446
Dividends	7	7,644	6,370
Basic earnings per share	8	HK7.2 cents	HK6.1 cents
Diluted earnings per share	8	HK7.2 cents	HK6.1 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH SEPTEMBER, 2005

	<i>Notes</i>	30th September, 2005 Unaudited HK\$'000	31st March, 2005 Audited HK\$'000
Non-current assets			
Property, plant and equipment		9,908	8,937
Current assets			
Inventories		36,303	30,951
Trade receivables	9	22,204	17,914
Other receivables, deposits and prepayments		7,592	2,854
Other investment	10	–	4,162
Financial assets at fair value through profit or loss	10	4,305	–
Tax recoverable		–	18
Bank balances and cash		91,293	89,597
		161,697	145,496
Current liabilities			
Trade payables	11	9,304	11,606
Other payables and accrued charges		9,185	8,110
Taxation payable		2,930	727
		21,419	20,443
Net current assets		140,278	125,053
Total assets less current liabilities		150,186	133,990
Non-current liabilities			
Deferred taxation		276	204
		149,910	133,786
Capital and reserves			
Share capital	12	3,185	3,185
Reserves		139,081	123,594
Proposed interim/final dividend		7,644	7,007
		149,910	133,786

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

	Share capital unaudited HK\$'000	Share premium unaudited HK\$'000	Exchange reserve unaudited HK\$'000	Retained earnings unaudited HK\$'000	Total unaudited HK\$'000
At 1st April, 2004	3,185	32,435	–	70,115	105,735
Final dividend paid for year ended 31st March, 2004	–	–	–	(5,733)	(5,733)
Profit for the period	–	–	–	19,446	19,446
At 30th September, 2004	3,185	32,435	–	83,828	119,448
At 1st April, 2005	3,185	32,435	–	98,166	133,786
Final dividend paid for year ended 31st March, 2005	–	–	–	(7,007)	(7,007)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	136	–	136
Profit for the period	–	–	–	22,995	22,995
At 30th September, 2005	3,185	32,435	136	114,154	149,910
Representing:					
Share Capital					3,185
Reserves					109,893
2004/05 interim dividend proposed					6,370
At 30th September, 2004					119,448
Share Capital					3,185
Reserves					139,081
2005/06 interim dividend proposed					7,644
At 30th September, 2005					149,910

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

	Six months ended 30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash from operating activities	10,092	19,299
Net cash used in investing activities	(1,525)	(1,320)
Net cash used in financing activities	(7,007)	(5,733)
Net increase in cash and cash equivalents	1,560	12,246
Cash and cash equivalents at the beginning of the period	89,597	67,093
Effect of foreign exchange rate changes	136	-
Cash and cash equivalents at the end of the period	91,293	79,339
Analysis of balances of cash and cash equivalents Bank balances and cash	91,293	79,339

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

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

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of annual audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based payment

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted after 1st April, 2005. In accordance with the relevant transitional provisions, the Group has not applied HKFRS 2 to share options that were granted after 7th November, 2002 and had vested before 1st April, 2005. The adoption of HKFRS 2 has had no material effect on the results for the current or prior periods.

2. Principal accounting policies (Continued)

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments : Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 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 summarized below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

At 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealized gains or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets 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". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognized in profit or loss and equity respectively. For "available-for-sale financial assets" that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, it will be measured at cost less impairment, if any. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortized cost using the effective interest method.

On 1st April, 2005, the Group classified and measured its other investment in accordance with the requirements of HKAS 39. Other investment classified under current assets with carrying amount of HK\$4,162,000 at 31st March, 2005 was reclassified to financial assets at fair value through profit or loss on 1st April, 2005.

2. Principal accounting policies (Continued)

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, 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 "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Financial liabilities at fair value through profit or loss" are measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost. "Other financial liabilities" are carried at amortized cost using the effective interest method.

3. Summary of the effects of the changes in accounting policies

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarized below:

	As at 31st March, 2005 HK\$'000	Effect of HKAS 32 & 39 HK\$'000	As at 1st April, 2005 HK\$'000
Balance sheet items			
Other investment	4,162	(4,162)	–
Financial assets at fair value through profit or loss	–	4,162	4,162
Total effects on assets and liabilities	<u>4,162</u>	–	<u>4,162</u>
Total effects on equity	<u>133,786</u>	–	<u>133,786</u>

4. Segment information

Primary reporting format – business segments

The analysis of Group turnover and profit from operations by business segment for the period is as follows:

	Manufacturing business		Retail business		Inter-segment elimination		Consolidated	
	Six months ended 30th September, 2005	2004	Six months ended 30th September, 2005	2004	Six months ended 30th September, 2005	2004	Six months ended 30th September, 2005	2004
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Revenue								
External	123,066	95,877	6,223	-	-	-	129,289	95,877
Inter-segment	510	-	-	-	(510)	-	-	-
	123,576	95,877	6,223	-	(510)	-	129,289	95,877
Segment results	37,592	28,569	(1,000)	-	(178)	-	36,414	28,569
Unallocated income							905	354
Unallocated expenses							(11,996)	(7,756)
Profit before taxation							25,323	21,167
Taxation							(2,328)	(1,721)
Profit attributable to shareholders							22,995	19,446

4. Segment information (Continued)

Secondary reporting format – geographical segments

	Turnover	
	Six months ended 30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Japan	52,114	46,291
Europe	29,850	20,464
The United States of America	9,213	7,193
Hong Kong	18,739	7,123
The People's Republic of China, other than Hong Kong (the "PRC")	5,423	4,647
Australia	4,486	4,943
Others	9,464	5,216
	129,289	95,877

5. Profit before taxation

Profit before taxation has been arrived at after charging:

	Six months ended 30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Bad debts written off and provision for bad debts	–	34
Cost of inventories sold		
– material costs	68,274	50,697
– production overheads	17,906	14,379
Depreciation of property, plant and equipment	1,247	849
Operating lease rentals in respect of land and buildings	3,534	1,781
Provision for obsolete inventories	279	149
Staff costs (excluding directors' emoluments)	5,000	3,472
and after crediting:		
Unrealized holding gain on other investment	–	193
Unrealized holding gain on financial assets at fair value through profit or loss	143	–

6. Taxation

	Six months ended 30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong Profits Tax	2,162	1,656
– Other jurisdictions	94	–
Deferred taxation	72	65
	2,328	1,721

Hong Kong Profits Tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the period.

Taxation for other jurisdictions is calculated on the rates prevailing in the respective jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary is entitled to exemption from PRC income tax for two years commencing from the first profit-making year, and entitled to a 50% relief from the PRC income tax for the following three years.

7. Dividends

	Six months ended 30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
2005 interim dividend of HK2.4 cents (2004 : HK2 cents) per share	7,644	6,370

At a board meeting held on 15th December, 2005, the directors declared an interim dividend of HK2.4 cents per share, aggregating a total of HK\$7,644,000 for the six months ended 30th September, 2005. This proposed dividend is not reflected as a dividend payable in the condensed financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31st March, 2006.

The amount of proposed interim dividend is based on 318,500,000 shares in issue at 15th December, 2005.

8. Earnings per share

The calculation of the basic and diluted earnings per share is as follows:

	Six months ended 30th September, 2005 Unaudited	2004 Unaudited
Earnings		
Profit attributable to shareholders (<i>in HK\$'000</i>)	22,995	19,446
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>in '000</i>)	318,500	318,500
Effect of dilutive potential ordinary shares		
Share options (<i>in '000</i>)	517	227
Weighted average number of ordinary shares for the purpose of diluted earnings per share (<i>in '000</i>)	319,017	318,727
Basic earnings per share (<i>HK cents</i>)	7.2	6.1
Diluted earnings per share (<i>HK cents</i>)	7.2	6.1

9. 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, 2005 Unaudited HK\$'000	31st March, 2005 Audited HK\$'000
Current to 30 days	13,203	10,958
31-60 days	5,345	3,501
61-90 days	1,721	1,188
91-120 days	174	483
121-365 days	1,384	1,698
Over 365 days	377	86
	22,204	17,914

10. Financial assets at fair value through profit or loss/Other investment

	30th September, 2005 Unaudited HK\$'000	31st March, 2005 Audited HK\$'000
Open-ended mutual funds with guaranteed return, stated at quoted market price	4,305	4,162

11. Trade payables

Details of the ageing analysis are as follows:

	30th September, 2005 Unaudited HK\$'000	31st March, 2005 Audited HK\$'000
Current to 30 days	6,769	6,172
31-60 days	1,824	2,950
61-90 days	559	1,775
91-120 days	9	544
121-365 days	43	65
Over 365 days	100	100
	9,304	11,606

12. Share capital

There was no movement in the share capital of the Company during the period.

13. Contingent liabilities

The Group had no material contingent liabilities as at 30th September, 2005 (31st March, 2005: nil).

14. Related party transactions

During the period, the Group had entered into the following transactions with related parties:

	Six months ended	
	30th September,	
	2005	2004
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	130	120

Mr. Chan Woon Man is a substantial shareholder of the Company and Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

Pursuant to the new tenancy agreement dated 30th April, 2005 between the landlords and the Company's subsidiary, Sun Ray Manufactory, Limited, the Group leased the property at a monthly rental of HK\$22,000 commencing on 1st May, 2005. The Directors are of the opinion that the leasing transactions are conducted in the ordinary course of business of the Group.

15. Comparative figures

In prior periods, the Group classified the business of trading of leather as the Group's principal activity and the revenue and costs of the business were recognised as the Group's turnover and cost of sales respectively. In view of the fact that the business has become inactive and its contribution to the Group's turnover has become insignificant, the directors has decided to exclude the business from principal activities of the Group and report it as other income of the Group from 1st April 2005 onwards. Hence, net gain from trading of leather has been reported as other income in the Group's financial statements for the six months ended 30th September, 2005. Relevant comparative figures has also been reclassified to conform with the presentation in the current period. The comparative figures of turnover of HK\$354,000 and cost of sales of HK\$265,000 in relation to the business of trading of leather for the six months ended 30th September, 2004 have been reclassified to other income.

INTERIM DIVIDEND

The Directors has resolved to declare an interim dividend of HK2.4 cents (2004: HK2 cents) per ordinary share for the six months ended 30th September, 2005. The interim dividend will be paid on or about 18th January, 2006 to members, whose names appear on the register of members of the Company at the close of business on 10th January, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30th September, 2005, the Group's turnover reached approximately HK\$129 million, representing an increase of approximately 35% over the same period of last year. The increase in turnover was mainly attributable to the increase in OEM/ODM sales to Japan and Europe and the revenue contributed by the Group's new retailing business during the reporting period. The gross profit margin of the period was approximately 33% which was slightly higher than 32% of the corresponding period of last year.

Selling and distribution expenses of the Group for the six months ended 30th September, 2005 increased to approximately HK\$7 million due to the additional expenses incurred for the Group's new retail operations. Administrative and other operating expenses increased by approximately 56%, to approximately HK\$12 million which was mainly due to the increase in number of staff and staff salaries and special bonus paid to the executive directors of the Company.

Accompanied by the promising turnover growth, the net profit for the period rose by approximately 18% to approximately HK\$23 million. Basic earnings per share were approximately HK\$7.2 cents as compared to approximately HK6.1 cents of the corresponding period in 2004.

BUSINESS REVIEW

Manufacturing Business

The Group's OEM/ODM business recorded encouraging results for the period ended 30th September, 2005. Turnover grew by approximately 28% to approximately HK\$123 million (2004: HK\$96 million). Japan continued to be the Group's major market, accounting for approximately 40% of the turnover for the period. Total export sales to Japan rose to approximately HK\$52 million, representing a growth of 13% as compared to that of the same period last year. During the reporting period, the Group successfully expanded its market presence in Europe by outperforming certain competitors from Eastern Europe. Sales to Europe surged approximately 46% to approximately HK\$30 million. It is expected that the Group's proportion of sales to Europe shall become more and more significant with time.

Revenue from manufacturing sales of belts increased from approximately HK\$92 million to approximately HK\$119 million. Sales of wallets and other accessories recorded a turnover of approximately HK\$4 million. The gross profit of manufacturing sales increased to approximately HK\$40 million and the gross profit margin improved slightly to around 33%. The price of genuine leather imported from Italy went down as a result of depreciation of Euro. Metal cost and other chemical consumables became more expensive because of high crude oil price. With management's flexible sales strategies and stringent cost control measures, the impact of inflating metal prices on profit margin had been minimized.

Retail Business

The Group's retail operations kicked off in November 2004. As at 30th September, 2005, the Group had four AREA 0264 stores in Hong Kong. Retail sales for the six months ended 30th September 2005 was approximately HK\$6 million, representing around 5% of the Group's total turnover. Despite the retail business recorded a net loss of approximately HK\$1 million, the Group has been on the right track of development. The Group's retail operations play a strategic role in positioning itself as a trendy and young street-fashion multi-brand store in the market. Facing with the challenge of high rental, the Group will focus on enhancing product development capability and improving the operation efficiency of existing stores. In addition to the Group's in-house brand name "STRANGER", the Group has launched another unique icon "eDOLL_KUBRICK" to the market in late September 2005 which is targeted for younger boys and girls. The Group will launch more brands with unique image and different price levels in order to enlarge the market share.

PROSPECTS

With years of development, the Group has already established a solid reputation as premier designer and manufacturer of quality leather accessories in the global marketplace. It will strive to consolidate its leading position in leather accessories manufacturing. In view of steady growth of sales orders and a shorter production lead time requested by the customers, the Group is in the progress of improving the production efficiency by expanding the production area in order to resolve the production jam in the bottle-neck procedure. The factory expansion project is expected to be completed in late December this year and the management believes the Group can attain better economies of scale through enhancement of production volume.

The global economy is affected by some unfavorable factors like accelerating crude oil price, higher interest rate and the outbreak of avian flu, however, it is believed that the general economic condition would be improving gradually. Barring unforeseeable circumstances, management is cautiously optimistic towards the Group's performance in the second half of fiscal year 2005/06.

Leveraging on the good and long-term relationship with our customers and major suppliers and coupled with stringent cost control, the management believes the dedication of all our efforts will bring fruitful return to our shareholders.

Liquidity, Financial Resources and Capital Structure

As at 30th September, 2005, the Group's cash and bank deposits were approximately HK\$91 million, compared to approximately HK\$90 million as at 31st March, 2005.

As at 30th September, 2005, 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\$162 million as at 30th September, 2005 (31st March, 2005: HK\$145 million) and total current liabilities of approximately HK\$21 million (31st March, 2005: HK\$20 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 8 times as at 30th September, 2005 (31st March, 2005: 7 times).

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

The Group recorded an increase in shareholders' funds from approximately HK\$134 million as at 31st March, 2005 to approximately HK\$150 million as at 30th September, 2005.

TREASURY POLICY

The Group generally finances its operation with internally generated resources.

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 significance exposure to foreign exchange fluctuation. Though the Group does not engage in any hedging contracts, the Group's exposure to foreign exchange risk is minimal.

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, 2005.

EMPLOYEE INFORMATION

As at 30th September, 2005, the Group had 54 full-time employees in Hong Kong and 78 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.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th September, 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and 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 by the Company pursuant to section 352 of the SFO or 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 positions

(a) Ordinary shares of HK\$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Chan King Hong Edwin	Interest of a controlled corporation	47,727,352 (Note 1(a))	
	Beneficial owner	<u>4,160,000</u>	
		<u>51,887,352</u>	16.29
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 (Note 2)	
	Beneficial owner	<u>4,896,000</u>	
		<u>52,623,352</u>	16.52
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 (Note 3)	12.31

(b) Share options

Name	Capacity	Number of options held	Number of underlying shares
Chan King Hong Edwin	Beneficial owner	3,181,200 <i>(Note 4)</i>	3,181,200
	Interest of spouse	3,181,200 <i>(Note 1(b))</i>	3,181,200
Chan King Yuen Stanley	Beneficial owner	3,181,200 <i>(Note 4)</i>	3,181,200
Chan Wai Po Rebecca	Beneficial owner	3,181,200 <i>(Note 4)</i>	3,181,200

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 section headed "Share Option" below.

Save as disclosed above, none of the directors, chief executives and 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 30th September, 2005.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2005, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions

(a) Ordinary shares of HK\$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Leopark Worldwide Inc.	Beneficial owner	47,727,352 (Note i)	14.99
New Paramount Profits Limited	Beneficial owner	47,727,352 (Note i)	14.99
Prevail Assets Limited	Beneficial owner	39,204,648 (Note i)	12.31
Smarty Worldwide Limited	Beneficial owner	39,204,648 (Note ii)	12.31
Chan Woon Man	Interest of a controlled corporation	39,204,648 (Note ii)	12.31
Li Shuk Han	Interest of spouse	51,887,352 (Note iii)	16.29
Chelverton Dividend Income Fund Limited	Investment manager	19,280,000	6.05
Yeoman Capital Management Pte Ltd	Investment manager	16,352,000	5.13

(b) Share Options

Name	Capacity	Number of options held	Number of underlying shares
Li Shuk Han	Beneficial owner and interest of spouse	6,362,400 <i>(Note iv)</i>	6,362,400
Chan Woon Man	Beneficial owner	3,181,200 <i>(Note ii)</i>	3,181,200

Notes:

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors' interests in shares and underlying shares" 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) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong, Edwin and 4,160,000 shares 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) Being an option to subscribe for 3,181,200 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 3,181,200 shares of the Company granted to Ms. Li Shuk Han on 24th September, 2003.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30th September, 2005.

SHARE OPTIONS

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").

There were no movements in share options during the six months ended 30th September, 2005. Details of share options outstanding at 30th September, 2005 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1st April, 2005 and 30th September, 2005	Exercisable period	Exercise price per share
(a) Executive directors				
Chan King Hong Edwin	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
Chan King Yuen Stanley	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
Chan Wai Po Rebecca	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
(b) Employees, in aggregate	26th May, 2003	516,000	26th May, 2003 – 25th May, 2013	0.580
	24th Sept, 2003	6,362,400	26th May, 2003 – 25th May, 2013	0.830
(c) Others, in aggregate	26th May, 2003	3,000,000	26th May, 2003 – 25th May, 2013	0.580
Total		<u>19,422,000</u>		

Notes:

- (i) All the options were immediately vested upon granted.
- (ii) The share options granted under the Share Option Scheme are not recognised in the financial statements until they are exercised.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares and underlying shares" and "Share options" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30th September, 2005.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30th September, 2005, except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer. Due to the small size of the existing management team, both the roles of the chairman and chief executive officer of the Company are currently played by Mr. Chan King Hong, Edwin. Mr. Chan has considerable experience in manufacturing industry and is the person most knowledgeable about the business of the Group. The Board believes that the current structure will enable us to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the six months ended 30th September, 2005.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Mr. Fong Pui Sheung David (Chairman), Ms. Chau Cynthia Sin Ha, and Mr. Or Kam Chung Janson. The Audit Committee has reviewed with Group's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited interim financial statements and the results of the Group for the six months ended 30th September, 2005.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 25th August, 2005 with written terms of reference in compliance with Appendix 14 of the Listing Rules. The Remuneration Committee comprises three independent non-executive directors, Mr. Or Kam Chung Janson (Chairman), Mr. Fong Pui Sheung David, and Ms. Chau Cynthia Sin Ha, is responsible for formulating and making recommendation to the board on the Company policy and structure for all remuneration of directors and senior management.

NOMINATION COMMITTEE

The Nomination Committee was established on 25th August, 2005 with written terms of reference in compliance with Appendix 14 of the Listing Rules. The Nomination Committee comprises three independent non-executive directors, Ms. Chau Cynthia Sin Ha (Chairman), Mr. Fong Pui Sheung David, and Mr. Or Kam Chung Janson, is responsible for making recommendation to the board so as to ensure that all nominations are fair and transparent.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 6th January, 2006 to Tuesday, 10th January, 2006 both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer 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 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on Thursday, 5th January, 2006.

By order of the Board
Chan King Hong Edwin
Chairman

Hong Kong, 15th December, 2005