

[ Annual Report 2006 ]

The Premier Designer & Manufacturer of  
Quality Leather Accessories

**CHANCO INTERNATIONAL GROUP LIMITED**

卓高國際集團有限公司  
*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code : 0264)

# AREA 0264

[ Kimberley 26, Langham Place, TMT Plaza. ]

## Contents

Corporate Information	2
Financial Highlights	3-4
Chairman's Statement	5-6
Management Discussion & Analysis	7-9
Biographical Details of Directors and Senior Management	10-12
Corporate Governance Report	13-18
Report of the Directors	19-29
Auditors' Report	30-31
Consolidated Income Statement	32
Consolidated Balance Sheet	33
Balance Sheet	34
Consolidated Statement of Changes in Equity	35
Consolidated Cash Flow Statement	36
Notes to the Financial Statements	37-67
Five Year Financial Summary	68

## Corporate Information

### DIRECTORS

#### *Executive Directors*

Chan King Hong Edwin

*(Chairman & Chief Executive Officer)*

Chan King Yuen Stanley *(Vice Chairman)*

Chan Wai Po Rebecca

#### *Independent Non-executive Directors*

Chau Cynthia Sin Ha *JP*

Fong Pui Sheung David *MH*

Or Kam Chung Janson *FCCA, CPA*

### QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Lau Wai Hung *FCCA CPA*

### AUDIT COMMITTEE

Fong Pui Sheung David *MH (Committee Chairman)*

Chau Cynthia Sin Ha *JP*

Or Kam Chung Janson *FCCA, CPA*

### REMUNERATION COMMITTEE

Or Kam Chung Janson *FCCA, CPA*

*(Committee Chairman)*

Fong Pui Sheung David *MH*

Chau Cynthia Sin Ha *JP*

### NOMINATION COMMITTEE

Chau Cynthia Sin Ha *JP (Committee Chairman)*

Fong Pui Sheung David *MH*

Or Kam Chung Janson *FCCA, CPA*

### 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](http://www.chancogroup.com)

### STOCK CODE

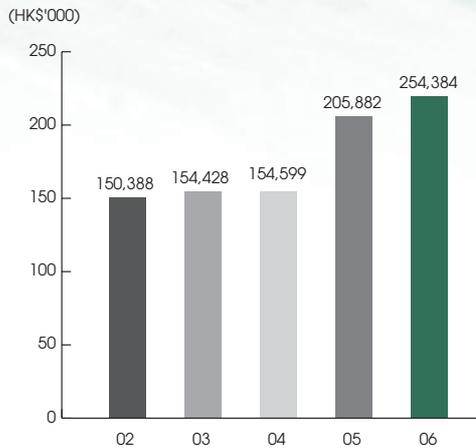
264

## Financial Highlight

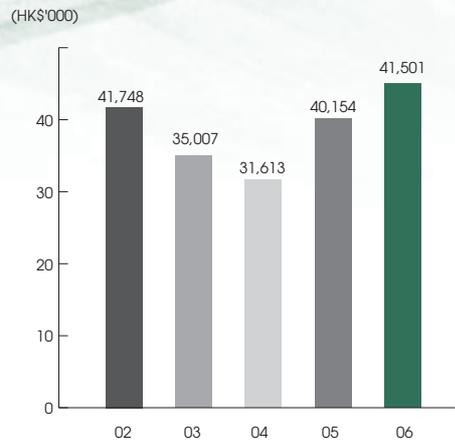
	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>	Change
<b>Operating results</b>			
Turnover	<b>254,384</b>	205,882	+ 23.6%
Gross Profit	<b>82,995</b>	67,982	+ 22.1%
Profit before tax	<b>45,742</b>	43,791	+ 4.5%
Profit for the year	<b>41,501</b>	40,154	+ 3.4%
<b>Business performance ratios</b>			
Gross profit margin	<b>32.6%</b>	33.0%	
Net profit margin	<b>16.3%</b>	19.5%	
Return on shareholders' equity	<b>25.8%</b>	30.0%	
Current ratio	<b>8.00</b>	7.12	
Quick ratio	<b>5.41</b>	5.60	
Debt ratio	<b>0.12</b>	0.13	
<b>Share data</b> (as at year end date)			
Shares in issue ('000)	<b>318,500</b>	318,500	
Shares closing price	<b>HK\$0.67</b>	HK\$0.70	
Market capitalisation (HK\$'000)	<b>213,395</b>	222,950	
Basic earnings per share	<b>HK13.03 cents</b>	HK12.61 cents	
Price earnings ratio	<b>5.14</b>	5.55	
Interim dividend per share	<b>HK2.4 cents</b>	HK2.0 cents	
Final dividend per share	<b>HK2.0 cents</b>	HK2.2 cents	
Total dividend per share	<b>HK4.4 cents</b>	HK4.2 cents	
Dividend payout ratio	<b>33.8%</b>	33.3%	
Net asset value per share	<b>HK\$0.51</b>	HK\$0.42	
Price-to-book value ratio	<b>1.31</b>	1.67	

# Financial Highlight

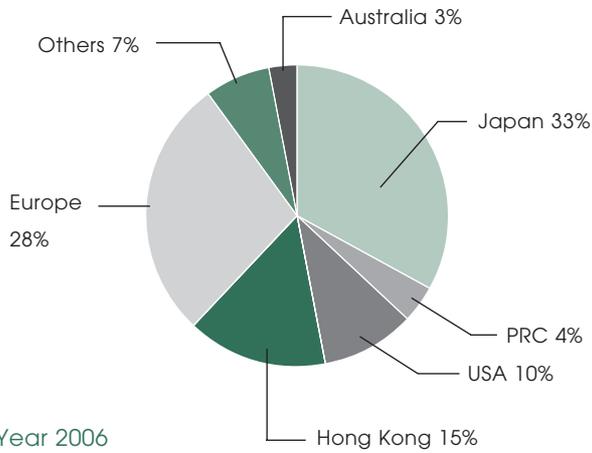
## TURNOVER



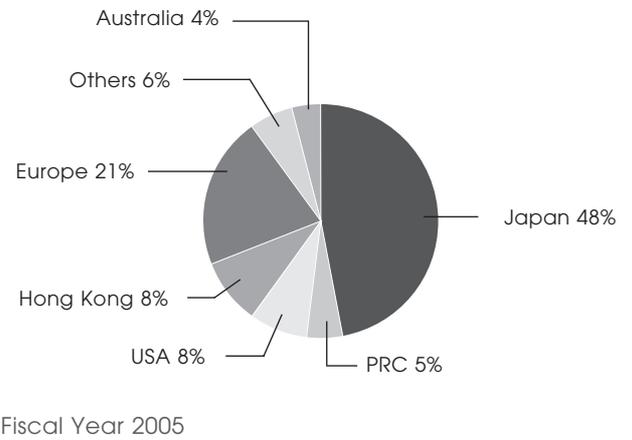
## PROFIT ATTRIBUTABLE TO SHAREHOLDERS



## TURNOVER BY GEOGRAPHICAL SEGMENT

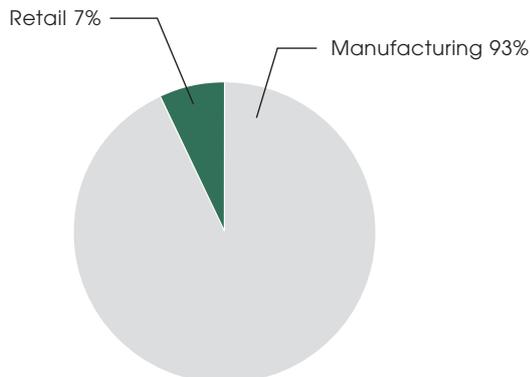


Fiscal Year 2006

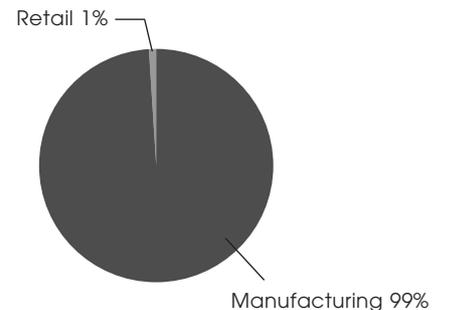


Fiscal Year 2005

## TURNOVER BY BUSINESS SEGMENT



Fiscal Year 2006



Fiscal Year 2005

## Chairman's Statement

Dear Shareholders,

It is my pleasure to present to the shareholders the annual results of the Company and its subsidiaries (collectively refer to the "Group") for the year ended 31st March, 2006. With our dedicated efforts, the Group achieved another year of growth in its operating results for fiscal year 2006 with improvement in both turnover and operating profits.

### BUSINESS REVIEW

In fiscal 2006, we made solid progress against our strategic priority to drive shareholders' value and to position ourselves for sustainable long-term growth. After more than two decades of successful business development, the Group has already established a solid reputation as premier designer and manufacturer of quality leather accessories in the global market place. Further improvement of the macro-economic environment drove the growth of the Group's sales to overseas market. Our OEM/ODM sales grew by 16% to approximately HK\$236,814,000 in fiscal 2006. In the second half of the financial year, we encountered production jam in the bottle-neck procedure in our processing plant in Dongguan which resulted in reduction of production output. We had to expand our processing plant in order to improve the production efficiency and operating effectiveness. After the factory expansion works completed in January 2006, we achieved greater production capacity and better production efficiency.

Founded in November 2004, AREA0264 stores offer broad selections of trendy and young street fashion apparel, shoes and accessories for dynamic trend-conscious young shoppers. At the end of March 2006, the Group operated three AREA0264 stores in Hong Kong. The management was satisfied with the overall performance in the retail sector especially in the second half of the financial year. Despite the Group incurred an operating loss in retail sector, the management considered it was on the right track of development. The Group currently carries four in-house brands, "Stranger", "Natalie Creations", "eDOLL\_KUBRICK and "3-Liter" with unique image and different price level in AREA0264 stores. With years of development, the Group has successfully established AREA0264 as a well-known young fashion label in the market.

### PROSPECTS

Looking forward, we stay strategically focused on developing the core OEM/ODM business. In anticipation of steady growth of orders from our new customers, we will continue to enhance production efficiency and operating effectiveness by strengthening internal controls and improving production process. We believe that our consistent quality standard and strong product development capability could maintain the Group's business growth in future.

## Chairman's Statement

We believe strong brand will deliver high-margin growth to the top-line. To capture the higher profit margin, the Group will endeavor to increase the proportion of in-house brand sales through increasing marketing effort on building brand awareness. On the other hand, the Group will strive to introduce exclusive license of popular brand with unique image in order to boost our stores image. Facing with the challenge of high rental, we will focus on enhancing product development capability and improving the operation efficiency of existing stores.

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 fiscal 2007.

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.

### APPRECIATION

The Board would like to express its sincere gratitude to our business partners, customers and shareholders for their enduring support. Also, I would like to thank all the staff for their dedicated in contributing to the fruitful results of the Group.

Chan King Hong Edwin

*Chairman*

Hong Kong, 20th July, 2006

# Management Discussion and Analysis

## FINANCIAL REVIEW

(All the analysis below is based on the results of the Group for the year ended 31st March, 2006 and the year ended 31st March, 2005 for comparison purpose only)

The Group's turnover for the year ended 31st March, 2006 amounted to HK\$254,384,000 (2005: approximately HK\$205,882,000), representing an increase of 24% as compared with that of last year. Gross profit increased to HK\$82,995,000 while the gross profit margin was approximately 33% (2005: 33%).

The selling and distribution expenses of the Group for the year ended 31st March, 2006 increased to approximately HK\$16,155,000 as a result of the upsurge of operating expenses for retail business. The administrative and other operating expenses increased by 30% to HK\$23,742,000 compared to approximately HK\$18,287,000 of last year. The rise was mainly attributable to the expanded manpower, increased staff remuneration and special bonus paid to the executive directors of the Company.

Profit attributable to shareholders increased by approximately 3% to nearly HK\$41,501,000. The basic earnings per share increased to approximately HK13.03 cents. The Board has recommended the payment of a final dividend of HK2 cents per share for the year ended 31st March, 2006. An interim dividend of HK2.4 cents per share was paid by the Company in January 2006, making a total dividend payout ratio of around 34% for the year ended 31st March, 2006.

## GEOGRAPHICAL REVIEW

Sales to Japan dropped to HK\$85,037,000 as a result of slow down of orders placed by the major customer in Japan in the second half of the financial year. Despite the sales dropped, Japan remained the largest export market of the Group.

The result of export sales to Europe was encouraging. During the year under review, the Group successfully expanded its market presence in Europe by outperforming certain competitors from Eastern Europe. Export sales to Europe surged to approximately HK\$71,529,000. Europe was the second largest export market of the Group.

Sales to the U.S. grew by approximately 49% to HK\$24,972,000. The growth was attributable to the increasing sales orders placed by the new customers in the U.S. during the year under review

Sales in Hong Kong rose to HK\$38,778,000 representing approximately 120% growth over fiscal 2005. The growth was mainly due to the organic growth of manufacturing business and revenue contribution from the Group's expanding retail operation in Hong Kong.

The Group's export sales to the other countries such as Canada, Taiwan, Philippines, Singapore and Malaysia, etc. rose approximately 39%, to HK\$17,144,000.

# Management Discussion and Analysis

## BUSINESS REVIEW

- *Manufacturing Business*

During the year under review, turnover of the manufacturing business grew by 16% to HK\$236,814,000 (2005: HK\$203,911,000). Most of the growth in results came from the first half of the financial year. The turnover growth was slow down in the second half of the financial year because the sales order from Japan decreased. In addition, the Group encountered a production jam in the bottle-neck working procedure in our processing factory in Dongguan and resulted in reduction of production output. Revenue from manufacturing of belts increased from approximately HK\$196,882,000 to approximately HK\$229,939,000. Sales of leather goods and other accessories was approximately HK\$6,875,000 in fiscal 2006. The gross profit of manufacturing business increased to around HK\$75,106,000 but the gross profit margin dropped slightly to around 32%. The decrease of gross profit margin was mainly attributed to the rise of labor cost and outsourcing volume, and the increase of provision made for slow moving inventories.

- *Retail Business*

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. In fiscal 2006, turnover of the Groups' retail business was approximately HK\$17,570,000. The Group incurred an operating loss of approximately HK\$1,540,000 in the retail sector. At the end of March 2006, the Group operated three AREA0264 stores in Hong Kong. During the review year, the Group opened two new stores and ceased operation of one small retail store for strategic reason. The Group implemented various policies in order to improve the operational effectiveness and efficiency. In the second half of the financial year, the overall performance in retail sector had greatly improved.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st March, 2006, the Group's cash and bank deposits were approximately HK\$90,999,000 (2005: HK\$89,597,000).

As at 31st March, 2006, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8,000,000 were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$172,226,000 as at 31st March, 2006 (2005: HK\$145,496,000) and total current liabilities of approximately HK\$21,782,000 (2005: HK\$20,647,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 8 times as at 31st March, 2006 (2005: 7 times).

Supported by its strong financial position, the Group had not raised any bank loan during the year.

## Management Discussion and Analysis

The Group recorded an increase in shareholders' funds from approximately HK\$133,786,000 as at 31st March, 2005 to approximately HK\$160,853,000 at 31st March, 2006. The increase was mainly attributable to operating profit generated during the year.

### 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, Renmenbi 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/DISPOSAL

The Group had no material acquisition/disposals for the year ended 31st March, 2006.

### EMPLOYEE INFORMATION

As at 31st March, 2006, the Group had 56 full times employees in Hong Kong and 120 in the PRC. The Group remunerated its employee 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.

### CONTINGENT LIABILITIES

As at 31st March, 2006, the Group did not have any contingent liabilities.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. CHAN King Hong Edwin**, aged 48, is the chairman and chief executive officer of the Company who joined the Group in around 1980. Mr. Chan is responsible for the development of corporate strategies, overseas sales and marketing strategic planning and overall management of the Group. He has over 21 years of experience in the manufacturing and sales of leather goods, corporate management and strategic planning. Mr. Chan graduated from the University of Toronto in Canada with a bachelor's degree in arts in 1980. Mr. Edwin Chan is the brother of Mr. Stanley Chan, Ms. Rebecca Chan and Ms. Chan Wai Foon and the husband of Ms. Li Shuk Han.

**Mr. CHAN King Yuen Stanley**, aged 45, is the vice chairman of the Company who joined the Group in around 1980. Mr. Chan is responsible for the design and product development, local sales and marketing strategic planning and overall management of the Group. He has over 21 years of experience in the manufacturing and sales of leather goods, product development and sampling designed training. Mr. Stanley Chan is the brother of Mr. Edwin Chan, Ms. Rebecca Chan and Ms. Chan Wai Foon.

**Ms. CHAN Wai Po Rebecca**, aged 42, is the production director of the Company who joined the Group in 1986. Ms. Chan is responsible for production planning and control, labour training and overall management of the Group's production facilities in Dongguan, the PRC. She has over 16 years of experience in the manufacturing of leather goods, production system design and quality assurance system management. She graduated from Tunghai University in Taiwan with a Bachelor's degree in Business Administration in 1986. Ms. Rebecca Chan is the sister of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Chan Wai Foon.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. CHAU Cynthia Sin Ha JP**, aged 66, is an independent non-executive director of the Company. Ms. Chau has been appointed as a Non-official Justice of the Peace for Hong Kong since 17th July, 1996. She holds a diploma in Arts from Chung Chi College in Hong Kong in 1961 and a master's degree of social welfare from the Regents of the University of California in the U.S. in 1967. Ms. Chau had served as the Welfare Superintendent of Po Leung Kuk for 26 years until her retirement in March 2001. As Welfare Superintendent, Ms. Chau was head of the Welfare Department and responsible for developing and improving the welfare services provided by Po Leung Kuk. Ms. Chau was appointed as the independent non-executive director of the Company in February 2003.

## Biographical Details of Directors and Senior Management

**Mr. FONG Pui Sheung David** *MH*, aged 63, is an independent non-executive director of the Company. Mr. Fong was granted a Badge of Honour by Hong Kong Government in January 1989 and a Medal of Honour by the Government of Hong Kong Special Administrative Region for his contribution to the society in July 2000. He holds a diploma in Chinese Literature from the Chinese University of Hong Kong in 1970. Mr. Fong has served as the principal of Tung Koon District Society Fong Shu Chuen School since 1970. Mr. Fong is also a manager of Fong Shu Fook Tong Foundation Fong Shu Chuen Primary School. Mr. Fong had been actively participating in the Community works in Ho Man Tin Area Committee since 1973. Mr. Fong was acted as Councilor of Urban Council from 1989 to 1991. Mr. Fong was appointed as the independent non-executive director of the Company in February 2003.

**Mr. Or Kam Chung Janson**, aged 36, is an independent non-executive director of the Company. Mr. Or is a practising Certified Public Accountant in Hong Kong. Mr. Or is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountant. Mr. Or obtained a Higher Diploma in Accountancy from the City University of Hong Kong in 1995. Mr. Or has over 8 years of experience in auditing, accounting, taxation and company secretary with public accounting firms. Mr. Or is the co-founder of a public accounting firm, KCPS & Partners Certified Public Accountants, and is now a practising partner of the firm. Mr. Or was appointed as the independent non-executive director of the Company in June 2004.

11

### SENIOR MANAGEMENT

**Ms. LI Shuk Han**, aged 41, is the general manager of the Group. Ms. Li is responsible for the personnel and general management of the Group's operation in Hong Kong. She has over 17 years of experience in general administration including staff performance analysis and office system innovation. She is the wife of Mr. Edwin Chan. She joined the Group in 1984.

**Mr. LAU Wai Hung**, aged 30, is the financial controller, qualified accountant and the company secretary of the Company. Mr. Lau is responsible for overseeing the financial and the company secretarial functions of the Company. Mr. Lau obtained a Bachelor's degree in Business Administration from the Chinese University of Hong Kong in 1997. Mr. Lau is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau has over 8 years of experience in auditing, finance, taxation and corporate development advisory. Prior to joining the Group, Mr. Lau worked for a consulting firm which provides business advisory services to clients. Mr. Lau joined the Group in July 2002.

**Ms. CHAN Wai Foon**, aged 50, is the accounting manager of the Group. Ms. Chan is responsible for the financial and management accounting of the Group. She holds a diploma in accounting from Centennial College in Canada in 1980. She has over 22 years of experience in accounting and finance. Prior to joining the Group, Ms. Chan had worked as an accountant of a system integration company. She is the sister of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan. She joined the Group in 1997.

## Biographical Details of Directors and Senior Management

**Mr. CHAN Chi Hung**, aged 42, is the operation manager of the Group. Mr. Chan is responsible for production planning and operation, shipping management and inventory control of the Group. Mr. Chan has over 7 years of experience in the leather industry. He joined the Group in 1995.

**Mr. WU Wai Luk**, aged 38, is the merchandising manager of the Group. Mr. Wu is responsible for sales and marketing and business development of the Group. Mr. Wu has over 7 years of experience in the leather industry. He joined the Group in 1997.

**Mr. FUNG Kin**, aged 41, is the administration manager of the Group. Mr. Fung is responsible for the general administration and human resource management of the Group's factory in Dongguan, the PRC. Mr. Fung has over 7 years of experience in general administration and team management. Prior to joining the Group, Mr. Fung had worked for a watch hands and parts manufacturing company as general manager for 6 years. He joined the Group in August 2001.

**Mr. HUI Kwok Fai**, aged 35, is the product development manager of the Group. Mr. Hui is responsible for product design and retail business operation of the Group. Mr. Hui has over 13 years of experience in product development and brand building. Prior to joining the Group, Mr. Hui had worked as product designer of Tough Jeans Ltd. and had successfully build up the distribution network for TOUGH bags and other accessories product to Japan, Singapore, Malaysia, Thailand, Germany, Italy, Spain and Australia. He joined the Group in October 2003.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company believes that good corporate governance is importance to the success of the Company. The Company is committed to attaining good standard of corporate governance practices in order to enhance shareholders' value and safeguard the interests of shareholders.

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 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31st March, 2006 except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer.

## DIRECTOR'S SECURITIES TRANSACTIONS

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 year ended 31st March, 2006.

## BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic directions and financial performance. The management was delegated authority and responsibility by the Board for the day-to-day management of the Group. In addition, the Board has also delegated various responsibilities to the Remuneration Committee, the Audit Committee and Nomination Committee.

The Board currently consists of 3 executive directors and 3 independent non-executive directors. Their brief biographical details and the relationships among the members of the Board are set out in the "Biographical details of directors and senior management" on pages 10 to 12 of this Annual Report.

The Board holds four regular meetings a year to review the financial and operating performance of the Company. Apart from the regular Board meetings, the Board will meet on other occasion when required.

# Corporate Governance Report

During the financial year ended 31st March, 2006, four board meetings were held by the Company. The individual attendance record of each Director at the meetings of the Board during the year ended 31st March, 2006 is as follows:

	<b>Number of board meetings attended</b>
<i>Executive Directors</i>	
Mr. Chan King Hong, Edwin ( <i>Chairman and Chief Executive Officer</i> )	4/4
Mr. Chan King Yuen, Stanley	4/4
Mr. Chan Wai Po, Rebecca	3/4
<i>Independent non-executive directors</i>	
Mr. Fong Pui Sheung, David	3/4
Ms. Chau Cynthia Sin Ha	3/4
Mr. Or Kam Chung, Janson	3/4

The Company has received from each of the independent non-executive directors an annual written confirmation of independence pursuant to rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors as independent.

All independent non-executive Directors of the Company are appointed for a specific term not exceeding three years and are subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with Company's articles of associations.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provision stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. 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. The Board is of the view that Mr. Chan King Hong, Edwin 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 the Group.

## Corporate Governance Report

### OTHER COMMITTEES

There are three committees established under the Board, namely the Audit Committee, the Remuneration Committee and Nomination Committee.

### AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Mr. Fong Pui Sheung David, Ms. Chau Cynthia Sin Ha, and Mr. Or Kam Chung Janson.

During the financial year ended 31st March, 2006, two audit committee meetings were held by the Company. Individual attendance of each committee member at the meeting is as follows:

	<b>Number of meetings attended</b>
<i>Independent non-executive directors</i>	
Mr. Fong Pui Sheung, David ( <i>Committee Chairman</i> )	2/2
Ms. Chau Cynthia Sin Ha	2/2
Mr. Or Kam Chung, Janson	2/2

The major roles and functions of the Audit Committee are as follow:

- To considering the appointment of the external auditor, the audit fee and any question of resignation or dismissal;
- To reviewing the interim and annual results of the Group;
- To discussing with external auditor before audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- To review the external auditor's management letter and management's response;
- To consider the major findings of internal investigations and management's response;
- To ensure that the Board will provide a timely response to the issue raised in the external auditor's management letter.

The Audit Committee has reviewed the Group's management the principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the unaudited financial statements and results of the Group for the six months ended 30th September, 2005 and audited financial statements and results of the Group for the year ended 31st March, 2006.

# Corporate Governance Report

## AUDITORS' REMUNERATION

The remuneration for the audit and non-audit services provided by BDO McCabe Lo Limited to the Group during the year ended 31st March, 2006 was as follow:

<b>Nature of services</b>	<b>Amount</b> HK\$'000
Audit Services	390
Non-audit services	
- Tax services	40
- Other services	42
	<hr/>
Total:	<u>472</u>

## REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive directors Mr. Or Kam Chung Janson, Ms. Chau Cynthia Sin Ha, and Mr. Fong Pui Sheung David.

The Remuneration Committee meets at least once a year and the Committee will meet on other occasion when required.

During the financial year ended 31st March, 2006, one remuneration committee meetings were held by the Company. Individual attendance of each committee member at the meeting is as follows:

	<b>Number of meetings attended</b>
<i>Independent non-executive directors</i>	
Mr. Or Kam Chung, Janson ( <i>Committee Chairman</i> )	1/1
Ms. Chau Cynthia Sin Ha	1/1
Mr. Fong Pui Sheung, David	1/1

The major roles and functions of the Remuneration Committee are as follow:

- to make recommendations to the board on the issuer's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

## Corporate Governance Report

- to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;
- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
- to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the issuer;
- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
- to ensure that no director or any of his associates is involved in deciding his own remuneration.

### NOMINATION COMMITTEE

The Nomination Committee comprises three independent non-executive directors Ms. Chau Cynthia Sin Ha, Mr. Or Kam Chung Janson and Mr. Fong Pui Sheung David.

The Nomination Committee meets at least once a year and the Committee will meet on other occasion when required.

During the financial year ended 31st March, 2006, one nomination committee meeting was held by the Company. Individual attendance of each committee member at the meeting is as follows:

	<b>Number of meetings attended</b>
<i>Independent non-executive directors</i>	
Ms. Chau Cynthia Sin Ha ( <i>Committee Chairman</i> )	1/1
Mr. Fong Pui Sheung, David	1/1
Mr. Or Kam Chung, Janson	1/1

# Corporate Governance Report

The major roles and functions of the Nomination Committee are as follow:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board when requested by the Chairman of the Company and to make recommendations to the Board after such review;
- to assess the suitability and qualification of candidates put forward by the chief executive officer and to become new board members and to report to the Board on their assessment;
- to assess the independence of Independent Non-Executive Directors, having regard to the requirements under the Listing Rules; and
- to make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure that financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors have also ensured the timely publication of the financial statements of the Group.

The Directors' responsibilities in preparing financial statements and auditors' responsibilities are set out in the Auditors' Report on page 30 of this Annual Report.

## CORPORATE COMMUNICATION

The Company communicates with its shareholders through publication of interim report and annual report in accordance with the Listing Rules. The Company welcomes shareholders to attend the general meetings and express their view. All directors are encouraged to attend the general meetings to have personal communication with shareholders. The external auditors are also required to be present to assist the directors in addressing any relevant queries by shareholders.

## Report of the Directors

The directors (the "Directors") are pleased to present their report together with the audited financial statements of Chanco International Group Limited (the "Company") and its subsidiaries (collectively refer to the "Group") for the year ended 31st March, 2006.

### PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 14 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March, 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 67.

The Directors recommended the payment of a final dividend of HK2 cents per ordinary share to shareholders whose names appear in the register of members of the Company on 5th September, 2006. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about 15th September, 2006.

### RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 22 to the financial statements and in the consolidated statement of changes in equity, respectively.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

### SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the financial statements.

# Report of the Directors

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March, 2006, amounted to HK\$89 million. Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the memorandum and articles of association of the Company and no distribution or dividend may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in ordinary course of business.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's memorandum and articles of association and there was no restriction against such rights under the laws of the Cayman Islands.

## BANK LOANS AND OVERDRAFTS

The Group did not have bank loans and overdrafts at 31st March, 2006.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 68.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## DIRECTORS

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

### *Executive directors*

Mr. Chan King Hong Edwin  
Mr. Chan King Yuen Stanley  
Ms. Chan Wai Po Rebecca

### *Independent non-executive directors*

Ms. Chau Cynthia Sin Ha  
Mr. Fong Pui Sheung David  
Mr. Or Kam Chung Janson

## Report of the Directors

In accordance with Article 87 of the Company's Articles of Association, Mr. Chan King Yuen, Stanley and Ms. Chau Cynthia Sin Ha shall retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### DIRECTORS' SERVICE CONTRACTS

The Company has entered into service agreements with all the Directors of the Company for the provision of management services to the Group, details are as follow:

Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca entered into service contracts with the Company for an initial term of two years commencing from 1st March, 2003 and renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Ms. Chau Cynthia Siu Ha and Mr. Fong Pui Sheung David are independent non-executive directors. They entered into service contracts with the Company for an initial term of two years commencing from 1st March, 2003. On 26th February, 2005, their contracts were renewed for a two year term expiring on 28th February, 2007.

Mr. Or Kam Chung, Janson is independent non-executive director of the Company. He entered into service contracts with the Company for an initial term of two years commencing from 16th June, 2004. On 4th May, 2006, his contract was renewed for a two year term expiring on 15th June, 2008.

Save as aforesaid, no directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

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.

# Report of the Directors

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31st March, 2006, the interests and short positions of the directors and chief executive 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*

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital</b>
Chan King Hong Edwin	Interest of a controlled corporation	47,727,352 (Note 1(a))	16.39
	Beneficial owner	<u>4,460,000</u>	
		<u>52,187,352</u>	
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 (Note 2)	16.62
	Beneficial owner	<u>5,200,000</u>	
		<u>52,927,352</u>	
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 (Note 3)	12.31

## Report of the Directors

*(b) Share options*

<b>Name</b>	<b>Capacity</b>	<b>Number of options held</b>	<b>Number of underlying shares</b>
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 31st March, 2006.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2006, 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*

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital</b>
Leopark Worldwide Inc.	Beneficial owner	47,727,352 <i>(Note i)</i>	14.99
New Paramount Profits Limited	Beneficial owner	47,727,352 <i>(Note i)</i>	14.99
Prevail Assets Limited	Beneficial owner	39,204,648 <i>(Note i)</i>	12.31
Smarty Worldwide Limited	Beneficial owner	39,204,648 <i>(Note ii)</i>	12.31
Chan Woon Man	Interest of a controlled corporation	39,204,648 <i>(Note ii)</i>	12.31
Li Shuk Han	Interest of spouse	52,187,352 <i>(Note iii)</i>	16.39
Chelverton Dividend Income Fund Limited	Investment manager	25,553,000	8.02
Yeoman Capital Management Pte Ltd	Investment manager	16,352,000	5.13

## Report of the Directors

*(b) Share Options*

<b>Name</b>	<b>Capacity</b>	<b>Number of options held</b>	<b>Number of underlying shares</b>
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) These shares are held by a company controlled 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 31st March, 2006.

## 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").

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentive or rewards for their contributions to the Group.

## Report of the Directors

The Share Option Scheme is available to, at the discretion of the Directors, any employee (whether full time or part time, including any executive directors) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds any equity interest; any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiary or any Invested Entity; any supplier of goods or services to any member of the Group or any Invested Entity; any customer of the Group or any Invested Entity; and any consultants, advisers, managers, officers or entities that provide research, development or other technological support to the Group or any Invested Entity.

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised at any time under the Share Option Scheme and any other share option scheme of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not exceed 10% of the shares of the Company in issue on 12th March, 2003, the date of the Company being listed on the Main Board of the Stock Exchange.

26

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company to each participants in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to shareholders' approval at general meeting of the Company with such participant and his associates abstaining from voting.

An option may be accepted by a participant at a nominal consideration of HK\$1 within 28 days from the date of the offer of grant of the options. The subscription price for shares under the Share Option Scheme will be a price determined by the Directors but shall not be less than the highest of (i) the nominal value of shares; (ii) the closing price of one share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of option, which shall be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of acceptance of the offer of the grant of the options but shall end and in any event not later than ten years from the date on which the offer for grant of the option is made subject to the provisions of early termination thereof.

## Report of the Directors

There were no movements in share options during the year ended 31st March, 2006. Details of share options outstanding at 31st March, 2006 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1st April, 2005 and 31st March, 2006	Exercisable period	Exercise price per share
<b>(a) Executive directors</b>				
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>(b) Employees, in aggregate</b>	26th May, 2003	516,000	26th May, 2003 - 25th May, 2013	0.580
	24th Sept, 2003	6,362,400	24th Sept, 2003 - 23rd Sept, 2013	0.830
<b>(c) Others, in aggregate</b>	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.

# Report of the Directors

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares and underlying shares" and "Share option" 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.

## MANAGEMENT CONTRACTS

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

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
- the largest supplier	27%
- five largest suppliers combined	46%
Sales	
- the largest customer	27%
- five largest customers combined	48%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers stated above.

## CONNECTED TRANSACTIONS

No significant connected transactions were entered into by the Group during the year ended 31st March, 2006, which constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## Report of the Directors

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year.

### AUDIT COMMITTEE

The Group's annual report for the year ended 31st March, 2006 has been reviewed by the Audit Committee. Information on the work of the Audit Committee and its composition are set out in the Corporate Governance Report on Pages 13 to 18.

### AUDITORS

During the year, KLL Associates CPA Limited retired as auditors of the Company and BDO McCabe Lo Limited ("BDO") were appointed as auditors of the Company.

Accordingly, a resolution will be proposed at the forthcoming annual general meeting to re-appoint BDO as auditors of the Company.

On behalf of the Board

Chan King Hong Edwin  
*Chairman*

Hong Kong, 20th July, 2006

# Auditors' Report



**BDO McCabe Lo Limited**  
Certified Public Accountants  
德豪嘉信會計師事務所有限公司

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111 Connaught Road Central  
Hong Kong  
Telephone: (852) 2541 5041  
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香港干諾道中 111號  
永安中心 25 樓  
電話：(852) 2541 5041  
傳真：(852) 2815 2239

## TO THE SHAREHOLDERS OF CHANCO INTERNATIONAL GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 32 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Auditors' Report

### OPINION

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

**BDO McCabe Lo Limited**

*Certified Public Accountants*

**Lee Ka Leung, Daniel**

*Practising Certificate Number P01220*

Hong Kong, 20th July, 2006

# Consolidated Income Statement

(For the year ended 31st March, 2006)

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Turnover</b>	4	<b>254,384</b>	205,882
Cost of sales		<b>(171,389)</b>	(137,900)
<b>Gross profit</b>		<b>82,995</b>	67,982
Other income		<b>2,644</b>	1,239
Selling and distribution costs		<b>(16,155)</b>	(7,143)
Administrative and other operating expenses		<b>(23,742)</b>	(18,287)
<b>Profit before tax</b>	6	<b>45,742</b>	43,791
Income tax expense	9	<b>(4,241)</b>	(3,637)
<b>Profit attributable to shareholders</b>		<b>41,501</b>	40,154
Dividends	10	<b>14,014</b>	13,377
<b>Earnings per share</b>	11		
- Basic		<b>HK13.03 cents</b>	HK12.61 cents
- Diluted		<b>HK13.01 cents</b>	HK12.60 cents

# Consolidated Balance Sheet

(As at 31st March, 2006)

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Assets</b>			
<b>Non-current asset</b>			
Property, plant and equipment	12	10,409	8,937
<b>Current assets</b>			
Inventories	13	55,811	30,951
Trade and bills receivables	15	20,935	17,914
Other receivables, deposits and prepayments		4,463	2,854
Other investment	16	-	4,162
Tax recoverable		18	18
Cash and cash equivalents		90,999	89,597
Total current assets		172,226	145,496
<b>Total assets</b>		<b>182,635</b>	<b>154,433</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and bills payables	18	9,203	11,606
Other payables and accrued charges		11,022	8,110
Tax payable		1,291	727
Total current liabilities		21,516	20,443
<b>Non-current liabilities</b>			
Deferred tax liabilities	19	266	204
Total liabilities		21,782	20,647
<b>TOTAL NET ASSETS</b>		<b>160,853</b>	<b>133,786</b>
<b>Capital and reserves</b>			
Share capital	20	3,185	3,185
Reserves		157,668	130,601
<b>TOTAL EQUITY</b>		<b>160,853</b>	<b>133,786</b>

On behalf of the Board

Chan King Hong Edwin  
Executive Director

Chan King Yuen Stanley  
Executive Director

# Balance Sheet

(As at 31st March, 2006)

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Assets</b>			
<b>Non-current asset</b>			
Investments in subsidiaries	14	48,181	48,181
<b>Current assets</b>			
Other receivables		109	109
Other investment	16	-	4,162
Amounts due from subsidiaries	17	35,200	36,900
Cash and cash equivalents		8,866	1,547
Total current assets		44,175	42,718
<b>Total assets</b>		<b>92,356</b>	90,899
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accrued charges		16	16
<b>TOTAL NET ASSETS</b>		<b>92,340</b>	90,883
<b>Capital and reserves</b>			
Share capital	20	3,185	3,185
Reserves	22	89,155	87,698
<b>TOTAL EQUITY</b>		<b>92,340</b>	90,883

On behalf of the Board

**Chan King Hong Edwin**  
Executive Director

**Chan King Yuen Stanley**  
Executive Director

# Consolidated Statement of Changes in Equity

(For the year ended 31st March, 2006)

	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Statutory surplus reserve HK\$'000	Retained earnings HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
At 1st April, 2004	3,185	32,435	-	-	64,382	5,733	105,735
Profit for the year	-	-	-	-	40,154	-	40,154
2004 final dividend paid	-	-	-	-	-	(5,733)	(5,733)
2005 interim dividend paid	-	-	-	-	(6,370)	-	(6,370)
2005 proposed final dividend	-	-	-	-	(7,007)	7,007	-
At 31st March, 2005	3,185	32,435	-	-	91,159	7,007	133,786
Profit for the year	-	-	-	-	41,501	-	41,501
Transfer of retained earnings	-	-	-	888	(888)	-	-
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	217	-	-	-	217
2005 final dividend paid	-	-	-	-	-	(7,007)	(7,007)
2006 interim dividend paid	-	-	-	-	(7,644)	-	(7,644)
2006 proposed final dividend	-	-	-	-	(6,370)	6,370	-
At 31st March, 2006	<u>3,185</u>	<u>32,435</u>	<u>217</u>	<u>888</u>	<u>117,758</u>	<u>6,370</u>	<u>160,853</u>

# Consolidated Cash Flow Statement

(For the year ended 31st March, 2006)

	2006 HK\$'000	2005 HK\$'000
<b>Operating activities</b>		
Profit before tax	45,742	43,791
Adjustments for:		
Interest income	(1,673)	(392)
Depreciation of property, plant and equipment	3,024	2,217
Loss on disposal of property, plant and equipment	128	562
Unrealised holding gain on other investment	-	(217)
Gain on disposal of other investment	-	(130)
Gain on disposal of financial asset at fair value through profit or loss	(241)	-
<b>Operating profit before working capital changes</b>	<b>46,980</b>	45,831
Increase in inventories	(24,860)	(13,218)
(Increase)/decrease in trade and bills receivables	(3,021)	1,202
Increase in other receivables, deposits and prepayments	(1,609)	(1,949)
(Decrease)/increase in trade and bills payables	(2,403)	3,090
Increase in other payables and accrued charges	2,912	2,792
<b>Cash generated from operations</b>	<b>17,999</b>	37,748
Hong Kong Profits Tax paid	(3,429)	(2,658)
Overseas tax paid	(186)	-
<b>Net cash from operating activities</b>	<b>14,384</b>	35,090
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(4,609)	(5,000)
Interest received	1,673	392
Proceeds from disposal of other investment	-	4,125
Proceeds from disposal of financial asset at fair value through profit or loss	4,403	-
<b>Net cash from/(used in) investing activities</b>	<b>1,467</b>	(483)
<b>Net cash used in financing activities</b>		
Dividends paid	(14,651)	(12,103)
<b>Net increase in cash and cash equivalents</b>	<b>1,200</b>	22,504
<b>Cash and cash equivalents at beginning of year</b>	<b>89,597</b>	67,093
<b>Effect of foreign exchange rate changes</b>	<b>202</b>	-
<b>Cash and cash equivalents at end of year, representing bank balances and cash</b>	<b>90,999</b>	89,597

# Notes to the Financial Statements

(31st March, 2006)

## 1. GENERAL

The Company was incorporated in the Cayman Islands on 12th April, 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 14.

## 2. PRINCIPAL ACCOUNTING POLICIES

### (a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### (b) *Basis of preparation*

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

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005.

# Notes to the Financial Statements

(31st March, 2006)

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation (Continued)

The applicable HKFRSs are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKAS-INT 15	Operating Leases – Incentives
HKAS-INT 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 33, 36, 37, HKAS-INT 15 and 21 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the income statement, balance sheet, and statement of changes in equity.
- HKAS 2, 8, 16 and 21 affect certain disclosures of the financial statements.
- HKAS 7, 10, 12, 14, 17, 18, 19, 23, 27, 33, 36, 37, HKAS-INT 15 and 21 do not have any impact as the Group's accounting policies already comply with the standards.
- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

## Notes to the Financial Statements

(31st March, 2006)

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

## (b) Basis of preparation (Continued)

*HKAS 32 "Financial Instruments: Disclosure and Presentation"**HKAS 39 "Financial Instruments: Recognition and Measurement"*

In the current year, 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 accounting 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 summarised 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.

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities"

Prior to 1st April, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, debt securities that the Group intends and has the ability to hold to maturity ("held-to maturity securities") are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of a discount or premium arising from the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment. Investments other than held-to-maturity securities are classified as investment securities or other investments. Securities which are held for an identified long-term purpose, are classified as investment securities. They are measured at subsequent reporting dates at cost, less any impairment loss that is other than temporary. Securities not classified as investment securities are classified as other investments. Other investments are measured at fair value at subsequent reporting dates, with unrealised gains and losses included in net profit or loss for the period.

# Notes to the Financial Statements

(31st March, 2006)

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (b) Basis of preparation (Continued)

*HKAS 32 "Financial Instruments: Disclosure and Presentation" (Continued)*

*HKAS 39 "Financial Instruments: Recognition and Measurement" (Continued)*

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" (Continued)

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". "Financial assets at fair value through profit or loss" that are not part of a hedging relationship and "available-for-sale investments" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. On 1st April, 2005, other investment of HK\$4,162,000 was reclassified as financial asset at fair value through profit or loss upon the application of HKAS 39. This change in accounting policy has had no material effect on results for the current and prior years.

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 carried at fair value, with changes in fair value recognised in profit or loss. Other financial liabilities are carried at amortised cost using the effective interest method. This change in accounting policy has had no material effect on results for the current and prior years.

Derecognition

Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively to transfers of financial assets on or after 1st April, 2005.

## Notes to the Financial Statements

(31st March, 2006)

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) *Basis of preparation (Continued)**HKFRS 2 "Share-based Payment"*

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees 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 recognise the financial effect of these share options until they were exercised. In relation to share options granted before 1st April, 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or after 7th November, 2002 and vested before 1st April, 2005. The adoption of HKFRS 2 has had no material effect on the results for the current and prior years.

(c) *Basis of consolidation*

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, that entity is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

The Company's interests in subsidiaries are stated at cost less impairment loss, if any.

(d) *Property, plant and equipment*

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

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives using reducing balance method. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Plant and machinery	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	Shorter of expected useful life or over the unexpired period of the leases
Motor vehicles	-	30%

# Notes to the Financial Statements

(31st March, 2006)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### *(d) Property, plant and equipment (Continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenances costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

### *(e) Financial Instruments*

#### *(i) Financial assets*

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

**Fair value through profit or loss:** This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

**Loans and receivables:** These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any identified impairment losses.

**Held-to-maturity financial assets:** These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, they are measured at amortised cost using effective interest method, less any identified impairment losses.

## Notes to the Financial Statements

(31st March, 2006)

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) *Financial Instruments (Continued)*(i) *Financial assets (Continued)*

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of loss is removed from equity and recognised in the income statement. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

(ii) *Financial liabilities*

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities were incurred. The Group's accounting policy for each category is as follows:

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition, which are measured at fair value on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. Other financial liabilities include trade payables and other short-term monetary liabilities, which are carried at amortised cost using the effective interest method.

(iii) *Derecognition*

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

(f) *Impairment of assets*

Assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

# Notes to the Financial Statements

(31st March, 2006)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### *(f) Impairment of assets (Continued)*

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment losses are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in equity.

### *(g) Inventories*

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on a first in, first out basis.

### *(h) Income taxes*

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. 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. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

### *(i) Operating leases*

Where substantially all of the risks and rewards incidental to ownership of a leased asset are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

## Notes to the Financial Statements

(31st March, 2006)

### 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### *(j) Foreign currency*

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

#### *(k) Employee benefits*

##### *(i) Defined contribution pension plan*

Obligations for contributions to defined contribution retirement plan are recognised as an expense in the income statement as incurred.

##### *(ii) Employee entitlements*

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

# Notes to the Financial Statements

(31st March, 2006)

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### *(l) Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### *(m) Share based payments*

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

### *(n) Revenue recognition*

Revenue from goods sold is recognised when title of goods sold has passed to the purchaser, which is at the time of delivery.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

## Notes to the Financial Statements

(31st March, 2006)

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

## (o) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

## 3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not yet applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	The Effects of Change in Foreign Exchange Rate-Net Investment in a Foreign Operation
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial instruments: Disclosures
HKFRS – INT 4	Determining whether an Arrangement Contains a Lease
HKFRS – INT 5	Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – INT 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives

# Notes to the Financial Statements

(31st March, 2006)

## 4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowance for the year.

## 5. SEGMENT INFORMATION

### *Business segments*

For management purposes, the Group is currently organised into two major operating divisions – manufacturing business and retail business. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing business	-	Manufacture and distribution of leather products
Retail business	-	Retail of fashion apparel and leather accessories

## Notes to the Financial Statements

(31st March, 2006)

## 5. SEGMENT INFORMATION (Continued)

*Business segments (Continued)*

Segment information about these business is presented below:

	<b>Manufacturing business</b>	<b>Retail business</b>	<b>Inter- segment elimination</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Year ended 31st March, 2006</b>					
Revenue					
External sales	236,814	17,570	-	-	254,384
Inter-segment sales	1,347	3	(1,350)	-	-
	<u>238,161</u>	<u>17,573</u>	<u>(1,350)</u>	<u>-</u>	<u>254,384</u>
Segment results	<u>45,411</u>	<u>(1,540)</u>	<u>(28)</u>	<u>-</u>	43,843
Unallocated income					2,644
Unallocated expenses					<u>(745)</u>
Profit before tax					45,742
Income tax expense					<u>(4,241)</u>
Profit for the year					<u>41,501</u>
<b>At 31st March, 2006</b>					
Assets					
Segment assets	79,863	9,333	-	-	89,196
Unallocated assets					<u>93,439</u>
Total assets					<u>182,635</u>
Liabilities					
Segment liabilities	19,733	477	-	-	20,210
Unallocated liabilities					<u>1,572</u>
Total liabilities					<u>21,782</u>
Other information					
Capital expenditure	3,054	1,239	-	316	4,609
Depreciation of property, plant and equipment	1,779	811	-	434	3,024
Loss on disposal of property, plant and equipment	-	128	-	-	128
Impairment loss on trade receivables	330	-	-	-	330
Write down of inventories	<u>1,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,062</u>

# Notes to the Financial Statements

(31st March, 2006)

## 5. SEGMENT INFORMATION (Continued)

Business segments (Continued)

	<b>Manufacturing business</b>	<b>Retail business</b>	<b>Inter- segment elimination</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Year ended 31st March, 2005</b>					
Revenue					
External sales	203,911	1,971	-	-	205,882
Inter-segment sales	855	-	(855)	-	-
	<u>204,766</u>	<u>1,971</u>	<u>(855)</u>	<u>-</u>	<u>205,882</u>
Segment results	<u>44,284</u>	<u>(820)</u>	<u>(209)</u>	<u>-</u>	43,255
Unallocated income					1,239
Unallocated expenses					<u>(703)</u>
Profit before tax					43,791
Income tax expense					<u>(3,637)</u>
Profit for the year					<u>40,154</u>
<b>At 31st March, 2005</b>					
Assets					
Segment assets	54,303	3,837	-	-	58,140
Unallocated assets					<u>96,293</u>
Total assets					<u>154,433</u>
Liabilities					
Segment liabilities	19,227	472	-	-	19,699
Unallocated liabilities					<u>948</u>
Total liabilities					<u>20,647</u>
Other information					
Capital expenditure	1,613	817	-	2,570	5,000
Depreciation of property, plant and equipment	1,577	155	-	485	2,217
Loss on disposal of property, plant and equipment	-	-	-	462	462
Impairment loss on trade receivables	198	-	-	-	198
Write down of inventories	<u>526</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>526</u>

## Notes to the Financial Statements

(31st March, 2006)

## 5. SEGMENT INFORMATION (Continued)

*Geographical segments*

The Group's operations are principally located in Hong Kong and the People's Republic of China ("PRC"). Group administration is carried out in Hong Kong and the manufacturing function is carried out in the PRC.

The following table provides an analysis of the Group's revenue by geographical market and analysis of the carrying amount of total assets and capital expenditure by the geographical area in which the assets are located.

	Revenue 2006 HK\$'000	Total assets 2006 HK\$'000	Capital expenditure 2006 HK\$'000
Japan	85,037	-	-
Europe	71,529	-	-
The United States of America ("USA")	24,972	-	-
Hong Kong	38,778	138,107	1,555
PRC	9,100	43,741	3,054
Australia	7,824	-	-
Others	17,144	787	-
	<u>254,384</u>	<u>182,635</u>	<u>4,609</u>
	Revenue 2005 HK\$'000	Total assets 2005 HK\$'000	Capital expenditure 2005 HK\$'000
Japan	98,039	-	-
Europe	42,784	-	-
USA	16,727	-	-
Hong Kong	17,635	116,111	3,387
PRC	9,496	32,152	1,613
Australia	8,879	-	-
Others	12,322	6,170	-
	<u>205,882</u>	<u>154,433</u>	<u>5,000</u>

# Notes to the Financial Statements

(31st March, 2006)

## 6. PROFIT BEFORE TAX

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Profit before tax is stated after charging:		
Auditors' remuneration	390	300
Cost of inventories sold	171,389	137,900
Depreciation of property, plant and equipment	3,024	2,217
Loss on disposal of property, plant and equipment	128	562
Operating lease rentals in respect of leasehold land and buildings	8,447	4,226
Impairment loss on trade receivables	330	198
Write down of inventories	1,062	526
Foreign exchange loss, net	479	505
Staff costs, excluding directors' emoluments (Notes 7)	11,453	8,244
and crediting:		
Interest income	1,673	392
Unrealised holding gain on other investment	-	217
Gain on disposal of other investment	-	130
Gain on disposal of financial asset at fair value through profit or loss	241	-
	<u>11,453</u>	<u>8,244</u>

## 7. STAFF COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Salaries and other benefits	10,965	7,917
Retirement benefits scheme contributions	488	327
	<u>11,453</u>	<u>8,244</u>

## Notes to the Financial Statements

(31st March, 2006)

## 8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

## (a) Directors' emoluments

	<b>The Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Directors' fees	<b>150</b>	140
Other emoluments:		
Salaries and other benefits	<b>3,120</b>	2,760
Discretionary bonuses	<b>1,200</b>	-
Retirement benefits scheme contributions	<b>60</b>	60
	<b>4,530</b>	2,960

Details of directors' emoluments for the year ended 31st March, 2006 are as follows:

	<b>Fees</b>	<b>Salaries and other benefits</b>	<b>Discretionary bonuses</b>	<b>Retirement benefits scheme contributions</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Executive directors:</i>					
Chan King Hong Edwin	-	1,080	400	24	1,504
Chan King Yuen Stanley	-	1,080	400	24	1,504
Chan Wai Po Rebecca	-	960	400	12	1,372
<i>Independent non-executive directors:</i>					
Chau Cynthia Sin Ha	50	-	-	-	50
Fong Pui Sheung David	50	-	-	-	50
Or Kam Chung Janson	50	-	-	-	50
<b>Total</b>	<b>150</b>	<b>3,120</b>	<b>1,200</b>	<b>60</b>	<b>4,530</b>

# Notes to the Financial Statements

(31st March, 2006)

## 8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (a) Directors' emoluments (Continued)

Details of directors' emoluments for the year ended 31st March, 2005 are as follows:

	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<i>Executive directors:</i>				
Chan King Hong Edwin	-	960	24	984
Chan King Yuen Stanley	-	960	24	984
Chan Wai Po Rebecca	-	840	12	852
<i>Independent non-executive directors:</i>				
Chau Cynthia Sin Ha	50	-	-	50
Fong Pui Sheung David	50	-	-	50
Or Kam Chung Janson	40	-	-	40
<b>Total</b>	<b>140</b>	<b>2,760</b>	<b>60</b>	<b>2,960</b>

No directors waived any emoluments during the years ended 31st March, 2005 and 2006.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	982	890
Discretionary bonuses	35	25
Retirement benefits scheme contributions	24	24
	<b>1,041</b>	<b>939</b>

The emoluments of each remaining individual were below HK\$1,000,000 for the years ended 31st March, 2005 and 2006.

During the years ended 31st March, 2005 and 2006, no emolument was paid to the directors or any of the five highest paid individuals as an inducement to join or upon joining by the Group or as compensation for loss of office.

## Notes to the Financial Statements

(31st March, 2006)

## 9. INCOME TAX EXPENSE

	The Group	
	2006 HK\$'000	2005 HK\$'000
Current tax		
- Hong Kong Profits Tax	3,908	3,621
- Other jurisdictions	258	35
Underprovision in respect of prior years	13	6
Deferred tax ( <i>Note 19</i> )	62	(25)
	<b>4,241</b>	<b>3,637</b>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant 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 their first profit-making year of operation and entitled to a 50% relief from the PRC income tax for the following three years.

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

	The Group	
	2006 HK\$'000	2005 HK\$'000
Profit before tax	<b>45,742</b>	43,791
Tax at the domestic tax rate of 17.5% (2005: 17.5%)	8,005	7,663
Tax effect of expenses not deductible for tax purpose	16,524	14,310
Tax effect of income not taxable for tax purpose	(20,295)	(18,477)
Tax effect of utilisation of tax loss not previously recognised	(17)	-
Underprovision in respect of prior years	13	6
Effect of tax concession of a subsidiary	(322)	(43)
Effect of different tax rates of		
a subsidiary operating in other jurisdiction	204	28
Tax effect of tax losses not recognised	129	150
Income tax expense	<b>4,241</b>	<b>3,637</b>

# Notes to the Financial Statements

(31st March, 2006)

## 10. DIVIDENDS

	<b>The Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interim dividend of HK\$0.024 (2005: HK\$0.02) per ordinary share	<b>7,644</b>	6,370
Proposed final dividend of HK\$0.02 (2005: HK\$0.022) per ordinary share	<b>6,370</b>	7,007
	<b>14,014</b>	13,377

The final dividend of HK\$0.02 (2005: HK\$0.022) per share has been proposed by the directors and is subject to approval by the shareholders in forthcoming annual general meeting.

The amount of proposed final dividend is based on 318,500,000 shares in issue as at 20th July, 2006.

## 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit for the year of HK\$41,501,000 (2005: HK\$40,154,000) and weighted average number of 318,500,000 (2005: 318,500,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year is based on the Group's profit for the year of HK\$41,501,000 (2005: HK\$40,154,000) and the weighted average number of 318,972,299 (2005: 318,617,200) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,500,000 (2005: 318,500,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of 472,299 (2005: 117,200) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

## Notes to the Financial Statements

(31st March, 2006)

## 12. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>The Group</b>					
<b>Cost</b>					
At 1st April, 2005	5,808	3,550	5,480	856	15,694
Additions	1,325	773	2,511	-	4,609
Disposals	-	(23)	(302)	-	(325)
Exchange realignment	36	1	-	-	37
	<u>7,169</u>	<u>4,301</u>	<u>7,689</u>	<u>856</u>	<u>20,015</u>
At 31st March, 2006					
<b>Accumulated depreciation</b>					
At 1st April, 2005	3,441	1,708	1,112	496	6,757
Provided for the year	1,110	521	1,285	108	3,024
Eliminated on disposals	-	(11)	(186)	-	(197)
Exchange realignment	22	-	-	-	22
	<u>4,573</u>	<u>2,218</u>	<u>2,211</u>	<u>604</u>	<u>9,606</u>
At 31st March, 2006					
<b>Cost</b>					
At 1st April, 2004	4,409	3,012	4,095	450	11,966
Additions	1,399	859	2,336	406	5,000
Disposals	-	(321)	(951)	-	(1,272)
	<u>5,808</u>	<u>3,550</u>	<u>5,480</u>	<u>856</u>	<u>15,694</u>
At 31st March, 2005					
<b>Accumulated depreciation</b>					
At 1st April, 2004	2,389	1,500	1,019	342	5,250
Provided for the year	1,052	459	552	154	2,217
Eliminated on disposals	-	(251)	(459)	-	(710)
	<u>3,441</u>	<u>1,708</u>	<u>1,112</u>	<u>496</u>	<u>6,757</u>
At 31st March, 2005					
<b>Net book value</b>					
At 31st March, 2006	<u>2,596</u>	<u>2,083</u>	<u>5,478</u>	<u>252</u>	<u>10,409</u>
At 31st March, 2005	<u>2,367</u>	<u>1,842</u>	<u>4,368</u>	<u>360</u>	<u>8,937</u>

# Notes to the Financial Statements

(31st March, 2006)

## 13. INVENTORIES

	<b>The Group</b>	
	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
Raw materials	<b>42,298</b>	23,666
Work in progress	<b>5,633</b>	4,718
Finished goods	<b>7,880</b>	2,567
	<b>55,811</b>	30,951

## 14. INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
Unlisted shares, at cost	<b>48,181</b>	48,181

Details of the Company's subsidiaries at 31st March, 2006 are as follows:

Name	Place of incorporation or establishment/ operations	Issued share capital/ paid-up registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Chanco International Holding Limited	British Virgin Islands/Hong Kong	Ordinary shares US\$1,000	100%		Investment holding
Sun Ray Manufactory, Limited	Hong Kong	Non-voting deferred shares HK\$6 Ordinary shares HK\$2		100%	Manufacturing and trading of leather accessories
Elite Leatherware Company Limited	Hong Kong	Ordinary shares HK\$10,000		100%	Trading of leather accessories
Talent Union Development Limited	British Virgin Islands/Hong Kong	Ordinary shares US\$8		100%	Investment holding

## Notes to the Financial Statements

(31st March, 2006)

## 14. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation or establishment/ operations	Issued share capital/ paid-up registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Dongguan Ngai Luen Leather Goods Company Limited	PRC (Note)	Registered capital HK\$2,000,000		100%	Manufacturing and trading of leather accessories
Amid Success Holdings Limited	British Virgin Islands/Hong Kong	Ordinary shares US\$1		100%	Investment holding
Urban Stranger Company Limited	Hong Kong	Ordinary shares HK\$1		100%	Retail of fashion apparel and leather accessories

Note:

The subsidiary is a wholly foreign-owned enterprise in the PRC.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

## 15. TRADE AND BILLS 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:

	The Group	
	2006 HK\$'000	2005 HK\$'000
Current to 30 days	14,731	10,958
31-60 days	3,434	3,501
61-90 days	1,195	1,188
91-120 days	554	483
121-365 days	990	1,698
Over 365 days	31	86
	<b>20,935</b>	<b>17,914</b>

# Notes to the Financial Statements

(31st March, 2006)

## 15. TRADE AND BILLS RECEIVABLES (Continued)

At the balance sheet date, the Group's trade and bills receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
United States dollars ("USD")	<b>9,286</b>	12,013
Euro	<b>5,056</b>	929
Renminbi ("RMB")	<b>2,428</b>	2,625
	<b>16,770</b>	15,567

## 16. OTHER INVESTMENT

	<b>The Group and the Company</b>	
	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
Open-ended mutual funds with guaranteed return, stated at quoted market price	-	4,162

## 17. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

## 18. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	<b>The Group</b>	
	<b>2006</b> <b>HK\$'000</b>	2005 <i>HK\$'000</i>
Current to 30 days	<b>5,556</b>	6,172
31-60 days	<b>3,318</b>	2,950
61-90 days	<b>187</b>	1,775
91-120 days	<b>10</b>	544
121-365 days	<b>28</b>	65
Over 365 days	<b>104</b>	100
	<b>9,203</b>	11,606

## Notes to the Financial Statements

(31st March, 2006)

## 18. TRADE AND BILLS PAYABLES (Continued)

At the balance sheet date, the Group's trade and bills payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
USD	1,157	3,557
RMB	2,156	2,206
	<u>3,313</u>	<u>5,763</u>

## 19. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities provided by the Group and movements thereof:

	<b>Accelerated tax depreciation</b> HK\$'000	<b>Others</b> HK\$'000	<b>Total</b> HK\$'000
At 1st April, 2004	195	34	229
Charge/(credit) to income statement for the year	<u>61</u>	<u>(86)</u>	<u>(25)</u>
At 31st March, 2005	256	(52)	204
Charge to income statement for the year	<u>43</u>	<u>19</u>	<u>62</u>
At 31st March, 2006	<u>299</u>	<u>(33)</u>	<u>266</u>

At the balance sheet date, the Group had unused tax losses of HK\$1,593,000 (2005: HK\$858,000) available to offset against future profits. No deferred tax assets have been recognised in respect of the amounts due to unpredictability of future profit streams.

At the balance sheet date, the Company did not have material unprovided deferred tax assets and liabilities (2005: Nil).

# Notes to the Financial Statements

(31st March, 2006)

## 20. SHARE CAPITAL

	The Company	
	Number of share	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1st April, 2004 and 31st March, 2005 and 2006	<u>2,000,000,000</u>	<u>20,000</u>
<i>Issued and fully paid:</i>		
At 1st April, 2004 and 31st March, 2005 and 2006	<u>318,500,000</u>	<u>3,185</u>

## 21. SHARE OPTIONS

Under the share option scheme (the "Share Option Scheme") approved by the shareholders on 18th February, 2003, the directors of the Company may, at its discretion, invite non-executive directors, employees, invested entities, suppliers of goods or services, customers, consultants and advisors of the Group or any entity in which any member of the Group holds any equity interest to take up options to subscribe for shares in the Company representing up to a maximum of 30 per cent of the issued share capital of the Company from time to time.

The subscription price for the shares in relation to options to be granted under the Share Option Scheme shall be determined by the board and shall be at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares on the date of grant (the "Offer Date"); and (iii) the average closing price of the shares for the five business days immediately preceding the Offer Date. The options are exercisable within 10 years from the Offer Date.

## Notes to the Financial Statements

(31st March, 2006)

## 21. SHARE OPTIONS (Continued)

There were no movements in share options during the year ended 31st March, 2006. Details of share options outstanding at 31st March, 2006 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1st April, 2005 and 31st March, 2006	Exercisable period	Exercise price per share
<b>(a) Executive directors</b>				
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>(b) Employees, in aggregate</b>				
	26th May, 2003	516,000	26th May, 2003 – 25th May, 2013	0.580
	24th Sept, 2003	6,362,400	24th Sept, 2003 – 23rd Sept, 2013	0.830
<b>(c) Others, in aggregate</b>				
	26th May, 2003	3,000,000	26th May, 2003 – 25th May, 2013	0.580
Total		<u>19,422,000</u>		

Weighted average exercise price  
as at 1st April, 2004, 1st April, 2005  
and 31st March, 2006

HK\$0.785

Note:

All the options were immediately vested when granted.

# Notes to the Financial Statements

(31st March, 2006)

## 22. RESERVES

The Company	Share premium <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Proposed dividends <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2004	80,606	289	5,733	86,628
Profit for the year	-	13,173	-	13,173
2004 final dividend paid	-	-	(5,733)	(5,733)
2005 interim dividend paid	-	(6,370)	-	(6,370)
2005 proposed final dividend	-	(7,007)	7,007	-
At 31st March, 2005	80,606	85	7,007	87,698
Profit for the year	-	16,108	-	16,108
2005 final dividend paid	-	-	(7,007)	(7,007)
2006 interim dividend paid	-	(7,644)	-	(7,644)
2006 proposed final dividend	-	(6,370)	6,370	-
At 31st March, 2006	<u>80,606</u>	<u>2,179</u>	<u>6,370</u>	<u>89,155</u>

64

## 23. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st March, 2006 amounted to approximately HK\$787,000 (2005: HK\$1,000,000).

## 24. OPERATING LEASES COMMITMENTS

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

	The Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	5,245	1,838
In the second to fifth years inclusive	1,552	846
	<u>6,797</u>	<u>2,684</u>

Operating lease payments represent rental payable by the Group for its offices, retail outlets and production plants. Leases are negotiated and rentals are fixed for an average term of one to two years.

## Notes to the Financial Statements

(31st March, 2006)

## 25. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

	The Group	
	2006 HK\$'000	2005 HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	<u>262</u>	<u>240</u>

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

(b) Details of balances with related parties at the balance sheet date are set out in the consolidated balance sheet and note 17.

(c) *Compensation of key management personnel*

The remuneration of directors and other members of key management during the year was as follows:

	The Group	
	2006 HK\$'000	2005 HK\$'000
Short-term benefits	6,201	4,462
Post employment benefits	<u>108</u>	<u>108</u>
	<u>6,309</u>	<u>4,570</u>

## 26. COMPARATIVE FIGURES

In prior years, 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 year ended 31st March, 2006. Relevant comparative figures of turnover of HK\$462,000 and cost of sales of HK\$328,000 in relation to business of trading of leather for the year ended 31st March, 2005 have been reclassified to other income.

# Notes to the Financial Statements

(31st March, 2006)

## 27. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme.

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

## 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed through its operations to one or more of the following financial risks:

- Foreign currency risk
- Liquidity risk
- Credit risk
- Fair value

### *Foreign currency risk*

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain trade receivables and payables of the Group are denominated in foreign currencies. 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.

### *Liquidity risk*

Internally generated cash flow are the general sources of funds to finance the operations of the Group. The Group's liquidity risk management includes making available standby banking facilities. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

## Notes to the Financial Statements

(31st March, 2006)

### 28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

#### *Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has policies in place to determine credit limits, credit approval and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spreading over a number of counterparties and customers.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

#### *Fair value*

The fair values of financial assets and financial liabilities reported in the balance sheet of the Group and the Company approximate their carrying amounts.

### 29. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Estimated impairment of trade receivables*

The Group recognises impairment of trade receivables based on an assessment of the recoverability of debtors. Impairment tests are applied to debtors where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation on the recoverability of debtors is different from the original estimate and the present value of estimated future cash flows discounted at the effective rate computed at initial recognition is less than the asset's carrying amount, such difference will impact the carrying value of debtors and impairment of trade receivables should be recognised in the periods in which such estimate has been changed.

#### *Estimated allowance for inventories*

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowance are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories.

### 30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 20th July, 2006.

## Five Year Financial Summary

(31st March, 2006)

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out as follows:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Results					
Profit for the year	<b>41,501</b>	40,154	31,613	35,007	41,748
Assets and liabilities					
Total assets	<b>182,635</b>	154,433	119,798	95,228	56,712
Total liabilities	<b>(21,782)</b>	(20,647)	(14,063)	(8,933)	(15,359)
Shareholders funds	<b>160,853</b>	133,786	105,735	86,295	41,353

The results, assets and liabilities of the Group for each of the two years ended 31st March, 2003 have been prepared on the basis of merger accounting as if the group structure which became effective on 17th February, 2003 had been in existence throughout the two years then ended.