

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)

The Premier  
Designer & Manufacturer  
of Quality Leather Accessories



annual report 2008

# AREA 0264

Business growth through  
emphasis on Quality



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# 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 Chairlady)*

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)

[www.irasia.com/listco/hk/chanco/index.htm](http://www.irasia.com/listco/hk/chanco/index.htm)

## STOCK CODE

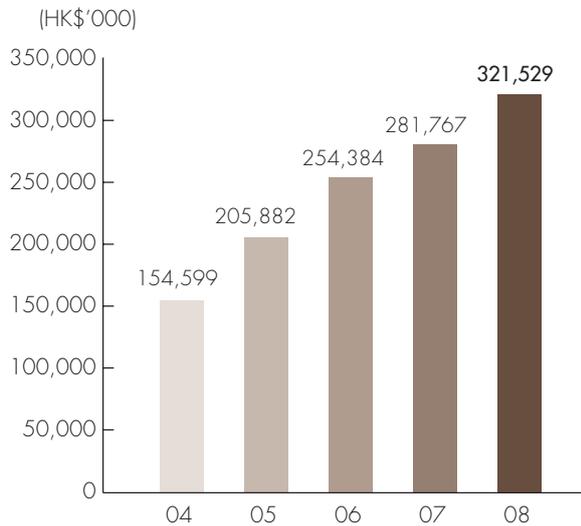
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# Financial Highlights

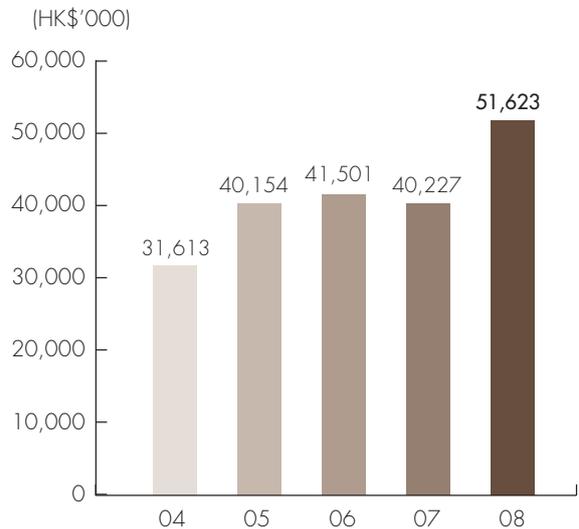
	<b>2008</b> <i>HK\$'000</i>	2007 <i>HK\$'000</i>	Change
Turnover	<b>321,529</b>	281,767	+14%
Gross profit	<b>98,043</b>	82,911	+18%
Profit before income tax expense	<b>56,963</b>	43,996	+29%
Profit for the year	<b>51,623</b>	40,227	+28%
<b>Business performance ratios</b>			
Gross profit margin	<b>30.4%</b>	29.4%	
Net profit margin	<b>16.0%</b>	14.3%	
Return on shareholders' equity	<b>23.1%</b>	21.4%	
Current ratio	<b>7.31</b>	7.75	
Quick ratio	<b>5.66</b>	5.76	
Debt ratio	<b>0.13</b>	0.12	
<b>Share data</b> <i>(as at year end date)</i>			
Shares in issue ('000)	<b>318,804</b>	318,500	
Shares closing price	<b>HK\$1.00</b>	HK\$0.68	
Market capitalization (HK\$'000)	<b>318,804</b>	216,580	
Basic earnings per share	<b>HK16.20 cents</b>	HK12.63 cents	
Price earnings ratio	<b>6.17</b>	5.38	
Interim dividend per share	<b>HK3.1 cents</b>	HK2.3 cents	
Final dividend per share	<b>HK2.4 cents</b>	HK1.9 cents	
Special dividend per share	<b>Nil</b>	HK0.7 cents	
Total dividend per share	<b>HK5.5 cents</b>	HK4.9 cents	
Dividend payout ratio	<b>33.9%</b>	38.8%	
Net asset value per share	<b>HK\$0.70</b>	HK\$0.59	
Price-to-book value ratio	<b>1.43</b>	1.15	

## Financial Highlights

### TURNOVER

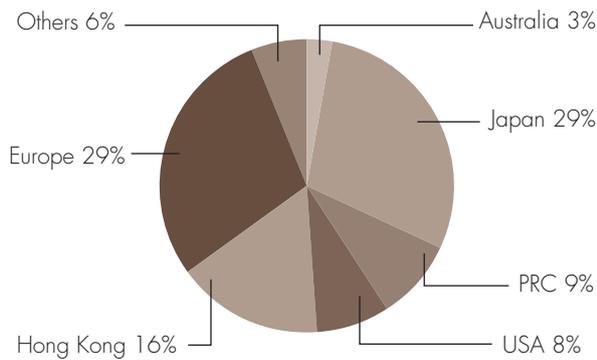


### PROFIT FOR THE YEAR

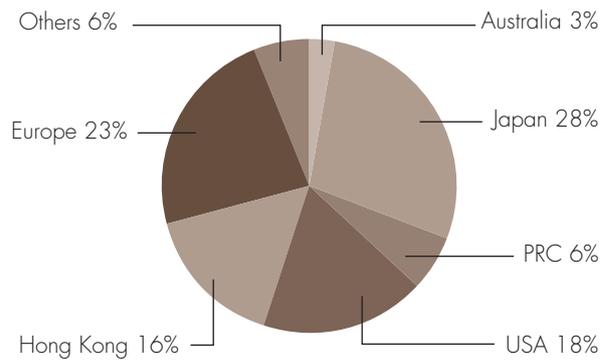


### TURNOVER BY GEOGRAPHICAL SEGMENT

Fiscal Year 2008

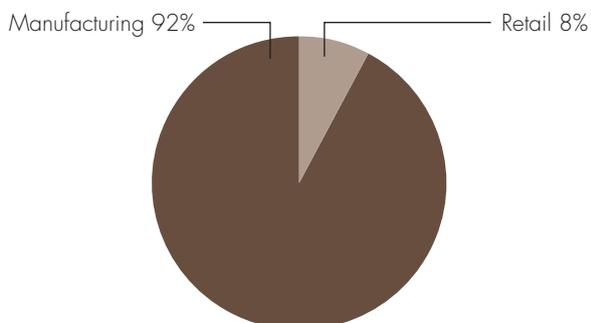


Fiscal Year 2007

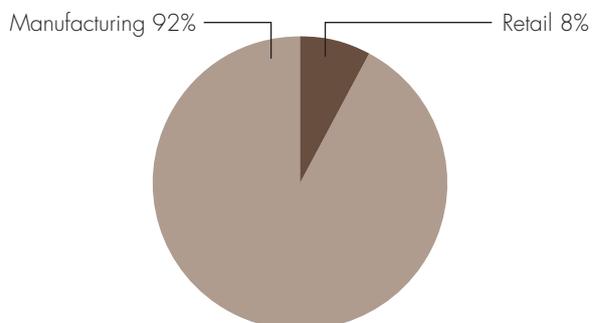


### TURNOVER BY BUSINESS SEGMENT

Fiscal Year 2008



Fiscal Year 2007



# Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you another year of satisfactory financial performance with healthy turnover and earnings growth for the year ended 31 March 2008.

## BUSINESS REVIEW

Fiscal year 2008 marked a record year for Chanco. Group turnover exceeded the HK\$300 million mark for the first time in the Group's history. Turnover grew 14% to HK\$321,529,000 and profit for the year rose 28% to HK\$51,623,000. The business environment during the year under review continued to be challenging. Export sales to the U.S. were adversely affected by the outbreak of credit crisis and the U.S. economic slowdown. Despite decline in sales to the U.S., we achieved outstanding performance in other market segments and delivered overall growth in top line. The upsurge of turnover for the year was primarily driven by export sales of OEM and ODM products to Japan and Europe.

Operationally, we managed to maintain our manufacturing gross margin despite rising labor cost and continued appreciation of Renminbi in the reviewing year. The impressive result reflected the efforts undertaken by the management in tightening cost control, improving operation efficiency and effectiveness and adjusting the pricing strategy. However, the operating environment in the PRC remained tough. The Group was confronted with further profit margin squeeze as a result of the change of China's labor policy effective from 1 January 2008. The negative effect of the change of China's labor policy will be fully reflected in the fiscal year 2009.

Our retail operation turned profitable in fiscal year 2008. Following efforts over the past years, we successfully established "AREA 0264" as well-known young fashion label in Hong Kong. Our in-house brand "Stranger" was well positioned in mid-to-high end retail market. In our continuous marketing effort on uplifting the brand image, sales of in-house brands rose by around 60% and overall gross profit margin improved by around 6 percentage points. As at the date of this report, we operated four AREA 0264 stores in Hong Kong.

## Chairman's Statement

### PROSPECTS

Business environment remained challenging in fiscal year 2009. Looking ahead, we expect the growth momentum will be sustained despite the global economic outlook is fluctuating. The unfavorable operating environment in the PRC will eliminate weaker competitors from the market and result in consolidation of leatherware manufacturing industry. Fortunately, we continue to enjoy a competitive edge over many of our competitors given our solid financial foundation and leading position in the industry. We will continue to expand our customer base, maintain tight cost control and enhance the operation efficiency.

In fiscal year 2008, the overall performance of the retail operations was quite satisfactory. We believe that there is huge potential for developing our retail business. We achieved strong double digit growth on same store sales in the first quarter of fiscal year 2009. Riding on the satisfactory response from customers, we believe sales of in-house brand will continue to increase and further enhance the overall profit margin. Moving forward, we will strive to continue our proven business model, to upgrade our stores, to alter the product mix and brand mix and to reinforce our brand development. In view of high rental, our retail expansion plan will remain prudence.

The Group will continue to stay strategically focused on the manufacturing business. 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

In appreciation of the shareholders' faith in the Company, the Board has proposed the payment of a final dividend of HK2.4 cents per share for the year ended 31 March 2008. Together with the interim dividend of HK3.1 cents per share paid, the total dividend paid and payable for the year will be HK5.5 cents per share, making a total dividend payout ratio of around 34% for the year ended 31 March 2008.

On behalf of the Board, I would like to thank our management and all our staff for their commitment, dedication and contribution. I would also like to extend my heartfelt gratitude to all of our shareholders, valuable customers and banks for their support.

**Chan King Hong Edwin**

*Chairman*

Hong Kong, 15 July 2008

# Management Discussion And Analysis

## FINANCIAL REVIEW

(All the analysis below is based on the results of the Group for the year ended 31 March 2008 and the year ended 31 March 2007 for comparison purpose only)

The Group reported impressive result for the fiscal year 2008. The turnover of the Group reached HK\$321,529,000, an increase of 14%. The Group's gross profit increased by 18% from HK\$82,911,000 in 2007 to HK\$98,043,000 in 2008 as a result of increase of sales during the year. Gross profit margin was approximately 30% (2007 : 29%).

The rise in selling and distribution expenses was mainly related to higher turnover from retail sales operation. Administrative and other operating expenses increased by 15%, to HK\$30,201,000 was mainly due to the employment of additional management personnel, the increase of staff salaries and increase of bonus paid to the executive directors of the Company.

Profit attributable to shareholders for the year ended 31 March 2008 was HK\$51,623,000, an increase of 28%. Basic earnings per share was HK16.2 cents compared to HK12.63 cents of last year. The Board has recommended the payment of a final dividend of HK2.4 cents per share for the year ended 31 March 2008.

## BUSINESS REVIEW

- *Manufacturing Business*

Manufacturing business continued to experience robust growth in fiscal year 2008. Turnover of manufacturing business totaled HK\$297,150,000, an increase of 14% compared with HK\$260,050,000 in fiscal year 2007. Geographically, Europe became the Group largest export market in the year. Export sales to Europe increased by 48% to HK\$93,926,000. The growing maturity in the business relationship with several international brand customers became the key driver of sales growth in Europe. The remarkable growth of sales was also driven by higher purchasing power of the European customers resulting from strong Euro currency. Sales to Japan surged by 16% to HK\$92,823,000. The growth was driven by strong demand from major customer in Japan.

Sales to U.S. dropped by 51% to HK\$25,290,000 as a result of weakening market condition in the U.S. Customers from the U.S. tended to make purchase cautiously during the year under review. For the PRC market, driven by increased orders from reputable brand customers, sales rose by 65% to HK\$28,260,000. Apart from the major export markets, sales revenue from other countries including Canada, Korea, Taiwan, Philippines, Singapore and Malaysia, etc. rose approximately 14%, to HK\$19,212,000.

Representing the largest revenue contributor for Chanco, sales of belts rose 12% to HK\$280,550,000. Sales of leather goods and other accessories was approximately HK\$16,600,000. The gross profit of manufacturing business increased by 17% to HK\$86,419,000 (2007: HK\$74,048,000). Despite facing unfavorable factors like rising labor cost and appreciation of Renminbi, the Group maintained the gross profit margin at around 29% (2007: 28%). The impressive result reflected the efforts undertaken by the management in enhancing the Group's customer portfolio, tightening cost control, improving operation efficiency and adjusting the pricing strategy during the reporting year.

## Management Discussion And Analysis

- **Retail Business**

With years of investment in retailing business, we successfully turned first profit amounting to HK\$1,382,000 in fiscal year 2008. Retail sales surged by 12% to HK\$24,379,000, representing around 8% of the Group's total turnover. Same store sales grew by 6% against last year. We endeavoured to market our in-house brand products with higher profit margin during the year. Sales of in-house brand rose by around 60% and gross profit margin went up by around 6 percentage point compared with last year. During the reporting year, we opened one new concept store and closed one non-profitable store upon expiry of the lease. Another new image store commenced business in April 2008. Up to the date of this report, we operated four AREA 0264 stores in Hong Kong.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2008, the Group's cash and bank deposits were approximately HK\$151,867,000 (2007: HK\$119,573,000).

As at 31 March 2008, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8,000,000 which were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$247,117,000 as at 31 March 2008 (2007: HK\$204,292,000) and total current liabilities of approximately HK\$33,799,000 (2007: HK\$26,358,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 7 times as at 31 March 2008 (2007: 8 times).

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

The Group recorded an increase in shareholders' funds from approximately HK\$187,827,000 as at 31 March 2007 to approximately HK\$223,062,000 at 31 March 2008. 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, US dollars and Renminbi.

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi or US dollars such that the Group does not have significant exposure to foreign exchange fluctuation save for the gradual appreciation of Renminbi. Though the Group does not engage in any hedging contracts, the Group's exposure to foreign exchange risk is relatively limited.

## Management Discussion And Analysis

### CHARGES ON ASSETS

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

### MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals for the year ended 31 March 2008.

### EMPLOYEE INFORMATION

As at 31 March 2008, the Group had 247 full time employees in Hong Kong and the PRC and the processing factory had around 1650 workers. The Group remunerated its employees mainly based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company.

### CONTINGENT LIABILITIES

As at 31 March 2008, the Group did not have any contingent liabilities.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. CHAN King Hong Edwin**, aged 50, 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 23 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 47, 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 23 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 44, 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 18 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 68, 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 17 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 65, 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 is a school manager of Fong Shu Fook Tong Foundation Fong Shu Chuen Primary School. Mr. Fong had served as the principal of Tung Koon District Society Fong Shu Chuen School from 1970 to 2003. Mr. Fong had been actively participating in the Community works in Kowloon City and Ho Man Tin Area Committee since 1973 and was appointed as Appointed Member of Kowloon City District Board from 1985 to 1991. Mr. Fong was acted as Councilor of Urban Council from 1989 to 1991. From 1992 to 2003, Mr. Fong was appointed as member of Board of Control, Hong Kong Subsidized Schools Provident Fund and participated in administration over HK\$30 billion Hong Kong Subsidized Schools Provident Fund. Mr. Fong was appointed as the independent non-executive director of the Company in February 2003.

**Mr. OR Kam Chung, Janson**, aged 38, 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 10 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.

## SENIOR MANAGEMENT

**Ms. LI Shuk Han**, aged 43, 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 19 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 32, 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 10 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.

## Biographical Details of Directors and Senior Management

**Ms. CHAN Wai Foon**, aged 52, 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 24 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.

**Mr. CHO Sau Man**, aged 44, is the deputy general manager of the Group's processing factory in Dongguan, the PRC. Mr. Cho is responsible for overseeing the overall factory administration and handling regulatory compliance in the PRC. Mr. Cao is also a director of Elite Leatherware Company Limited, a subsidiary of the Company. Mr. Cho has over 11 years of experience in factory administration. Prior to joining the Group, Mr. Cho had worked as deputy general manager of an electric motor company located in Shenzhen. He joined the Group in April 2007.

**Mr. HUI Kwok Fai**, aged 37, 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 15 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 to the Listing Rules during the year ended 31 March 2008, except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer. Due to the small size of the existing management team, both the roles of the chairman and chief executive officer of the Company are currently played by Mr. Chan King Hong, Edwin. Mr. Chan has considerable experience in manufacturing industry and is the person most knowledgeable about the business of the Group. The Board believes that the current structure will enable us to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of Group.

## 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 the Listing Rules during the year ended 31 March 2008.

## 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 Remuneration Committee, 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 and 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 31 March 2008, 6 board meetings were held by the Company. The individual attendance record of each Director at the meetings of the Board during the year ended 31 March 2008 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>	6/6
Mr. Chan King Yuen, Stanley	6/6
Mr. Chan Wai Po, Rebecca	4/6
<i>Independent non-executive directors</i>	
Mr. Fong Pui Sheung, David	5/6
Ms. Chau Cynthia Sin Ha	5/6
Mr. Or Kam Chung, Janson	5/6

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.

### OTHER COMMITTEES

There are three committees established under the Board, namely Audit Committee, 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 31 March 2008, 3 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> )	3/3
Ms. Chau Cynthia Sin Ha	3/3
Mr. Or Kam Chung, Janson	3/3

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

- To consider the appointment of the external auditor, the audit fee and any question of resignation or dismissal;
- To review the interim and annual results of the Group;
- To discuss with external auditor before and 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.

## Corporate Governance Report

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 30 September 2007 and audited financial statements and results of the Group for the year ended 31 March 2008.

### AUDITOR'S REMUNERATION

For the financial year ended 31 March 2008, the fees paid/payable to the Group's auditors, Messrs BDO McCabe Lo Limited, is set out as follow:-

<b>Nature of services</b>	<b>Amount</b> HK\$'000
Audit Services	440
Non-audit services	<u>45</u>
Total :	<u>485</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 31 March 2008, 2 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 (Committee Chairman)	2/2
Ms. Chau Cynthia Sin Ha	2/2
Mr. Fong Pui Sheung, David	2/2

## Corporate Governance Report

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;
- 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.

## Corporate Governance Report

During the financial year ended 31 March 2008, 1 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 Chairlady</i> )	1/1
Mr. Fong Pui Sheung, David	1/1
Mr. Or Kam Chung, Janson	1/1

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 31 of this Annual Report.

## Corporate Governance Report

### INTERNAL CONTROL

The Board is responsible for maintaining an effective system of internal control to safeguard shareholders' investment and the Company's assets. The internal control system is designed to provide reasonable assurance on the effectiveness and efficiency of operations, to safeguard assets against unauthorized use or disposition; to maintain proper accounting records for producing reliable financial information.

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 March 2008. No material weaknesses were found.

### 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 31 March 2008.

## 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 6 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 69.

An interim dividend of HK3.1 cents per share amounting to HK\$9,883,000 was paid to shareholders during the year. The Directors recommended the payment of a final dividend of HK2.4 cents per share amounting to HK\$7,651,000 to shareholders, whose names appear in the register of members of the Company on 8 September 2008. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about 25 September 2008.

## 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 13 to the financial statements.

## SHARE CAPITAL

Details of 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 31 March 2008, amounted to HK\$91 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 31 March 2008.

### 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 70.

### 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, Ms. Chan Wai Po Rebecca and Mr. Or Kam Chung Janson 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 1 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 1 March 2003. On 26 February 2005, their contracts were renewed for a two year term expiring on 28 February 2007. On 19 December 2006, their contracts were renewed for another two year term expiring on 28 February 2009.

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 16 June 2004. On 4 May 2006, his contract was renewed for a two year term expiring on 15 June 2008. On 26 March 2008, his contract was renewed for another two year term expiring on 15 June 2010.

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.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2008, 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

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Chan King Hong Edwin	Interest of a controlled corporation	47,727,352 <i>(Note 1(a))</i>	
	Beneficial owner	<u>4,460,000</u>	
		<u>52,187,352</u>	16.37
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 <i>(Note 2)</i>	
	Beneficial owner	<u>5,216,000</u>	
		<u>52,943,352</u>	16.61
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 <i>(Note 3)</i>	12.30

## 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 24 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 24 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 31 March 2008.

## Report Of The Directors

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2008, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

#### Long positions

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

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Leopark Worldwide Inc.	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
New Paramount Profits Limited	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
Prevail Assets Limited	Beneficial owner	39,204,648 <i>(Note i)</i>	12.30
Smarty Worldwide Limited	Beneficial owner	39,204,648 <i>(Note ii)</i>	12.30
Chan Woon Man	Interest of a controlled corporation	39,204,648 <i>(Note ii)</i>	12.30
Li Shuk Han	Interest of spouse	52,187,352 <i>(Note iii)</i>	16.37
CIM Dividend Income Fund Limited (Formerly known as Chelverton Dividend Income Fund Limited)	Investment manager	28,692,000	9.00
Yeoman Capital Management Pte Ltd	Investment manager	28,808,000	9.04
Yeoman 3-Rights Value Asia Fund	Beneficial owner	19,732,000	6.19
Yeo Seng Chong	Interest of a controlled corporation	26,648,000	
	Interest of spouse	2,600,000	
		<u>29,248,000</u>	9.17
Lim Mee Hwa	Interest of a controlled corporation	26,648,000	
	Beneficial owner	2,600,000	
		<u>29,248,000</u>	9.17

## 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 24 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 24 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 31 March 2008.

## SHARE OPTIONS

Pursuant to the written resolutions of all the shareholders of the Company passed on 18 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 12 March 2003, the date of the Company being listed on the Main Board of the Stock Exchange.

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

The following table discloses movement in the Company's share options during the year.

Name or category of participant	Date of grant	Outstanding as at 1 April 2007	Options exercised	Outstanding as at 31 March 2008	Exercisable period	Exercise price per share
<b>(a) Executive directors</b>						
Chan King Hong Edwin	24 Sept 2003	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
Chan King Yuen Stanley	24 Sept 2003	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
<b>(b) Employees, in aggregate</b>						
	26 May 2003	364,000	(304,000)	60,000	26 May 2003 – 25 May 2013	0.580
	24 Sept 2003	6,362,400	-	6,362,400	24 Sept 2003 – 23 Sept 2013	0.830
<b>(c) Others, in aggregate</b>						
	26 May 2003	3,000,000	-	3,000,000	26 May 2003 – 25 May 2013	0.580
Total		19,270,000	(304,000)	18,966,000		

Notes:

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

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares and underlying shares" and "Share 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	19%
– five largest suppliers combined	48%
Sales	
– the largest customer	25%
– five largest customers combined	49%

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 31 March 2008, 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.

### AUDITORS

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint the auditors, BDO McCabe Lo Limited.

On behalf of the Board

**Chan King Hong Edwin**

*Chairman*

Hong Kong, 15 July 2008

# Independent Auditor's 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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TO THE SHAREHOLDERS OF CHANCO INTERNATIONAL GROUP LIMITED  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements of Chanco International Group Limited set out on pages 33 to 69, which comprise the consolidated and company balance sheet as at 31 March 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements, based on our audit. This is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independent Auditor's Report

### OPINION

In our opinion, the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 March 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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 PO1220*

Hong Kong, 15 July 2008

# Consolidated Income Statement

For the year ended 31 march 2008

	Notes	2008 HK\$'000	2007 HK\$'000
<b>Turnover</b>	5	<b>321,529</b>	281,767
Cost of sales		<b>(223,486)</b>	(198,856)
<b>Gross profit</b>		<b>98,043</b>	82,911
Other income and gains		<b>6,266</b>	4,496
Selling and distribution costs		<b>(17,145)</b>	(17,091)
Administrative and other operating expenses		<b>(30,201)</b>	(26,320)
<b>Profit before income tax expense</b>	7	<b>56,963</b>	43,996
Income tax expense	10	<b>(5,340)</b>	(3,769)
<b>Profit for the year</b>		<b>51,623</b>	40,227
Dividends	11	<b>17,534</b>	15,606
<b>Earnings per share</b>	12		
– Basic		<b>HK16.20 cents</b>	HK12.63 cents
– Diluted		<b>HK16.14 cents</b>	HK12.61 cents

# Consolidated Balance Sheet

As at 31 march 2008

	Notes	2008 HK\$'000	2007 HK\$'000
<b>Non-current asset</b>			
Property, plant and equipment	13	9,987	10,176
<b>Current assets</b>			
Inventories	15	55,703	52,480
Trade and bills receivables	16	34,452	27,266
Other receivables, deposits and prepayments		5,095	4,267
Tax recoverable		–	706
Cash and cash equivalents		151,867	119,573
		<b>247,117</b>	<b>204,292</b>
<b>Current liabilities</b>			
Trade and bills payables	18	15,317	11,631
Other payables and accrued charges		17,388	14,456
Tax payable		1,094	271
		<b>33,799</b>	<b>26,358</b>
<b>Net current assets</b>		<b>213,318</b>	<b>177,934</b>
<b>Total assets less current liabilities</b>		<b>223,305</b>	<b>188,110</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	19	243	283
<b>Net assets</b>		<b>223,062</b>	<b>187,827</b>
<b>Capital and reserves</b>			
Share capital	20	3,188	3,185
Reserves		219,874	184,642
<b>Total equity</b>		<b>223,062</b>	<b>187,827</b>

On behalf of the Board

**Chan King Hong Edwin**  
Executive Director

**Chan King Yuen Stanley**  
Executive Director

# Balance Sheet

As at 31 march 2008

	Notes	2008 HK\$'000	2007 HK\$'000
<b>Non-current asset</b>			
Investments in subsidiaries	14	48,181	48,181
<b>Current assets</b>			
Other receivables		117	126
Amounts due from subsidiaries	17	32,072	32,309
Cash and cash equivalents		13,638	11,742
		45,827	44,177
<b>Current liabilities</b>			
Accrued charges		16	54
<b>Net current assets</b>		45,811	44,123
<b>Net assets</b>		93,992	92,304
<b>Capital and reserves</b>			
Share capital	20	3,188	3,185
Reserves	22	90,804	89,119
<b>Total equity</b>		93,992	92,304

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 31 march 2008

	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Statutory surplus reserve HK\$'000 (Note)	Retained earnings HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
At 1 April 2006	3,185	32,435	217	888	117,758	6,370	160,853
Profit for the year	-	-	-	-	40,227	-	40,227
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	442	-	-	-	442
Total recognised income and expense for the year	-	-	442	-	40,227	-	40,669
2006 final dividend paid	-	-	-	-	-	(6,370)	(6,370)
2007 interim dividend paid	-	-	-	-	(7,325)	-	(7,325)
2007 proposed final dividend	-	-	-	-	(6,051)	6,051	-
2007 proposed special dividend	-	-	-	-	(2,230)	2,230	-
At 31 March 2007 and 1 April 2007	3,185	32,435	659	888	142,379	8,281	187,827
Profit for the year	-	-	-	-	51,623	-	51,623
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	1,608	-	-	-	1,608
Total recognised income and expense for the year	-	-	1,608	-	51,623	-	53,231
Shares issued under share option scheme	3	173	-	-	-	-	176
2007 final dividend paid	-	-	-	-	(6)	(6,051)	(6,057)
2007 special dividend paid	-	-	-	-	(2)	(2,230)	(2,232)
2008 interim dividend paid	-	-	-	-	(9,883)	-	(9,883)
2008 proposed final dividend	-	-	-	-	(7,651)	7,651	-
At 31 March 2008	<u>3,188</u>	<u>32,608</u>	<u>2,267</u>	<u>888</u>	<u>176,460</u>	<u>7,651</u>	<u>223,062</u>

Note:

As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the PRC subsidiary of the Group is required to maintain a statutory surplus reserve which is not distributable. Appropriation to the reserve is made out of profit for the year as per the statutory financial statements of the PRC subsidiary and the amount and allocation basis are decided by its board of directors annually.

# Consolidated Cash Flow Statement

For the year ended 31 march 2008

	2008 HK\$'000	2007 HK\$'000
<b>Operating activities</b>		
Profit before income tax expense	56,963	43,996
Adjustments for :		
Interest income	(5,274)	(4,049)
Depreciation of property, plant and equipment	2,726	2,620
Loss on disposal of property, plant and equipment	74	-
Impairment loss on trade receivables	124	119
Write down of inventories	979	749
<b>Operating profit before working capital changes</b>	<b>55,592</b>	43,435
(Increase)/decrease in inventories	(4,056)	2,582
Increase in trade and bills receivables	(6,656)	(6,450)
(Increase)/decrease in other receivables, deposits and prepayments	(806)	196
Increase in trade and bills payables	3,567	2,428
Increase in other payables and accrued charges	2,787	3,434
<b>Cash generated from operations</b>	<b>50,428</b>	45,625
Hong Kong Profits Tax paid	(2,666)	(4,811)
Overseas tax paid	(1,223)	(649)
<b>Net cash from operating activities</b>	<b>46,539</b>	40,165
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(2,664)	(2,368)
Interest received	5,274	4,049
Proceeds from disposal of property, plant and equipment	104	-
<b>Net cash from investing activities</b>	<b>2,714</b>	1,681
<b>Financing activities</b>		
Proceeds from shares issued under share option scheme	176	-
Dividends paid	(18,172)	(13,695)
<b>Net cash used in financing activities</b>	<b>(17,996)</b>	(13,695)
<b>Net increase in cash and cash equivalents</b>	<b>31,257</b>	28,151
<b>Cash and cash equivalents at beginning of year</b>	<b>119,573</b>	90,999
<b>Effect of foreign exchange rate changes</b>	<b>1,037</b>	423
<b>Cash and cash equivalents at end of year, representing bank balances and cash</b>	<b>151,867</b>	119,573

# Notes To The Financial Statements

31 march 2008

## 1. GENERAL

Chanco International Group Limited ("the Company") is incorporated in the Cayman Islands on 12 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 Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 14 to the financial statements.

## 2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are relevant to its operation and effective for the current accounting period of the Group and the Company.

The adoption of these new HKFRSs did not affect recognition or measurement of the amounts recognised in the financial statements for the current or prior accounting periods. As a result, no prior period adjustment has been required.

However, the adoption of "HKFRS 7, Financial Instruments: Disclosures" and "Amendment to HKAS 1, Presentation of Financial Statements: Capital Disclosures" resulted a much extensive disclosures in respect of financial instruments and an additional disclosure on capital management policy respectively. Comparative information have been restated or included in the first time to achieve a consistent presentation.

### (b) *Potential impact arising on the new accounting standards not yet effective*

The Group has not yet applied the following new or revised 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 of the financial statements of the Group.

## Notes To The Financial Statements

31 march 2008

### 2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

#### *(b) Potential impact arising on the new accounting standards not yet effective (Continued)*

Amendments to HKAS 32 and HKAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>4</sup>
HKFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>4</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Interpretation 1 2	Service Concession Arrangements <sup>3</sup>
HK(IFRIC) – Interpretation 1 3	Customer Loyalty Programmes <sup>2</sup>
HK(IFRIC) – Interpretation 1 4	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Fund Requirements and their Interaction <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2009

### 3. BASIS OF PREPARATION

#### *(a) Statement of compliance*

The 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 HKICPA. In addition, the 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 measurement*

The financial statements have been prepared under the historical cost basis.

## Notes To The Financial Statements

31 march 2008

### 3. BASIS OF PREPARATION *(Continued)*

#### *(c) Use of estimate and judgements*

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 29.

#### *(d) Functional and presentation currency*

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

### 4. PRINCIPAL ACCOUNTING POLICIES

#### *(a) Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Inter-company transactions and balances between group companies are therefore eliminated in full in preparing the consolidated financial statements.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss, if any.

#### *(b) Subsidiaries*

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

#### *(c) Property, plant and equipment*

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

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives using reducing balance method. The useful lives, residual value and depreciation method 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

31 march 2008

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

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

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 its carrying amount, and is recognised in the income statement on disposal.

#### *(d) Financial instruments*

##### *(i) 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 debtors), but also incorporate other types of contractual monetary asset. Loans and receivables are initially recognised at fair value with directly attributable transaction costs. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

##### *(ii) Impairment loss on financial assets*

Objective evidence that the asset is impaired includes observable data that comes to the attention of the Group includes the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtors' financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## Notes To The Financial Statements

31 march 2008

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

#### *(d) Financial instruments (Continued)*

##### *(iii) Trade and other payables*

Trade payables and other short-term monetary liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured at amortised cost, using effective interest method.

##### *(iv) Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instruments. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

##### *(v) Derecognition*

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

##### *(vi) Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## Notes To The Financial Statements

31 march 2008

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

#### *(e) Impairment of other assets*

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investments in subsidiaries

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

#### *(f) 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 calculated using first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

#### *(g) 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.

## Notes To The Financial Statements

31 march 2008

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

#### *(g) Income taxes (Continued)*

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.

Income 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.

#### *(h) Leasing*

##### *The Group as lessee*

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.

#### *(i) Foreign currency*

Transactions entered into by group entities in currencies 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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

## Notes To The Financial Statements

31 march 2008

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

#### *(i) Foreign currency (Continued)*

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign 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 foreign operations at actual rate are recognised directly in equity (the "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 exchange reserve.

#### *(j) Employee benefits*

##### *(i) Defined contribution retirement plans*

Contributions to defined contribution retirement plans are recognised as an expense in the income statement when the services are rendered by the employees.

##### *(ii) Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

#### *(k) 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.

## Notes To The Financial Statements

31 march 2008

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

#### *(l) 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 with a corresponding increase in equity. 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 conditions.

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 or services received unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

#### *(m) Revenue recognition*

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have 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.

Commission income is recognised when the goods on which the commission is calculated are delivered.

Management fee income is recognised when the services are provided.

#### *(n) 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 earnings within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

## Notes To The Financial Statements

31 march 2008

### 5. 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.

### 6. 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

31 march 2008

### 6. SEGMENT INFORMATION *(Continued)*

#### *Business segments (Continued)*

Segment information about these business is presented below:

	<b>Manufacturing business HK\$'000</b>	<b>Retail business HK\$'000</b>	<b>Inter-segment elimination HK\$'000</b>	<b>Unallocated HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>Year ended 31 March 2008</b>					
Revenue					
External sales	297,150	24,379	-	-	321,529
Inter-segment sales	1,901	-	(1,901)	-	-
Total	<u>299,051</u>	<u>24,379</u>	<u>(1,901)</u>	<u>-</u>	<u>321,529</u>
Segment results	<u>50,410</u>	<u>1,382</u>	<u>(80)</u>	<u>-</u>	51,712
Unallocated income					5,872
Unallocated expenses					<u>(621)</u>
Profit before income tax expense					56,963
Income tax expense					<u>(5,340)</u>
Profit for the year					<u>51,623</u>
<b>At 31 March 2008</b>					
Assets					
Segment assets	94,396	8,777	-	-	103,173
Unallocated assets					<u>153,931</u>
Total assets					<u>257,104</u>
Liabilities					
Segment liabilities	31,690	991	-	-	32,681
Unallocated liabilities					<u>1,361</u>
Total liabilities					<u>34,042</u>
<b>Other information</b>					
Capital expenditure	1,555	1,004	-	105	2,664
Depreciation of property, plant and equipment	1,711	697	-	318	2,726
(Gain)/loss on disposal of property, plant and equipment	(36)	110	-	-	74
Impairment loss on trade receivables	124	-	-	-	124
Write down of inventories	<u>713</u>	<u>266</u>	<u>-</u>	<u>-</u>	<u>979</u>

## Notes To The Financial Statements

31 march 2008

### 6. SEGMENT INFORMATION *(Continued)*

#### *Business segments (Continued)*

	Manufacturing business HK\$'000	Retail business HK\$'000	Inter-segment elimination HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>Year ended 31 March 2007</b>					
Revenue					
External sales	260,050	21,717	-	-	281,767
Inter-segment sales	<u>1,680</u>	<u>-</u>	<u>(1,680)</u>	<u>-</u>	<u>-</u>
Total	<u>261,730</u>	<u>21,717</u>	<u>(1,680)</u>	<u>-</u>	<u>281,767</u>
Segment results	<u>40,964</u>	<u>(743)</u>	<u>(18)</u>	<u>-</u>	40,203
Unallocated income					4,496
Unallocated expenses					<u>(703)</u>
Profit before income tax expense					43,996
Income tax expense					<u>(3,769)</u>
Profit for the year					<u>40,227</u>
<b>At 31 March 2007</b>					
Assets					
Segment assets	83,437	8,438	-	-	91,875
Unallocated assets					<u>122,593</u>
Total assets					<u>214,468</u>
Liabilities					
Segment liabilities	25,286	747	-	-	26,033
Unallocated liabilities					<u>608</u>
Total liabilities					<u>26,641</u>
<b>Other information</b>					
Capital expenditure	2,208	112	-	48	2,368
Depreciation of property, plant and equipment	1,780	476	-	364	2,620
Impairment loss on trade receivables	119	-	-	-	119
Write down of inventories	<u>431</u>	<u>318</u>	<u>-</u>	<u>-</u>	<u>749</u>

## Notes To The Financial Statements

31 march 2008

### 6. SEGMENT INFORMATION *(Continued)*

#### *Geographical segments*

The Group's operations are principally located in Hong Kong and the 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.

	<b>Revenue</b>	<b>Total assets</b>	<b>Capital</b>
	<b>2008</b>	<b>2008</b>	<b>expenditure</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>2008</b>
			<b>HK\$'000</b>
Japan	92,823	-	-
Europe	93,926	-	-
The United States of America ("USA")	25,290	-	-
Hong Kong	50,961	197,717	1,109
PRC	28,260	57,838	1,555
Australia	11,057	-	-
Others	19,212	1,549	-
	<b>321,529</b>	<b>257,104</b>	<b>2,664</b>
			Capital
	Revenue	Total assets	expenditure
	2007	2007	2007
	HK\$'000	HK\$'000	HK\$'000
Japan	79,980	-	-
Europe	63,553	-	-
USA	51,292	-	-
Hong Kong	44,500	162,108	2,208
PRC	17,107	51,290	160
Australia	8,502	-	-
Others	16,833	1,070	-
	<b>281,767</b>	<b>214,468</b>	<b>2,368</b>

## Notes To The Financial Statements

31 march 2008

### 7. PROFIT BEFORE INCOME TAX EXPENSE

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Profit before income tax expense is arrived at after charging:		
Auditor's remuneration	<b>440</b>	420
Cost of inventories sold	<b>223,486</b>	198,856
Depreciation of property, plant and equipment	<b>2,726</b>	2,620
Loss on disposal of property, plant and equipment	<b>74</b>	–
Operating lease rentals in respect of leasehold land and buildings	<b>9,796</b>	9,808
Impairment loss on trade receivables	<b>124</b>	119
Write down of inventories	<b>979</b>	749
Foreign exchange losses, net	<b>810</b>	–
Staff costs, excluding directors' emoluments ( <i>Note 8</i> )	<b>15,235</b>	13,078
and after crediting:		
Interest income	<b>5,274</b>	4,049
Foreign exchange gains, net	<b>–</b>	119

### 8. STAFF COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>14,393</b>	12,393
Retirement benefits scheme contributions	<b>842</b>	685
	<b>15,235</b>	13,078

## Notes To The Financial Statements

31 march 2008

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

#### (a) Directors' emoluments

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Directors' fees	<b>150</b>	150
Other emoluments:		
Salaries and other benefits	<b>3,750</b>	3,300
Discretionary bonuses	<b>2,600</b>	1,800
Retirement benefits scheme contributions	<b>60</b>	60
	<b>6,560</b>	5,310

Details of directors' emoluments for the year ended 31 March 2008 are as follows:

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement benefits scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors:</b>					
Chan King Hong Edwin	-	1,290	1,300	24	2,614
Chan King Yuen Stanley	-	1,290	1,300	24	2,614
Chan Wai Po Rebecca	-	1,170	-	12	1,182
<b>Independent non- executive directors:</b>					
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>3,750</b>	<b>2,600</b>	<b>60</b>	<b>6,560</b>

## Notes To The Financial Statements

31 march 2008

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

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

Details of directors' emoluments for the year ended 31 March 2007 are as follows:

	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonuses HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<b>Executive directors:</b>					
Chan King Hong Edwin	–	1,140	900	24	2,064
Chan King Yuen Stanley	–	1,140	900	24	2,064
Chan Wai Po Rebecca	–	1,020	–	12	1,032
<b>Independent non- executive directors:</b>					
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>3,300</b>	<b>1,800</b>	<b>60</b>	<b>5,310</b>

No directors waived any emoluments in the two years ended 31 March 2008.

The discretionary bonuses are determined by reference to the financial performance of the Group and the performance of the individual director for the two years ended 31 March 2008.

## Notes To The Financial Statements

31 march 2008

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

#### *(b) Five highest paid individuals*

Of the five individuals whose emoluments were the highest in the Group for the year include three (2007: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2007: two) individuals during the year are as follows:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>1,396</b>	1,041
Discretionary bonuses	<b>230</b>	97
Retirement benefits scheme contributions	<b>24</b>	24
	<b>1,650</b>	1,162

The emoluments of each of the remaining individual was below HK\$1,000,000 for the years ended 31 March 2007 and 2008.

During the years ended 31 March 2007 and 2008, 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

31 march 2008

### 10. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated income statement represents:

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Current tax - Hong Kong Profits Tax		
– tax for the year	<b>3,809</b>	3,216
– under/(over) provision in respect of prior years	<b>151</b>	(276)
	<b>3,960</b>	2,940
Current tax - other jurisdictions		
– tax for the year	<b>1,420</b>	812
Deferred tax (Note 19)		
– current year	<b>(40)</b>	17
Income tax expense	<b>5,340</b>	3,769

Hong Kong Profits Tax is calculated at 17.5% (2007: 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 its first profit-making year of operation and entitled to a 50% relief from the PRC income tax for the following three years. The tax exemption was expired on 31 December 2007. From 1 January 2008, the applicable income tax rate of the PRC subsidiary is 25%.

## Notes To The Financial Statements

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### 10. INCOME TAX EXPENSE *(Continued)*

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

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Profit before income tax expense	<b>56,963</b>	43,996
Tax at the domestic tax rate of 17.5% (2007: 17.5%)	<b>9,969</b>	7,699
Tax effect of expenses not deductible for tax purpose	<b>20,459</b>	18,322
Tax effect of income not taxable for tax purpose	<b>(24,621)</b>	(21,688)
Under/(over) provision in respect of prior years	<b>151</b>	(276)
Effect of tax concession of a subsidiary	<b>(1,096)</b>	(1,005)
Effect of different tax rates of a subsidiary operating in other jurisdiction	<b>856</b>	636
Tax effect of tax losses not recognised	<b>-</b>	81
Utilisation of tax losses previously not recognised	<b>(378)</b>	-
Income tax expense	<b>5,340</b>	3,769

## Notes To The Financial Statements

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### 11. DIVIDENDS

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Interim dividend of HK\$0.031 (2007: HK\$0.023) per ordinary share	<b>9,883</b>	7,325
Proposed final dividend of HK\$0.024 (2007: HK\$0.019) per ordinary share	<b>7,651</b>	6,051
Proposed special dividend of HK\$nil (2007: HK\$0.007) per ordinary share	—	2,230
	<b>17,534</b>	15,606

The proposed final dividend of HK\$0.024 (2007: HK\$0.019) per share has been proposed by the directors on 15 July 2008 and are subject to approval by the shareholders in forthcoming annual general meeting.

The amount of proposed final dividend and special dividend (in last year) are based on 318,804,000 shares in issue as at 15 July 2008. (2007: 318,500,000 shares in issue as at 18 July 2007).

### 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit for the year of HK\$51,623,000 (2007: HK\$40,227,000) and weighted average number of 318,704,328 (2007: 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\$51,623,000 (2007: HK\$40,227,000) and the weighted average number of 319,871,679 (2007: 318,994,706) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,704,328 (2007: 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 1,167,351 (2007: 494,706) 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

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### 13. PROPERTY, PLANT AND EQUIPMENT

The Group	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1 April 2007	8,186	4,518	8,874	856	22,434
Additions	523	292	1,410	439	2,664
Disposals	(29)	(136)	(395)	(450)	(1,010)
Exchange realignment	154	6	-	18	178
At 31 March 2008	<b>8,834</b>	<b>4,680</b>	<b>9,889</b>	<b>863</b>	<b>24,266</b>
<b>Accumulated depreciation</b>					
At 1 April 2007	5,686	2,666	3,226	680	12,258
Provided for the year	889	436	1,227	174	2,726
Eliminated on disposals	(106)	(27)	(286)	(413)	(832)
Exchange realignment	119	3	-	5	127
At 31 March 2008	<b>6,588</b>	<b>3,078</b>	<b>4,167</b>	<b>446</b>	<b>14,279</b>
<b>Cost</b>					
At 1 April 2006	7,169	4,301	7,689	856	20,015
Additions	953	230	1,185	-	2,368
Disposals	-	(15)	-	-	(15)
Exchange realignment	64	2	-	-	66
At 31 March 2007	8,186	4,518	8,874	856	22,434
<b>Accumulated depreciation</b>					
At 1 April 2006	4,573	2,218	2,211	604	9,606
Provided for the year	1,067	462	1,015	76	2,620
Eliminated on disposals	-	(15)	-	-	(15)
Exchange realignment	46	1	-	-	47
At 31 March 2007	5,686	2,666	3,226	680	12,258
<b>Net book value</b>					
At 31 March 2008	<b>2,246</b>	<b>1,602</b>	<b>5,722</b>	<b>417</b>	<b>9,987</b>
At 31 March 2007	2,500	1,852	5,648	176	10,176

## Notes To The Financial Statements

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### 14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2008 HK\$'000	2007 HK\$'000
Unlisted shares, at cost	48,181	48,181

Details of the Company's subsidiaries at 31 March 2008 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
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.

## Notes To The Financial Statements

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### 15. INVENTORIES

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Raw materials	38,777	36,462
Work in progress	7,136	6,810
Finished goods	9,790	9,208
	<u>55,703</u>	<u>52,480</u>

### 16. TRADE AND BILLS RECEIVABLES

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Trade and bills receivables	35,088	27,911
Less: allowance for doubtful debts	(636)	(645)
	<u>34,452</u>	<u>27,266</u>

## Notes To The Financial Statements

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### 16. TRADE AND BILLS RECEIVABLES *(Continued)*

Customers are generally granted with credit terms of 30 to 90 days. The aging analysis of trade and bills receivables (net of allowance for doubtful debts) at the balance sheet date is as follows:

	<b>The Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Current <i>(note a)</i>	<b>10,624</b>	10,186
Less than 30 days past due	<b>10,031</b>	10,755
31-60 days past due	<b>7,467</b>	3,110
61-90 days past due	<b>2,504</b>	1,722
91-120 days past due	<b>746</b>	411
121-365 days past due	<b>3,062</b>	1,082
Over 365 days past due	<b>18</b>	–
Amount past due at balance sheet date but not impaired <i>(note b)</i>	<b>23,828</b>	17,080
	<b>34,452</b>	27,266

- a) The balance that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.
- b) The balance that were past due but not impaired related to a number of customers that have a good repayment track record with the Group. Based on the past experience, the management estimated that the carrying amounts could be fully recovered.

The movement in the allowance for doubtful debts during the year is as follows:

	<b>The Group</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
At 1 April	<b>645</b>	526
Impairment loss recognised	<b>124</b>	119
Bad debts written off	<b>(133)</b>	–
At 31 March <i>(note c)</i>	<b>636</b>	645

- c) The Group recognised impairment loss on individual assessment based on the accounting policy stated in Note 4(d)(ii).

## Notes To The Financial Statements

31 march 2008

### 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:

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Current to 30 days	<b>7,762</b>	6,902
31-60 days	<b>4,382</b>	3,155
61-90 days	<b>1,671</b>	1,003
91-120 days	<b>385</b>	293
121-365 days	<b>706</b>	143
Over 365 days	<b>411</b>	135
	<hr/> <b>15,317</b> <hr/>	<hr/> 11,631 <hr/>

### 19. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation	Others	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	299	(33)	266
(Credit)/charge to consolidated income statement for the year	<hr/> (16) <hr/>	<hr/> 33 <hr/>	<hr/> 17 <hr/>
At 31 March 2007	283	-	283
Credit to consolidated income statement for the year	<hr/> (40) <hr/>	<hr/> - <hr/>	<hr/> (40) <hr/>
At 31 March 2008	<hr/> <b>243</b> <hr/>	<hr/> - <hr/>	<hr/> <b>243</b> <hr/>

## Notes To The Financial Statements

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### 19. DEFERRED TAX LIABILITIES *(Continued)*

At the balance sheet date, the Group had unused tax losses of HK\$628,000 (2007: HK\$2,772,000) 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 (2007: Nil).

### 20. SHARE CAPITAL

#### (a) *Authorised and issued share capital*

	<b>The Company</b>	
	<b>Number of share</b>	<b>Amount</b>
		<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
<b>Authorised:</b>		
At 1 April 2006 and 31 March 2007 and 2008	<u>2,000,000,000</u>	<u>20,000</u>
<b>Issued and fully paid:</b>		
At 1 April 2006, 31 March 2007 and 1 April 2007	318,500,000	3,185
Shares issued under share option scheme	<u>304,000</u>	<u>3</u>
At 31 March 2008	<u>318,804,000</u>	<u>3,188</u>

#### (b) *Capital management policy*

The Group regards the equity attributable to equity holders of the Company as its capital. The Group's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may raise bank borrowings and adjust the amount of dividends paid to shareholders.

## Notes To The Financial Statements

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### 21. SHARE OPTIONS

Under the share option scheme (the "Share Option Scheme") approved by the shareholders on 18 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.

The following table discloses movements in the Company's share option during the year ended 31 March 2007 and 2008.

Name or category of participant	Date of grant	Outstanding as at 1 April 2006	Lapsed during the year	Outstanding as at 31 March 2007 and 1 April 2007	Exercised during the year	Outstanding as at 31 March 2008	Exercisable period	Exercise price per share HK\$
<b>(a) Executive directors</b>								
Chan King Hong Edwin	24 Sept 2003	3,181,200	-	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
Chan King Yuen Stanley	24 Sept 2003	3,181,200	-	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	-	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
<b>(b) Employees, in aggregate</b>								
	26 May 2003	516,000	(152,000)	364,000	(304,000)	60,000	26 May 2003 – 25 May 2013	0.580
	24 Sept 2003	6,362,400	-	6,362,400	-	6,362,400	24 Sept 2003 – 23 Sept 2013	0.830
<b>(c) Others, in aggregate</b>								
	26 May 2003	3,000,000	-	3,000,000	-	3,000,000	26 May 2003 – 25 May 2013	0.580
Total		<u>19,422,000</u>	<u>(152,000)</u>	<u>19,270,000</u>	<u>(304,000)</u>	<u>18,966,000</u>		
Weighted average exercise price		HK\$0.785	HK\$0.580	HK\$0.786	HK\$0.580	HK\$0.790		

## Notes To The Financial Statements

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### 21. SHARE OPTIONS *(Continued)*

The weighted average share price at the date of exercise for shares options exercised during the year was HK\$1.06 (2007: not applicable).

The options outstanding at 31 March 2008 had an exercise price of HK\$0.58 or HK\$0.83 (2007: HK\$0.58 or HK\$0.83) and a weighted average remaining contractual life of 5.43 years (2007: 6.43 years).

Note: All the options were immediately vested when granted.

### 22. RESERVES

#### *The Company*

	Share premium	Retained earnings	Proposed dividends	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	80,606	2,179	6,370	89,155
Profit for the year	–	13,659	–	13,659
2006 final dividend paid	–	–	(6,370)	(6,370)
2007 interim dividend paid	–	(7,325)	–	(7,325)
2007 proposed final dividend	–	(6,051)	6,051	–
2007 proposed special dividend	–	(2,230)	2,230	–
	<u>80,606</u>	<u>232</u>	<u>8,281</u>	<u>89,119</u>
At 31 March 2007	80,606	232	8,281	89,119
Profit for the year	–	19,684	–	19,684
Shares issued under share option scheme	173	–	–	173
	<u>80,779</u>	<u>2,374</u>	<u>7,651</u>	<u>90,804</u>
2007 final dividend paid	–	(6)	(6,051)	(6,057)
2007 special dividend paid	–	(2)	(2,230)	(2,232)
2008 interim dividend paid	–	(9,883)	–	(9,883)
2008 proposed final dividend	–	(7,651)	7,651	–
	<u>80,779</u>	<u>2,374</u>	<u>7,651</u>	<u>90,804</u>
At 31 March 2008	<u>80,779</u>	<u>2,374</u>	<u>7,651</u>	<u>90,804</u>

### 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 aggregate amount of guarantees amounted to HK\$8,000,000 (2007: HK\$8,000,000), none (2007: HK\$1,070,000) of such facilities has been utilised by the subsidiaries at 31 March 2008. The fair value of the financial guarantee at date of inception is immaterial.

## Notes To The Financial Statements

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### 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:

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Not later than one year	<b>6,218</b>	6,025
Later than one year and not later than five years	<b>3,177</b>	4,536
	<b>9,395</b>	10,561

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 three years.

### 25. CAPITAL COMMITMENTS

Commitments for the acquisition of property, plant and equipment:

	<b>The Group</b>	
	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
– contracted for but not provided	<b>318</b>	550

### 26. RELATED PARTY TRANSACTIONS

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

	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	<b>264</b>	264

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

## Notes To The Financial Statements

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### 26. RELATED PARTY TRANSACTIONS *(Continued)*

#### *(b) Compensation of key management personnel*

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

	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Short-term benefits	<b>10,076</b>	7,449
Post employment benefits	<b>120</b>	108
	<hr/> <b>10,196</b> <hr/>	<hr/> 7,557 <hr/>

### 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 from its use of financial instruments:

- Foreign currency risk
- Liquidity risk
- Credit risk
- Interest rate risk

## Notes To The Financial Statements

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

#### *Foreign currency risk*

Several subsidiaries of the Company have foreign currency sales and purchases, mainly denominated in United States Dollars ("USD") and Renminbi ("RMB"), which expose the Group to foreign currency risk. Certain financial assets and liabilities of the Group are also denominated in USD and RMB. As HKD is pegged to USD, the Group does not expect any significant movements in the USD/HKD exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD. At 31 March 2007 and 2008, it is estimated that an appreciation or depreciation of 3% in RMB against HKD, with all other variables held constant, would have insignificant effects on the profits or other equity of the Group for the years ended 31 March 2007 and 2008. 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 arises.

#### *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. The Group's financial liabilities mature in less than one year and their contractual undiscounted payments approximate to their carrying amount included in the balance sheet.

#### *Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2007 and 2008 in relation to each class of recognised financial assets is the carrying amount of those financial assets as stated in the balance sheet. The Group has policies in place to determine credit limit, 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 does not expose to significant credit risk.

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.

#### *Interest rate risk*

The Group's exposure to changes in interest rate is mainly attributable to its interest-bearing bank deposits. The interest rate is subject to changes as determined by banks. The Group currently does not have an interest rate hedging policy and will consider enter into interest rate hedging should the need arises.

At 31 March 2007 and 2008, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, would have insignificant effect on the profits or other equity of the Group for the years ended 31 March 2007 and 2008.

### 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.

#### *Impairments of assets*

When testing for impairment of property, plant and equipment, the management is required to estimate the recoverable amount of the assets. It is difficult to precisely estimate the fair value of these assets. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs.

Impairment loss of trade receivables are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

#### *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses these estimates at each balance sheet date.

#### *Useful lives and depreciation method of property, plant and equipment*

Property, plant and equipment are depreciated on a reducing balance method over the estimated useful lives. The Group reviews annually the useful life, depreciation method and residual value, if any, of an asset. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

### 30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 15 July 2008.

# Five Year Financial Summary

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

	<b>2008</b> <b>HK\$'000</b>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Results					
Profit for the year	<b>51,623</b>	<u>40,227</u>	<u>41,501</u>	<u>40,154</u>	<u>31,613</u>
Assets and liabilities					
Total assets	<b>257,104</b>	214,468	182,635	154,433	119,798
Total liabilities	<b>(34,042)</b>	<u>(26,641)</u>	<u>(21,782)</u>	<u>(20,647)</u>	<u>(14,063)</u>
Shareholders funds	<b>223,062</b>	<u>187,827</u>	<u>160,853</u>	<u>133,786</u>	<u>105,735</u>