



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)

Annual Report 2010

*The Premier Designer
& Manufacturer*
of Quality Leather Accessories



www.area0264.com

Causeway Bay

Shop B, G/F., Style House,
The Park Lane,
No.310 Gloucester Road,
Causeway Bay
Tel: 2895 1620

Tsim Sha Tsui

No.26 Kimberley Road,
Tsim Sha Tsui
Tel: 2191 9377

Mongkok

Shop 611,
Langham Place,
Mongkok
Tel: 3514 4133

Kwun Tong

Shop L4-12,
Level 4, APM,
Kwun Tong
Tel: 3148 1228

Shatin

Shop A376, Phase 3,
New Town Plaza, Shatin
Tel: 2629 5068



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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*

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

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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

AUDITOR

BDO Limited
Certified Public Accountants

LEGAL ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman

HONG KONG BRANCH SHARE 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
www.irasia.com/listco/hk/chanco/index.htm

STOCK CODE

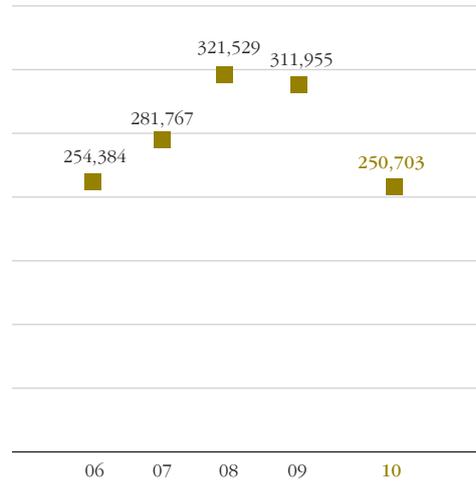
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Financial Highlights

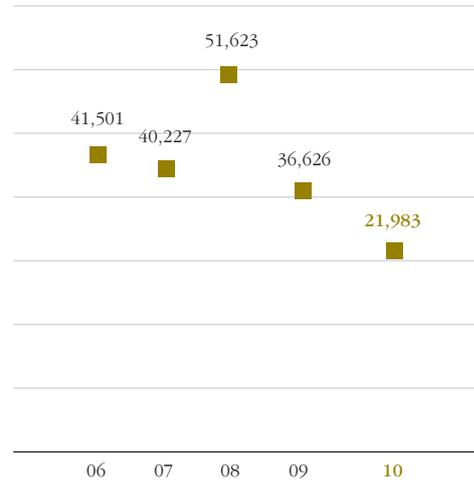
TURNOVER

(HK\$'000)



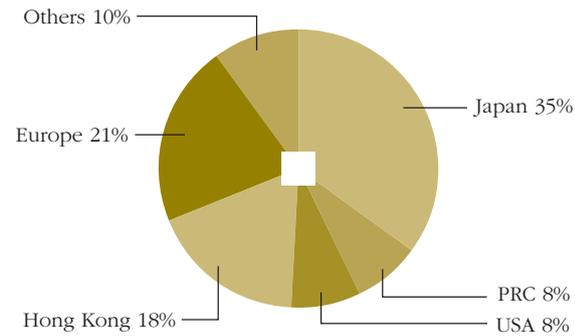
PROFIT FOR THE YEAR

(HK\$'000)

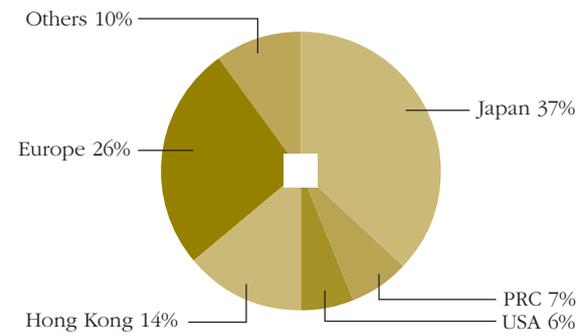


TURNOVER BY GEOGRAPHICAL SEGMENT

Financial Year 2010

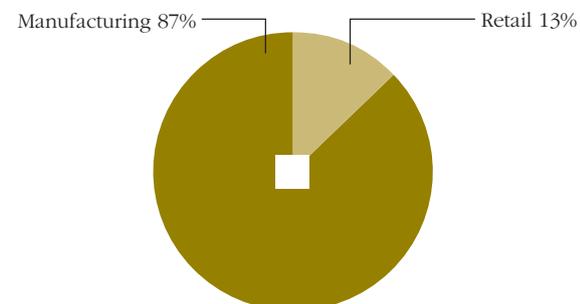


Financial Year 2009

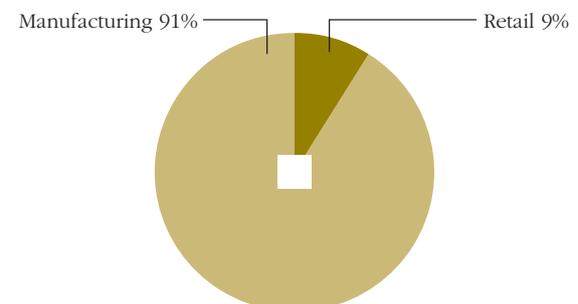


TURNOVER BY BUSINESS SEGMENT

Financial Year 2010



Financial Year 2009





Financial Highlights

	2010	2009	Change
	HK\$'000	HK\$'000	
<i>Operating results</i>			
Turnover	250,703	311,955	-20%
Gross Profit	79,249	84,328	-6%
Profit before income tax expense	25,841	41,125	-37%
Profit for the year	21,983	36,626	-40%
<i>Business performance ratios</i>			
Gross profit margin	31.6%	27.0%	
Net profit margin	8.8%	11.7%	
Return on shareholders' equity	8.1%	14.8%	
Current ratio	11.16	10.32	
Quick ratio	8.44	7.22	
Debt ratio	0.09	0.09	
<i>Share data (as at year end date)</i>			
Shares in issue ('000)	318,804	318,804	
Shares closing price	HK\$0.63	HK\$0.42	
Market capitalization (HK\$'000)	200,847	133,898	
Basic earnings per share	HK6.90 cents	HK11.49 cents	
Price earnings ratio	9.13	3.65	
Interim dividend per share	Nil	HK1.3 cents	
Final dividend per share	HK1.4 cents	HK1.0 cents	
Total dividend per share	HK1.4 cents	HK2.3 cents	
Dividend payout ratio	20.3%	20.0%	
Net asset value per share	HK\$0.85	HK\$0.77	
Price-to-book value ratio	0.74	0.54	



Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the annual results of the Company and its subsidiaries (collectively refer to the "Group") for the year ended 31 March 2010.

2009 was a year of uncertainty and full of challenges during the year. The year began with difficult conditions: sluggish market demand and uncertain economic outlook. Like most enterprises around the world, our customers were adversely affected by the global financial crisis. We saw our orders decline, particularly from those customers in Euro area. High production cost and revenue pressure led to discouraging results in the first half of the financial year 2010. Market demand had gradually recovered in the second half of the financial year 2010. Our gross profit margin improved sharply as we started to enjoy lower cost of leather in the second half of the financial year 2010. In addition, we endeavored to streamline our production cost by optimizing the labor force and trimming the overhead expenses. Despite the adverse impact of global financial crisis in particular in the first half of financial year 2010, we still managed to deliver reasonable profit to our shareholders.

It was the sixth year since our retail business commenced in 2004. This year, we proudly present to you our third consecutive profitable growth in the year end 31 March 2010. Strong rebound of Hong Kong stock and property market in the second half of 2009 helped to boost the local market sentiment. Our retail sales during the traditional peak season period reached our historical high. The full year retail sales increased by around 19% and the comparable same store sales increased by around 11%. During the year, we continued to increase the breadth and depth of the products we marketed. Our own brand footwear products showed strong growth potential and contributed a significant portion to our sales revenue. As at 31 March 2010, we operated four AREA 0264 stores in Hong Kong.

PROSPECTS

Going forward, we expect overall business environment will continue to improve as the global financial economy shows signs of recovery. However, the pace of economic recovery may be slowing down in view of the unwinding of government support programs as well as the outbreak of debt crisis of Euro area. The outlook of traditional export markets such as the U.S. and Europe will remain weak and uncertain in the near term. Sales orders from Japan are expected to be relatively stable or slowing down a bit. Despite unsteady pace of the global economic recovery, we expect customer demand will return gradually. Our business strategy for the next financial year will focus on building revenue in the emerging markets in particular the PRC. The PRC economy will continue to be strong and we will continue to tap into the growth opportunities in the PRC market. Besides, we will continue to maintain rigid cost control and maximize the production efficiency.



Chairman's Statement

Supported by the increasing visitor arrivals in particular the tourist from the PRC, Hong Kong retail outlook is expected to be positive. Local consumer confidence has been improved considerably on the back of improving economic condition and employment market. In the first quarter of the financial year 2011, we achieved double digit growth of same store sales compared with same period of last year. However, the sales performance of our new shop at Causeway Bay is far from satisfactory. We will strive to achieve operating breakeven this year. Our strategy towards operational management remains unchanged and we will continue to streamline the product mix to improve profit margin and manage the operating costs and inventories. A new store will be opened at shopping mall in Shatin in August 2010 and another store will be relocated in October 2010. Our expansion plan will stay cautious and we will maintain 5 stores during the year 2010.

APPRECIATION

In appreciation of the shareholders' faith in the Company, the Board has proposed the payment of a final dividend of HK1.4 cents per share for the year ended 31 March 2010.

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

Chan King Hong Edwin

Chairman

Hong Kong 19 July 2010



Management Discussion and Analysis

FINANCIAL REVIEW

(All the analysis below is based on the results of the Group for the year ended 31 March 2010 and the year ended 31 March 2009 for comparison purpose only)

For the year ended 31 March 2010, the Group's turnover declined by around 20% from HK\$311,955,000 to HK\$250,703,000. This was attributed to significant decline in the turnover of manufacturing business in particular in the first half of the financial year 2010 as a result of global economic recession. Overall gross profit margin increased 5 percentage points from 27% to 32%. Both gross profit margins of manufacturing and retail business improved in the financial year.

Other income and gains dropped from HK\$5,598,000 to HK\$2,294,000. This was mainly attributable to the decrease of bank interest income received during the year.

Selling and distribution expenses increased from HK\$17,205,000 to HK\$19,894,000 as a result of the increase of operating expenses for the retail business. Administrative and other operating expenses increased by 13% to HK\$35,808,000. This was a result of the one-off recognition of equity settled share-based payment expenses of HK\$4,904,000 in respect of share option granted during the reporting year.

As a result, the net profit declined by 40% to HK\$21,983,000 compared with HK\$36,626,000 of last year. Basic earnings per share was HK6.90 cents compared to HK11.49 cents of last year.

The Board has recommended a final dividend of HK1.4 cents per share for the year ended 31 March 2010.

SEGMENTAL REVIEW

Manufacturing Business

Revenue for manufacturing business was HK\$218,904,000 compared with HK\$285,200,000 of last year. A difficult economic environment combined with sluggish market demand have resulted an adverse impact on the Group's export business especially in the first half of financial year 2010. As market demand gradually recovered, the Group managed to narrow down the decline in sales to 23% in the full financial year 2010 compared with 33% reported in the first half of financial year.

Geographically, Japan remained the largest export market of the Group. Sales to Japan decreased by 24% to HK\$87,776,000 as compared with the historical high of sales reported in last year. Orders placed by the major customer in Japan were steady and stable during the reporting year. Due to weaker overall market demand in the Euro area, export sales to Europe decreased by 36% to HK\$51,185,000. Export sales to the U.S. were around HK\$20,264,000 (2009: HK\$20,522,000). The downward trend of demand in the U.S. was stabilized in the reporting year. Retailers in Hong Kong remained cautious despite rebound of market demand in the second half of financial year 2010. Sales in Hong Kong dropped around 14% to HK\$13,977,000. Sales to the PRC market decreased very slightly from HK\$20,639,000 to HK\$19,859,000. Sales to Australia became insignificant for management analysis and the corresponding sales were combined with other markets segment for comparison starting from this financial year. Apart from the major markets, sales revenue from other countries including Australia, Canada, Taiwan, Philippines, Singapore and Malaysia, etc. decreased by 19% to HK\$25,843,000 compared to HK\$32,003,000 in 2009.



Management Discussion and Analysis

In terms of product mix, sales of belts decreased to HK\$204,746,000 (2009: HK\$270,540,000). Sales of leather goods and other accessories were approximately HK\$14,158,000 (2009: HK\$14,660,000). Along with the lower turnover, gross profit declined by 14% to HK\$60,149,000 (2009: HK\$70,086,000). Gross profit margin increased from 25% to 27%. It was mainly attributable to using lower cost of leather for production in the second half of the financial year. In addition, the Group endeavored to streamline cost by optimizing the labor force and trimming overhead expenses during the year.

Retail Business

Revenue for retail business increased by 19% to HK\$31,799,000 compared with HK\$26,755,000 of last year. It was mainly attributed to strong rebound of stock and property market in the second half of 2009 which helped to boost the local market sentiment. Our retail sales during the traditional peak season period had reached our historical high. Retail business contributed 13% to the Group's total revenue in financial year 2010 compared to 9% in financial year 2009. Comparable same store sales increased 11% against last year. In-house brand sales kept growing during the reporting year on the back of continuing marketing effort on the brand promotion and product diversification. Gross margins went up to around 60% compared with 53% of last year. The overall shop rental to turnover ratio was up to 25%. During the year, the Group opened a new store at the prime location of Causeway Bay and closed another non-profitable store. As at 31 March 2010, the Group operated four AREA 0264 stores in Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2010, the Group's cash and bank deposits were approximately HK\$190,885,000 (2009: HK\$156,594,000).

As at 31 March 2010, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$15,000,000 which were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$282,490,000 as at 31 March 2010 (2009: HK\$260,330,000) and total current liabilities of approximately HK\$25,315,000 (2009: HK\$25,218,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 11 times as at 31 March 2010 (2009: 10 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\$247,009,000 on as at 31 March 2009 to approximately HK\$272,345,000 at 31 March 2010. The increase was mainly attributable to operating profit generated during the year.



Management Discussion and Analysis

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.

CHARGES ON ASSETS

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

MATERIAL ACQUISITIONS/DISPOSAL

The Group had no material acquisition/disposals for the year ended 31 March 2010.

EMPLOYEE INFORMATION

As at 31 March 2010, the Group had 175 full times employees in Hong Kong and the PRC and the processing factory, an independent third party with which the Group has entered into a processing agreement, had around 1,245 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 2010, the Group did not have any contingent liabilities.



Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. CHAN King Hong Edwin, aged 52, 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 25 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 49, 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 25 years of experience in the manufacturing and sales of leather goods, product development and sampling design 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 46, 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 20 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.



Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. CHAU Cynthia Sin Ha *JP*, aged 70, 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.

Mr. FONG Pui Sheung David, *MH* aged 67, 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 40, 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 12 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.



Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. LI Shuk Han, aged 45, 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 21 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 34, is the financial controller 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 12 years of experience in auditing, finance, taxation and corporate development advisory. Prior to joining the Group, Mr. Lau worked for a consulting firm which provides business advisory services to clients. Mr. Lau joined the Group in July 2002.

Ms. CHAN Wai Foon, aged 54, 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 26 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 46, 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. Cho is also a director of Elite Leatherware Company Limited, a subsidiary of the Company. Mr. Cho has over 13 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 39, 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 17 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 2010, 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 2010.

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 to 12 of this Annual Report.

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



Corporate Governance Report

During the financial year ended 31 March 2010, 5 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 2010 is as follows:

	Number of board meetings attended
Executive Directors	
Mr. Chan King Hong, Edwin (<i>Chairman and Chief Executive Officer</i>)	4/5
Mr. Chan King Yuen, Stanley	4/5
Ms. Chan Wai Po, Rebecca	4/5
Independent non-executive directors	
Mr. Fong Pui Sheung, David	5/5
Ms. Chau Cynthia Sin Ha	5/5
Mr. Or Kam Chung, Janson	5/5

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 2010, 3 audit committee meetings were held by the Company. Individual attendance of each committee member at the meeting is as follows:

	Number of meetings attended
Independent non-executive directors	
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.

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 2009 and consolidated financial statements and results of the Group for the year ended 31 March 2010.



Corporate Governance Report

AUDITOR'S REMUNERATION

For the financial year ended 31 March 2010, the fees paid/payable to the Group's auditor, BDO Limited, is set out as follow:–

Nature of services	Amount <i>HK'\$000</i>
Audit Services	382
Non-audit services	74
Total:	456

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 2010, 2 remuneration committee meetings were held by the Company. Individual attendance of each committee member at the meeting is as follows:

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

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

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



Corporate Governance Report

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

NOMINATION COMMITTEE

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

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

During the financial year ended 31 March 2010, 1 nomination committee meeting was held by the Company. Individual attendance of each committee member at the meeting is as follows:

	Number of meeting attended
Independent non-executive directors	
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



Corporate Governance Report

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

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The Directors' responsibilities in preparing financial statements and auditor's responsibilities are set out in the Independent Auditor's Report on page 31 and 32 of this Annual 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 and 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 2010. 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 2010.

PRINCIPAL ACTIVITIES AND SEGMENTAL INFORMATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 15 to the financial statements.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2010 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 75.

The Directors has resolved to declare a final dividend of HK1.4 cents per ordinary share for the year ended 31 March 2010. The final dividend will be paid on or about 29 September 2010 to members, whose names appear on the register of members of the Company at the close of business on 13 September 2010.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 24 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 14 to the financial statements.

SHARE CAPITAL

Details of share capital of the Company are set out in note 22 to the financial statements.



Report of the Directors

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2010, amounted to HK\$85 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 2010.

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 76.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DIRECTORS

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

Executive directors

Mr. Chan King Hong Edwin

Mr. Chan King Yuen Stanley

Ms. Chan Wai Po Rebecca

Independent non-executive directors

Ms. Chau Cynthia Sin Ha

Mr. Fong Pui Sheung David

Mr. Or Kam Chung Janson



Report of the Directors

In accordance with Article 87 of the Company's Articles of Association, Mr. Chan King Hong, Edwin and Mr. Fong Pui Sheung, David 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 23 January 2009, their contracts were renewed for another two year term expiring on 28 February 2011.

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 26 March 2010, his contract was renewed for another two year term expiring on 15 June 2012.

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.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR

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.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2010, 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>5,788,000</u>	
		<u>53,515,352</u>	16.79
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 <i>(Note 2)</i>	
	Beneficial owner	<u>9,372,000</u>	
		<u>57,099,352</u>	17.91
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 <i>(Note 3)</i>	12.30

(b) *Share options*

Name	Capacity	Number of options held	Number of underlying shares
Chan King Hong Edwin	Beneficial owner	11,881,200 <i>(Note 4)</i>	11,881,200
	Interest of spouse	4,681,200 <i>(Note 1(b))</i>	4,681,200
Chan King Yuen Stanley	Beneficial owner	11,881,200 <i>(Note 4)</i>	11,881,200
Chan Wai Po Rebecca	Beneficial owner	11,881,200 <i>(Note 4)</i>	11,881,200

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 and 1,500,000 shares of the Company was granted to Ms. Li Shuk Han on 24 September 2003 and 22 July 2009 respectively, 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 4,681,200 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. On 22 July 2009, 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 8,700,000 shares of the Company.

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 2010.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2010, 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	53,515,352 <i>(Note iii)</i>	16.79
CIM Dividend Income Fund Limited	Investment manager	28,692,000	9.00
Yeoman Capital Management Pte Ltd	Investment manager	24,702,000 <i>(Note iv)</i>	7.75
Yeo Seng Chong	Interest of a controlled corporation	24,702,000	
	Interest of spouse	2,872,000	
		<u>27,574,000</u> <i>(Note v)</i>	8.65
Lim Mee Hwa	Interest of a controlled corporation	24,702,000	
	Beneficial owner	<u>2,872,000</u>	
		<u>27,574,000</u> <i>(Note vi)</i>	8.65
Yeoman 3-Rights Value Asia Fund	Beneficial owner	22,000,000 <i>(Note vii)</i>	6.90



Report of the Directors

(b) Share Options

Name	Capacity	Number of options held	Number of underlying shares
Li Shuk Han	Beneficial owner and interest of spouse	16,562,400 (Note viii)	16,562,400
Chan Woon Man	Beneficial owner	3,181,200 (Note ii)	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) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong, Edwin and 5,788,000 shares are held directly 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) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Yeoman Capital Management Pte Ltd, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, all of them are wholly owned by Yeoman Capital Management Pte Ltd, an investment manager, hold 22,000,000 shares, 350,000 shares and 1,252,000 shares in the Company respectively. By virtue of the SFO, Yeoman Capital Management Pte Ltd, being the holding company of Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, is deemed to be interested in the same 23,602,000 shares in the Company. In addition, 1,100,000 shares of the Company were held directly by Yeoman Capital Management Pte Ltd.
- (v) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Yeo Seng Chong, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, all of them are wholly owned by Yeoman Capital Management Pte Ltd, hold 22,000,000 shares, 350,000 shares and 1,252,000 shares in the Company respectively. In addition, 1,100,000 shares of the Company were held directly by Yeoman Capital Management Pte Ltd. 35% of the equity interests of Yeoman Capital Management Pte Ltd is held by Yeo Seng Chong. By virtue of the SFO, Yeo Seng Chong is deemed to be interested in the same 24,702,000 shares in the Company held by Yeoman Capital Management Pte Ltd, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2. In addition, 2,872,000 shares of the Company were held by Lim Mee Hwa, the spouse of Yeo Seng Chong. By virtue of the SFO, Yeo Seng Chong, being the spouse of Lim Mee Hwa, is also deemed to be interested in the same 2,872,000 shares of the Company held by Lim Mee Hwa.



Report of the Directors

- (vi) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Lim Mee Hwa, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, all of them are wholly owned by Yeoman Capital Management Pte Ltd, hold 22,000,000 shares, 350,000 shares and 1,252,000 shares in the Company respectively. In addition, 1,100,000 shares of the Company were held directly by Yeoman Capital Management Pte Ltd. 35% of the equity interests of Yeoman Capital Management Pte Ltd is held by Lim Mee Hwa. By virtue of the SFO, Lim Mee Hwa is deemed to be interested in the same 24,702,000 shares in the Company held by Yeoman Capital Management Pte Ltd, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2. In addition, 2,872,000 shares of the Company were held directly by Lim Mee Hwa.
- (vii) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Yeoman Capital Management Pte Ltd, being the holding company of Yeoman 3-Rights Value Asia Fund, Yeoman 3-Rights Value Asia Fund hold 22,000,000 shares in the Company.
- (viii) 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; and an option to subscribe for 8,700,000 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 1,500,000 shares of the Company granted to Ms. Li Shuk Han on 22 July 2009.

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 2010.

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.

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.



Report of the Directors

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 "Scheme Mandate Limit"). The Scheme Mandate Limit was refreshed on 5 September 2006. Upon refreshing of the Scheme Mandate Limit, the Company may grant options up to a maximum of 31,850,000 shares, representing 10% of the shares in issue of the Company as at 5 September 2006.

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	Options	Outstanding	Exercisable period	Exercise price per share
		as at 1 April 2009	granted	as at 31 Mar 2010		
(a) Executive directors						
Chan King Hong Edwin	24 Sept 2003 <i>(Note)</i>	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	-	8,700,000	8,700,000	22 July 2009 – 21 July 2019	0.57
Chan King Yuen Stanley	24 Sept 2003 <i>(Note)</i>	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	-	8,700,000	8,700,000	22 July 2009 – 21 July 2019	0.57
Chan Wai Po Rebecca	24 Sept 2003 <i>(Note)</i>	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	-	8,700,000	8,700,000	22 July 2009 – 21 July 2019	0.57
(b) Employees, in aggregate						
	26 May 2003 <i>(Note)</i>	60,000	-	60,000	26 May 2003 – 25 May 2013	0.58
	24 Sept 2003 <i>(Note)</i>	6,362,400	-	6,362,400	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	-	3,000,000	3,000,000	22 July 2009 – 21 July 2019	0.57
(c) Others, in aggregate						
	26 May 2003 <i>(Note)</i>	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>	26 May, 2003 – 25 May, 2013	0.58
Total		<u>18,966,000</u>	<u>29,100,000</u>	<u>48,066,000</u>		

Note: The Group has taken the advantage of the transitional provisions of HKFRS 2 in respect of the equity-settled awards for the share options granted and immediately vested before 1 January 2005; as a result the HKFRS 2 has not been applied.

All the options were immediately vested upon granted. The fair value of services received in return for share options granted on 22 July 2009 is measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on a Black-Scholes pricing model. The inputs into the model were as follows:

Spot price	HK\$0.57
Exercise price	HK\$0.57
Expected volatility	46.493%
Expected life of the share options	10 years
Expected dividend yield	3.90%
Risk free rate	2.328%



Report of the Directors

The expected volatility is based on the historic volatility of share prices of the Company. Expected dividends are based on historical dividend payment record of the Company. There were no market conditions associated with the share option grants. Under this share option scheme, HK\$4,904,000 of equity settled share-based payment expenses have been included in the consolidated statement of comprehensive income for the year ended 31 March 2010 (2009: nil) and the corresponding amount has been credited to share option reserve.

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	11%
– five largest suppliers combined	41%

Sales

– the largest customer	35%
– five largest customers combined	55%

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 2010, 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.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Chan King Hong Edwin

Chairman

Hong Kong, 19 July 2010



Independent Auditor's Report



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TO THE SHAREHOLDERS OF CHANCO INTERNATIONAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Chanco International Group Limited (the "Company") set out on pages 33 to 75, which comprise the consolidated and company statements of financial position as at 31 March 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company 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 report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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.



Independent Auditor's Report

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

OPINION

In our opinion, the consolidated 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 2010 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 Limited

Certified Public Accountants

Lesley Yeung Kit Kam

Practising Certificate Number P04342

Hong Kong, 19 July 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2010

		2010	2009
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	6	250,703	311,955
Cost of sales		<u>(171,454)</u>	<u>(227,627)</u>
Gross profit		79,249	84,328
Other income and gains		2,294	5,598
Selling and distribution costs		(19,894)	(17,205)
Administrative and other operating expenses		<u>(35,808)</u>	<u>(31,596)</u>
Profit before income tax expense	8	25,841	41,125
Income tax expense	11	<u>(3,858)</u>	<u>(4,499)</u>
Profit for the year attributable to owners of the Company	12	<u>21,983</u>	36,626
Other comprehensive income			
Change in fair value of available-for-sale investments		1,582	(1,338)
Exchange differences arising on translation of financial statements of operations outside Hong Kong		<u>55</u>	<u>454</u>
Other comprehensive income for the year		<u>1,637</u>	<u>(884)</u>
Total comprehensive income for the year attributable to owners of the Company		<u>23,620</u>	<u>35,742</u>
Earnings per share	13		
– Basic		<u>HK6.90 cents</u>	<u>HK11.49 cents</u>
– Diluted		<u>HK6.90 cents</u>	<u>HK11.47 cents</u>

Consolidated Statement of Financial Position

As at 31 March 2010

	<i>Notes</i>	2010 HK\$'000	2009 <i>HK\$'000</i>
Non-current asset			
Property, plant and equipment	14	8,876	9,482
Available-for-sale investments	16	4,161	2,579
Rental deposits		2,282	–
		<u>15,319</u>	<u>12,061</u>
Current assets			
Inventories	17	68,843	78,175
Trade and bills receivables	18	19,566	22,390
Other receivables, deposits and prepayments		2,599	2,983
Tax recoverable		597	188
Cash and cash equivalents		190,885	156,594
		<u>282,490</u>	<u>260,330</u>
Current liabilities			
Trade and bills payables	20	9,595	10,082
Other payables and accrued charges		14,915	13,945
Current tax liabilities		805	1,191
		<u>25,315</u>	<u>25,218</u>
Net current assets		<u>257,175</u>	<u>235,112</u>
Total assets less current liabilities		272,494	247,173
Non-current liabilities			
Deferred tax liabilities	21	149	164
Total net assets		<u>272,345</u>	<u>247,009</u>
Capital and reserves attributable to owners of the Company			
Share capital	22	3,188	3,188
Reserves		269,157	243,821
Total equity		<u>272,345</u>	<u>247,009</u>

On behalf of the Board

Chan King Hong Edwin
Executive Director

Chan King Yuen Stanley
Executive Director



Statement of Financial Position

As at 31 March 2010

	<i>Notes</i>	2010 HK\$'000	2009 <i>HK\$'000</i>
Non-current asset			
Investments in subsidiaries	15	48,181	48,181
Available-for-sale investments	16	4,161	2,579
		52,342	50,760
Current assets			
Other receivables		151	164
Amounts due from subsidiaries	19	22,885	26,879
Cash and cash equivalents		13,175	12,964
		36,211	40,007
Current liabilities			
Accrued charges		16	203
Net current assets			
		36,195	39,804
Total net assets			
		88,537	90,564
Capital and reserves attributable to owners of the Company			
Share capital	22	3,188	3,188
Reserves	24	85,349	87,376
Total equity			
		88,537	90,564

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 2010

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Foreign exchange reserve HK\$'000	Statutory and discretionary reserves HK\$'000 <i>(Note)</i>	Available- for-sale investment reserve HK\$'000	Retained earnings HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
At 1 April 2008	3,188	32,608	-	2,267	888	-	176,460	7,651	223,062
Total comprehensive income for the year	-	-	-	454	-	(1,338)	36,626	-	35,742
2008 final dividend paid	-	-	-	-	-	-	-	(7,651)	(7,651)
2009 interim dividend paid	-	-	-	-	-	-	(4,144)	-	(4,144)
2009 proposed final dividend	-	-	-	-	-	-	(3,188)	3,188	-
	-	-	-	454	-	(1,338)	29,294	(4,463)	23,947
At 31 March 2009 and 1 April 2009	3,188	32,608	-	2,721	888	(1,338)	205,754	3,188	247,009
Total comprehensive income for the year	-	-	-	55	-	1,582	21,983	-	23,620
Equity settled share-based payment	-	-	4,904	-	-	-	-	-	4,904
2009 final dividend paid	-	-	-	-	-	-	-	(3,188)	(3,188)
2010 proposed final dividend	-	-	-	-	-	-	(4,463)	4,463	-
	-	-	4,904	55	-	1,582	17,520	1,275	25,336
At 31 March 2010	3,188	32,608	4,904	2,776	888	244	223,274	4,463	272,345

Note:

The statutory and discretionary reserves are non-distributable and the transfer to these reserves are determined by the board of directors and in accordance with the relevant laws and regulations of the People's Republic of China (the "PRC"). These reserves can be used to offset accumulated losses, expand the scale of production and business and increase capital of a subsidiary in the PRC upon approval from the relevant authorities.

Consolidated Statement of Cash Flows

For the year ended 31 March 2010

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Cash flows from operating activities		
Profit before income tax expense	25,841	41,125
Adjustments for :		
Interest income	(1,529)	(3,529)
Dividend income from available-for-sale investments	(127)	(57)
Depreciation of property, plant and equipment	2,292	2,338
Loss on disposal of property, plant and equipment	286	129
Impairment loss/(reversal of impairment loss) on trade receivables	195	(122)
Write-down of inventories	727	807
Equity settled share-based payment expenses	4,904	-
Operating profit before working capital changes	32,589	40,691
Increase in rental deposits	(2,282)	-
Decrease/(increase) in inventories	8,612	(23,234)
Decrease in trade and bills receivables	2,641	12,345
Decrease in other receivables, deposits and prepayments	385	2,118
Decrease in trade and bills payables	(488)	(5,265)
Increase/(decrease) in other payables and accrued charges	966	(3,480)
Cash generated from operations	42,423	23,175
Hong Kong Profits Tax paid	(3,184)	(3,468)
PRC Enterprise Income Tax paid	(1,485)	(1,212)
Net cash from operating activities	37,754	18,495
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,971)	(1,948)
Purchase of available-for-sale investments	-	(3,917)
Interest received	1,529	3,529
Dividend received from available-for-sale investments	127	57
Net cash used in investing activities	(315)	(2,279)
Cash flows from financing activities		
Dividends paid	(3,188)	(11,795)
Net cash used in financing activities	(3,188)	(11,795)
Net increase in cash and cash equivalents	34,251	4,421
Cash and cash equivalents at beginning of year	156,594	151,867
Effect of exchange rate changes on cash and cash equivalents	40	306
Cash and cash equivalents at end of year, representing bank balances and cash	190,885	156,594



Notes to the Financial Statements

31 March 2010

1. GENERAL

Chanco International Group Limited (the “Company”) was 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. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” to the annual report. The Group, comprising the Company and its subsidiaries, is engaged in manufacturing and distribution of leather accessories and retail of fashion apparel and leather accessories.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for the current accounting period.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Interpretation 9 and HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Interpretation 18	Transfers of Assets from Customers

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(a) (Continued)

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for the following changes. All relevant changes in accounting policies and disclosures have been made in accordance with the provisions of the respective standards. Comparative figures have been restated or included in these financial statements in order to achieve a consistent presentation, except for HKFRS 7 (Amendments). The statements of financial position, previously known as balance sheets, at the beginning of the year of 2009 have not been presented as there were no changes to the originally published statements.

HKAS 1 (Revised), Presentation of Financial Statements

The revised standard affects certain disclosures of financial statements. Under the revised standard, the Income Statement, the Balance Sheet and the Cash Flow Statement are renamed as the “Statement of Comprehensive Income”, the “Statement of Financial Position” and the “Statement of Cash Flows” respectively. All income and expenses arising from transactions with non-owners are presented under the “Statement of Comprehensive Income”; while the owners’ changes in equity are presented in the “Statement of Changes in Equity”.

HKFRS 8, Operating Segments

HKFRS 8 replaces HKAS 14 “Segment Reporting”, and requires operating segments to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to the chief operating decision-maker as required by HKFRS 8, there are no changes to the operating segments and the relevant segment information on the adoption of HKFRS 8.

HKFRS 7 (Amendments), Improving Disclosures about Financial Instruments

The amendments to HKFRS 7 expand the disclosures relating to fair value measurements for financial instruments that are measured at fair value and liquidity risk of financial liabilities. A three-level fair value hierarchy has been introduced to categorise the fair value measurements according to the degree they are based on observable market data. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

(b) Potential impact arising on HKFRSs not yet effective

The following new or revised HKFRSs, potentially relevant to the Group’s operations, have been issued but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKFRSs (Amendments)	Improvements to HKFRSs 2010 ³
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions ⁴
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKFRS 3 (Revised)	Business Combinations ¹
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ⁴
HKAS 24 (Revised)	Related Party Disclosures ⁵
HKFRS 9	Financial Instruments ⁶

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

⁴ Effective for annual periods beginning on or after 1 July 2010

⁵ Effective for annual periods beginning on or after 1 January 2011

⁶ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

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

(c) Functional and presentation currency

The financial statements are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise of the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies are eliminated in full in preparing the consolidated financial statements.

(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.

In the Company’s statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.



Notes to the Financial Statements

31 March 2010

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Property, plant and equipment

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

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value using reducing balance method at the following principal annual rates:

Plant and machinery	–	30%
Furniture and fixtures	–	20%
Leasehold improvements	–	Annual rates as determined by shorter of expected useful lives and the unexpired period of the leases
Motor vehicles	–	30%

The annual rates, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Leasing

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (“operating leases”), the total rentals payable under the leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(e) Financial Instruments

(i) Financial assets

The Group classified its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets, including rental deposits, trade and bill receivables, other receivables, deposits, cash and cash equivalents, and amounts due from subsidiaries, 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, and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available for sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial Instruments (Continued)

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- 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 debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loan and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. 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.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial Instruments (Continued)

(iii) Financial liabilities

Financial liabilities at amortised cost, including trade and bills payables, other payables and accrued charges, are initially recognised at fair value, net of directly attributable costs incurred, and are subsequently measured at amortised cost, using effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

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

(vi) 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 instrument. 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 contract 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial Instruments (Continued)

(vii) 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.

(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) Revenue recognition

Revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

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

Dividend income is recognised when the right to receive the dividend is established.

(h) Income taxes

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. 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 end of reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Income taxes (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income, in which case the taxes are also recognised in other comprehensive income.

(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 end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK\$) 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 end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve. Exchange differences recognised in profit or loss of group entities’ separate or individual financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as the foreign exchange reserve.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Employee benefits

(i) Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss 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.

(iii) Employee entitlements

Employee entitlements to annual leave and statutory long service payments due on retirement or termination are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the end of reporting period. The estimated liability is calculated net of expected reduction from benefits available from the Mandatory Provident Fund in Hong Kong or other equivalent funds in the People's Republic of China.

Employee entitlements to sick leave and other non-accumulated short-term compensated absences are not recognised until the time of leave.

(k) Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment and investments in subsidiaries 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.

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.

(m) 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.

(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 statement of financial position. Final dividends are recognised as a liability when they are approved by the shareholders.



Notes to the Financial Statements

31 March 2010

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The following are the key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year:

Write down of inventories

The management of the Company estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write down inventories to their net realisable values. Where the subsequent estimated net realisable value of inventories is less than the original estimate, a material write-down may arise.

Impairment loss on trade receivables

Impairment loss on trade receivables is made based on the evaluation of collectability and ageing analysis of accounts and on directors' judgement by reference to the estimation of the future cash flow discounted at an effective interest rate to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. TURNOVER

Turnover, which is also the revenue, represents the net amounts received and receivable for goods sold to external customers, less returns and discount, if any, during the year.

7. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

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

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-makers for assessment of segment performance.

Notes to the Financial Statements

31 March 2010

7. SEGMENT REPORTING (Continued)

(a) Reportable segments

	Manufacturing business		Retail business		Total	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	218,904	285,200	31,799	26,755	250,703	311,955
Inter-segment revenue	1,592	2,789	–	–	1,592	2,789
Reportable segment revenue	220,496	287,989	31,799	26,755	252,295	314,744
Reportable segment profit	26,224	35,559	3,974	2,997	30,198	38,556
Depreciation of property, plant and equipment	1,390	1,488	597	574	1,987	2,062
Reportable segment assets	110,335	100,984	14,600	10,157	124,935	111,141
Additions to property, plant and equipment	115	1,444	908	456	1,023	1,900
Reportable segment liabilities	23,111	22,571	1,384	1,254	24,495	23,825

(b) Reconciliation of reportable segment revenues, profit, assets and liabilities

	2010	2009
	HK\$'000	HK\$'000
Revenue		
Reportable segment revenue	252,295	314,744
Elimination of inter-segment revenue	(1,592)	(2,789)
Consolidated revenue	250,703	311,955
Profit before income tax expense		
Reportable segment profit	30,198	38,556
Elimination of inter-segment profits	51	(109)
Interest income	1,529	3,529
Dividend income from available-for-sale investments	127	57
Unallocated other income and gains	14	15
Unallocated corporate expenses	(6,078)	(923)
Consolidated profit before income tax expense	25,841	41,125

Notes to the Financial Statements

31 March 2010

7. SEGMENT REPORTING *(Continued)*

(b) Reconciliation of reportable segment revenues, profit, assets and liabilities (Continued)

	2010	2009
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment		
Reportable segment depreciation	1,987	2,062
Depreciation of unallocated property, plant and equipment	305	276
	<u>2,292</u>	<u>2,338</u>
Consolidated depreciation of property, plant and equipment	2,292	2,338
Additions to property, plant and equipment		
Reportable segment additions	1,023	1,900
Unallocated additions to property, plant and equipment	948	48
	<u>1,971</u>	<u>1,948</u>
Consolidated additions to property, plant and equipment	1,971	1,948
Assets		
Reportable segment assets	124,935	111,141
Available-for-sale investments	4,161	2,579
Tax recoverable	597	188
Unallocated corporate cash and cash equivalents	165,823	156,594
Other unallocated corporate assets	2,293	1,889
	<u>297,809</u>	<u>272,391</u>
Consolidated total assets	297,809	272,391
Liabilities		
Reportable segment liabilities	24,495	23,825
Current tax liabilities	805	1,191
Deferred tax liabilities	149	164
Unallocated corporate liabilities	15	202
	<u>25,464</u>	<u>25,382</u>
Consolidated total liabilities	25,464	25,382

Notes to the Financial Statements

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7. SEGMENT REPORTING *(Continued)*

(c) Geographical information

The following table provides an analysis of the Group's revenue from external customers and property, plant and equipment.

	Revenue from external customers		Property, plant and equipment	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Hong Kong (place of domicile)	<u>45,776</u>	43,084	<u>2,841</u>	2,364
Japan	87,776	115,387	-	-
Europe	51,185	80,320	-	-
The United States of America	20,264	20,522	-	-
PRC	19,859	20,639	6,035	7,118
Other countries	<u>25,843</u>	32,003	-	-
Total	<u>204,927</u>	268,871	<u>6,035</u>	7,118
	<u>250,703</u>	311,955	<u>8,876</u>	9,482

(d) Information about a major customer

Revenues from one customer of the Group's manufacturing business segment represent approximately HK\$87,410,000 (2009: HK\$110,715,000) of the Group's total revenue.

8. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	2010 HK\$'000	2009 HK\$'000
Auditor's remuneration	418	418
Cost of inventories recognised as expenses	171,454	227,627
Staff costs, excluding directors' emoluments <i>(note 9)</i>	16,615	16,042
Depreciation of property, plant and equipment	2,292	2,338
Loss on disposal of property, plant and equipment	286	129
Impairment loss/(reversal of impairment loss) on trade receivables	195	(122)
Write-down of inventories	727	807
Foreign exchange (gain)/losses, net	(242)	814
Interest income	(1,529)	(3,529)
Dividend income from available-for-sale investments	<u>(127)</u>	<u>(57)</u>

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9. STAFF COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Salaries and other benefits	15,266	15,051
Equity settled share-based payment expenses	506	–
Retirement benefits scheme contributions	843	991
	<u>16,615</u>	<u>16,042</u>

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Directors' fees	150	150
Other emoluments:		
Salaries and other benefits	5,064	4,380
Discretionary bonuses	3,000	3,500
Equity settled share-based payment expenses	4,398	–
Retirement benefits scheme contributions	60	60
	<u>12,672</u>	<u>8,090</u>

Details of directors' emoluments for the year ended 31 March 2010 are as follows:

	Fees <i>HK\$'000</i>	Salaries and other benefits <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Equity settled share-based payment expenses <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors:						
Chan King Hong Edwin	–	1,728	1,200	1,466	24	4,418
Chan King Yuen Stanley	–	1,728	1,200	1,466	24	4,418
Chan Wai Po Rebecca	–	1,608	600	1,466	12	3,686
Independent non- executive directors:						
Chau Cynthia Sin Ha	50	–	–	–	–	50
Fong Pui Sheung David	50	–	–	–	–	50
Or Kam Chung Janson	50	–	–	–	–	50
Total	<u>150</u>	<u>5,064</u>	<u>3,000</u>	<u>4,398</u>	<u>60</u>	<u>12,672</u>

Notes to the Financial Statements

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

(a) Directors' emoluments (Continued)

Details of directors' emoluments for the year ended 31 March 2009 are as follows:

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement benefits scheme contributions	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive directors:					
Chan King Hong Edwin	–	1,500	1,500	24	3,024
Chan King Yuen Stanley	–	1,500	1,500	24	3,024
Chan Wai Po Rebecca	–	1,380	500	12	1,892
Independent non- executive directors:					
Chau Cynthia Sin Ha	50	–	–	–	50
Fong Pui Sheung David	50	–	–	–	50
Or Kam Chung Janson	50	–	–	–	50
Total	<u>150</u>	<u>4,380</u>	<u>3,500</u>	<u>60</u>	<u>8,090</u>

No directors waived any emoluments during the two years ended 31 March 2010.

The discretionary bonuses are determined by reference to the financial performance of the Group and the performance of the individual director for each financial year.



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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2009: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2009: two) individuals are as follows:

	2010	2009
	HK\$'000	HK\$'000
Salaries and other benefits	1,215	1,661
Discretionary bonuses	220	95
Equity settled share-based payment expenses	506	–
Retirement benefits scheme contributions	24	24
	1,965	1,780

The emoluments of each of the remaining individuals were below HK\$1,000,000 for the two years ended 31 March 2010.

During the two years ended 31 March 2010, 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

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11. INCOME TAX EXPENSE

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

	2010	2009
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax		
– tax for the year	2,362	3,357
– overprovision in respect of prior years	(15)	(13)
	2,347	3,344
Current tax – PRC Enterprise Income Tax		
– tax for the year	1,271	1,234
– underprovision in respect of prior years	255	–
	1,526	1,234
Deferred tax		
– current year	(15)	(65)
– attributable to change in tax rate	–	(14)
	(15)	(79)
Income tax expense	3,858	4,499

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the year.

The PRC Enterprise Income Tax rate for the Company's subsidiary in the PRC is 25% (2009: 25%).



Notes to the Financial Statements

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11. INCOME TAX EXPENSE *(Continued)*

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

	2010	2009
	HK\$'000	HK\$'000
Profit before income tax expense	25,841	41,125
Tax calculated at the domestic tax rate of 16.5% (2009: 16.5%)	4,264	6,786
Tax effect of expenses not deductible for tax purpose	15,902	20,244
Tax effect of income not taxable for tax purpose	(17,074)	(22,869)
Under/(over) provision in respect of prior years	240	(13)
Effect on opening deferred tax balance resulting from a decrease in applicable tax rate	-	(14)
Effect of different tax rate of a subsidiary operating in other jurisdiction	562	436
Tax effect of deductible temporary difference not recognised	(79)	96
Tax effect of tax losses not recognised	43	-
Utilisation of tax losses previously not recognised	-	(167)
Income tax expense	3,858	4,499

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders for the year includes a loss of HK\$5,325,000 (2009: HK\$295,000) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

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13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company for the year of HK\$21,983,000 (2009: HK\$36,626,000) and weighted average number of 318,804,000 (2009: 318,804,000) ordinary shares in issue during the year.

Diluted earnings per share for the year is equal to the basic earnings per share for the year as there is no dilutive effect on the outstanding share options. For the year ended 31 March 2009, the calculation of diluted earnings per share for the year was based on the Group's profit attributable to owners of the Company for the year of HK\$36,626,000 and the weighted average number of 319,328,571 ordinary shares. The weighted average number of ordinary shares used in the calculation was the weighted average number of 318,804,000 ordinary shares in issue during the year ended 31 March 2009, as used in the basic earnings per share calculation, and the weighted average number of 524,571 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year ended 31 March 2009.

14. PROPERTY, PLANT AND EQUIPMENT

The Group	Plant and machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost					
At 1 April 2009	8,921	4,935	11,350	870	26,076
Additions	5	197	821	948	1,971
Disposals	–	(146)	(1,002)	–	(1,148)
Exchange realignment	4	–	–	1	5
	<u>8,930</u>	<u>4,986</u>	<u>11,169</u>	<u>1,819</u>	<u>26,904</u>
At 31 March 2010	<u>8,930</u>	<u>4,986</u>	<u>11,169</u>	<u>1,819</u>	<u>26,904</u>
Accumulated depreciation					
At 1 April 2009	7,366	3,364	5,290	574	16,594
Provided for the year	469	347	1,104	372	2,292
Eliminated on disposals	–	(111)	(751)	–	(862)
Exchange realignment	3	–	–	1	4
	<u>7,838</u>	<u>3,600</u>	<u>5,643</u>	<u>947</u>	<u>18,028</u>
At 31 March 2010	<u>7,838</u>	<u>3,600</u>	<u>5,643</u>	<u>947</u>	<u>18,028</u>

Notes to the Financial Statements

31 March 2010

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group	Plant and machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost					
At 1 April 2008	8,834	4,680	9,889	863	24,266
Additions	48	310	1,590	–	1,948
Disposals	–	(57)	(129)	–	(186)
Exchange realignment	39	2	–	7	48
	<u>8,921</u>	<u>4,935</u>	<u>11,350</u>	<u>870</u>	<u>26,076</u>
At 31 March 2009	<u>8,921</u>	<u>4,935</u>	<u>11,350</u>	<u>870</u>	<u>26,076</u>
Accumulated depreciation					
At 1 April 2008	6,588	3,078	4,167	446	14,279
Provided for the year	747	313	1,152	126	2,338
Eliminated on disposals	–	(28)	(29)	–	(57)
Exchange realignment	31	1	–	2	34
	<u>7,366</u>	<u>3,364</u>	<u>5,290</u>	<u>574</u>	<u>16,594</u>
At 31 March 2009	<u>7,366</u>	<u>3,364</u>	<u>5,290</u>	<u>574</u>	<u>16,594</u>
Net book value					
At 31 March 2010	<u>1,092</u>	<u>1,386</u>	<u>5,526</u>	<u>872</u>	<u>8,876</u>
At 31 March 2009	<u>1,555</u>	<u>1,571</u>	<u>6,060</u>	<u>296</u>	<u>9,482</u>

Notes to the Financial Statements

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15. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	HK\$'000	HK\$'000
Unlisted shares, at cost	48,181	48,181

Details of the Company's subsidiaries at 31 March 2010 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 (<i>Note</i>)	PRC	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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16. AVAILABLE-FOR-SALE INVESTMENTS

	The Group and the Company	
	2010	2009
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at fair value	<u>4,161</u>	<u>2,579</u>

Fair value is determined by reference to published price quotation in an active market.

17. INVENTORIES

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Raw materials	55,450	61,703
Work in progress	4,579	6,340
Finished goods	<u>8,814</u>	<u>10,132</u>
	<u>68,843</u>	<u>78,175</u>

18. TRADE AND BILLS RECEIVABLES

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Trade and bills receivables	20,212	22,904
Less: impairment loss	<u>(646)</u>	<u>(514)</u>
	<u>19,566</u>	<u>22,390</u>



Notes to the Financial Statements

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18. TRADE AND BILLS RECEIVABLES (Continued)

Customers are generally granted with credit terms of 30 to 90 days. The ageing analysis of trade and bills receivables (net of impairment loss) at the end of reporting period is as follows:

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Current to 30 days	10,986	12,574
31 – 60 days	3,329	3,090
61 – 90 days	4,103	4,786
91 – 120 days	866	1,392
121 – 365 days	7	326
Over 365 days	275	222
	<u>19,566</u>	<u>22,390</u>

The ageing of trade and bills receivables which are past due but not impaired is as follows:

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Less than 30 days past due	9,885	10,643
31 – 60 days past due	3,315	1,333
61 – 90 days past due	1,151	1,467
91 – 120 days past due	32	122
121 – 365 days past due	2	409
Over 365 days past due	275	148
	<u>14,660</u>	<u>14,122</u>

Receivables that were neither past due nor impaired related to customers for whom there was no recent history of default. Receivables that were past due but not impaired related to customers that have good creditworthiness. Based on past experience, the management considered no impairment is necessary as there has not been a significant change in credit quality of these balances, which are still considered fully recoverable.



Notes to the Financial Statements

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18. TRADE AND BILLS RECEIVABLES *(Continued)*

The movement in the impairment loss on trade and bills receivables during the year is as follows:

	The Group	
	2010	2009
	HK\$'000	HK\$'000
At beginning of the year	514	636
Impairment loss recognised	211	11
Reversal of impairment loss previously recognised	(16)	(133)
Bad debts written off	(63)	–
	<hr/>	<hr/>
At end of the year	646	514

The Group recognised impairment loss on individual assessment based on the accounting policy stated in note 4(e)(ii).

19. AMOUNTS DUE FROM SUBSIDIARIES

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

20. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables at the end of reporting period is as follows:

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Current to 30 days	8,233	7,098
31 – 60 days	578	2,203
61 – 90 days	376	339
91 – 120 days	213	219
121 – 365 days	131	184
Over 365 days	64	39
	<hr/>	<hr/>
	9,595	10,082



Notes to the Financial Statements

31 March 2010

21. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation
	<i>HK\$'000</i>
At 1 April 2008	243
Credit to consolidated statement of comprehensive income for the year (<i>note 11</i>)	(65)
Effect of change in tax rate	<u>(14)</u>
At 31 March 2009 and 1 April 2009	164
Credit to consolidated statement of comprehensive income for the year (<i>note 11</i>)	<u>(15)</u>
At 31 March 2010	<u>149</u>

At 31 March 2010, the Group had deductible temporary difference of HK\$1,306,000 and unused tax losses of HK\$261,000 (2009: deductible temporary difference of HK\$1,728,000). The deductible temporary difference and unused tax losses can be carried forward indefinitely. No deferred tax asset has been recognised in relation to such deductible temporary difference and unused tax losses as it is not probable that taxable profit will be available against which the deductible temporary difference and unused tax losses can be utilised.

No deferred tax liability has been recognised on temporary difference of HK\$8,614,000 (2009: HK\$4,774,000) relating to the undistributed earnings of the subsidiary in the PRC because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not reverse in the foreseeable future.

At 31 March 2010, the Company did not have other material unprovided deferred tax assets and liabilities (2009: nil).



Notes to the Financial Statements

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22. SHARE CAPITAL

(a) *Authorised and issued share capital*

	The Company	
	Number of share	Amount
		<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 April 2008, 31 March 2009, 1 April 2009 and 31 March 2010	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
At 1 April 2008	318,500,000	3,185
Shares issued under share option scheme	<u>304,000</u>	<u>3</u>
At 31 March 2009, 1 April 2009 and 31 March 2010	<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 Group's ability to continue as a going concern in order 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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23. 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 years ended 31 March 2009 and 2010.

Name or category of participant	Date of grant	Outstanding	Granted during the year	Outstanding	Exercisable period	Exercise price per share HK\$
		as at 1 April 2008, 31 March 2009 and 1 April 2009		as at 31 March 2010		
(a) Executive directors						
Chan King Hong Edwin	24 Sept 2003	3,181,200	–	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	–	8,700,000	8,700,000	22 July 2009 – 21 July 2019	0.570
Chan King Yuen Stanley	24 Sept 2003	3,181,200	–	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	–	8,700,000	8,700,000	22 July 2009 – 21 July 2019	0.570
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	–	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	–	8,700,000	8,700,000	22 July 2009 – 21 July 2019	0.570
(b) Employees, in aggregate						
	26 May 2003	60,000	–	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
	22 July 2009	–	3,000,000	3,000,000	22 July 2009 – 21 July 2019	0.570
(c) Others, in aggregate						
	26 May 2003	3,000,000	–	3,000,000	26 May 2003 – 25 May 2013	0.580
Total		18,966,000	29,100,000	48,066,000		
Weighted average exercise price		HK\$0.790	HK\$0.570	HK\$0.657		



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23. SHARE OPTIONS *(Continued)*

The options outstanding at 31 March 2010 had an exercise price of HK\$0.57, HK\$0.58 or HK\$0.83 (2009: HK\$0.58 or HK\$0.83) and a weighted average remaining contractual life of 6.99 years (2009: 4.43 years).

Note: The Group has taken the advantage of the transitional provisions of HKFRS 2 in respect of the above equity-settled awards for the share options granted and immediately vested before 1 January 2005; as a result the HKFRS 2 has not been applied.

All the options were immediately vested upon granted. The fair value of services received in return for share options granted on 22 July 2009 is measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on a Black-Scholes pricing model. The inputs into the model were as follows:

Spot price	HK\$0.57
Exercise price	HK\$0.57
Expected volatility	46.493%
Life of the share options	10 years
Expected dividend yield	3.9%
Risk-free rate	2.328%

The expected volatility is based on the historical volatility of share prices of the Company. Expected dividend yield is based on historical dividend payment record of the Company. There were no market conditions associated with the share option grants.

The Group has recognised a equity settled share-based payment expenses of HK\$4,904,000 during the year (2009: nil), of which HK\$506,000 is for the Group's employee (note 9) and HK\$4,398,000 is for the Company's directors (note 10). The corresponding amount has been credited to share option reserve.

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24. RESERVES

The Company

	Share premium HK\$'000	Share option reserve HK\$'000	Available- for-sale investment reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
At 1 April 2008	80,779	-	-	2,374	7,651	90,804
Profit for the year	-	-	-	9,705	-	9,705
Change in fair value of available-for-sale investments	-	-	(1,338)	-	-	(1,338)
2008 final dividend paid	-	-	-	-	(7,651)	(7,651)
2009 interim dividend paid	-	-	-	(4,144)	-	(4,144)
2009 proposed final dividend	-	-	-	(3,188)	3,188	-
At 31 March 2009 and 1 April 2009	80,779	-	(1,338)	4,747	3,188	87,376
Loss for the year	-	-	-	(5,325)	-	(5,325)
Change in fair value of available-for-sale investments	-	-	1,582	-	-	1,582
Equity settled share-based payment	-	4,904	-	-	-	4,904
2009 final dividend paid	-	-	-	-	(3,188)	(3,188)
2010 proposed final dividend	-	-	-	(4,463)	4,463	-
At 31 March 2010	80,779	4,904	244	(5,041)	4,463	85,349

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Available-for-sale investment reserve	Gains/losses arising on recognising financial assets classified as available-for-sale at fair value.
Share option reserve	Cumulative expenses recognised on the granting of share options to the employees over the vesting period.
Retained earnings/accumulated losses	Cumulative net gains and losses recognised in profit or loss.



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25. DIVIDENDS

	2010	2009
	HK\$'000	HK\$'000
2009 interim dividend of HK\$0.013 per ordinary share	–	4,144
Proposed final dividend of HK\$0.014 (2009: HK\$0.01) per ordinary share	<u>4,463</u>	<u>3,188</u>
	<u>4,463</u>	<u>7,332</u>

The proposed final dividend of HK\$0.014 (2009: HK\$0.01) per share has been proposed by the directors on 19 July 2010 and are subject to approval by the shareholders in forthcoming annual general meeting.

The amount of proposed final dividend is based on 318,804,000 shares in issue as at 19 July 2010 (2009: 318,804,000 shares in issue as at 21 July 2009).

The proposed dividends are not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ended 31 March 2011.

The Company had accumulated losses of HK\$5,041,000 at 31 March 2010. On 30 June 2010, a subsidiary of the Company declared an interim dividend of HK\$6,500,000 to the Company. After the dividend income was recognised, the Company had sufficient distributable profit for the distribution of the proposed dividend on 19 July 2010.

26. CONTINGENT LIABILITIES

At 31 March 2010, the Company issued a guarantee to banks in respect of general facilities granted to its subsidiaries to the extent of HK\$15,000,000 (2009: HK\$15,000,000), of which HK\$1,262,000 (2009: HK\$2,854,000) was utilised by the subsidiaries at 31 March 2010. The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured and its transaction price was nil.

In addition, the Company issued guarantees to landlords in respect of the lease agreements entered into by a subsidiary for certain retail outlets. At 31 March 2010, there were no rental payables by the subsidiary under these lease agreements (2009: nil) and the non-cancellable future minimum lease payment under these lease agreements was HK\$12,403,000 (2009: HK\$5,949,000).

Notes to the Financial Statements

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27. OPERATING LEASES

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 five years, and the leases for certain retail outlets include contingent rents, which are determined by applying pre-determined percentages to sales less the basic rentals of the respective leases.

The lease payments recognised as expenses during the year are as follows:

	2010	2009
	HK\$'000	HK\$'000
Minimum lease payments	12,326	10,434
Contingent rents	606	188
	12,932	10,622

The total future minimum lease payments are due as follows:

	2010	2009
	HK\$'000	HK\$'000
Not later than one year	11,481	6,570
Later than one year and not later than five years	4,880	3,258
	16,361	9,828

The above lease commitments only include commitments for basic rentals, and do not include commitments for contingent rents, if any, as it is not possible to determine in advance the amount of such additional rentals.

28. CAPITAL COMMITMENTS

	The Group	
	2010	2009
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	236	–



Notes to the Financial Statements

31 March 2010

29. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2010	2009
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	<u>264</u>	<u>264</u>

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

(b) *Compensation of key management personnel*

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

	2010	2009
	HK\$'000	HK\$'000
Short-term benefits	11,655	11,536
Equity settled share-based payment expenses	4,904	–
Post employment benefits	<u>120</u>	<u>120</u>
	<u>16,679</u>	<u>11,656</u>

30. 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.

31. FINANCIAL RISK MANAGEMENT

Exposure to currency, interest rate, credit and liquidity risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its available-for-sale investments entities and movements in its own equity share price.

These risks are limited by the Group's financial management policies and practices described below.

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, mainly denominated in United States Dollars ("USD"), Renminbi ("RMB") and Euro, which expose the Group to currency risk. Certain financial assets and liabilities of the Group are also denominated in USD and RMB. As HK\$ is pegged to USD, the Group does not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD. It is estimated that an appreciation or depreciation of 4% (2009: 5%) in RMB against HK\$, and an appreciation or depreciation of 9% (2009: 10%) in Euro against HK\$, at 31 March 2010 and 2009 respectively, with all other variables held constant, would have insignificant effects on the profit or other components of equity of the Group for the years ended 31 March 2010 and 2009. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) 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 arise.

At 31 March 2010 and 2009, 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 profit or other components of equity of the Group for the years ended 31 March 2010 and 2009.

(iii) 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 2010 and 2009 in relation to each class of recognised financial assets is the carrying amount of those financial assets as stated in the statement of financial position. 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 for bank deposits is limited because the counterparties are banks with high credit-ratings.

31. FINANCIAL RISK MANAGEMENT *(Continued)*

(iv) Liquidity risk

Internally generated cash flows 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 their carrying amount included in the statement of financial position.

(v) Equity price risk

The Group is exposed to equity price changes arising from equity instruments classified as available-for-sale investments. All of these investments are listed on the Stock Exchange of Hong Kong Limited. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

At 31 March 2010 and 2009, it is estimated that an increase or decrease of 20% in the prices of the respective equity instruments, with all other variables held constant, would have insignificant effect on the profit or other components of equity of the Group for the years ended 31 March 2010 and 2009.

(vi) Fair values

(a) The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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31. FINANCIAL RISK MANAGEMENT *(Continued)*

(vi) Fair values (Continued)

- (a) The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy: *(Continued)*

	The Group and the Company			
	2010			
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Available-for-sale investments				
– Listed	4,161	–	–	4,161

- (b) The fair values of financial assets and financial liabilities are determined as follows:
- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures).
 - the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19 July 2010.



Five Year Financial Summary

31 March 2010

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

	2010	2009	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Results					
Profit for the year	<u>21,983</u>	<u>36,626</u>	<u>51,623</u>	<u>40,227</u>	<u>41,501</u>
Assets and liabilities					
Total assets	297,809	272,391	257,104	214,468	182,635
Total liabilities	<u>(25,464)</u>	<u>(25,382)</u>	<u>(34,042)</u>	<u>(26,641)</u>	<u>(21,782)</u>
Shareholders funds	<u>272,345</u>	<u>247,009</u>	<u>223,062</u>	<u>187,827</u>	<u>160,853</u>