

ANNUAL REPORT 2011

The Premier  
**DESIGNER &  
MANUFACTURER**  
OF QUALITY LEATHER ACCESSORIES

**CHANCO INTERNATIONAL GROUP LIMITED**

卓高國際集團有限公司

(於開曼群島註冊成立之有限公司)

(Stock Code : 0264)



# Urban Stranger

IN NEW YORK

Collection — Lost in 5<sup>th</sup> Avenue  
Winter Runway



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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

Bank of Communications Co. Ltd. Hong Kong Branch

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 609

Grand Cayman KY1-1107

Cayman Islands

## HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

## COMPANY WEBSITE

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

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

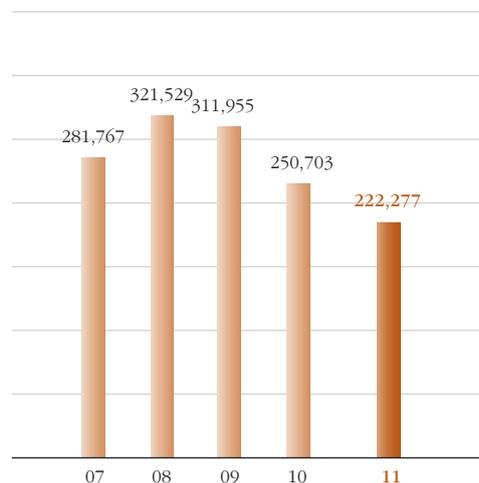
## STOCK CODE

264

# Financial Highlights

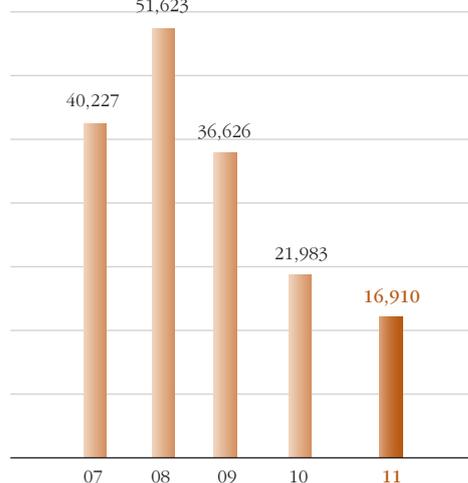
## TURNOVER

(HK\$'000)



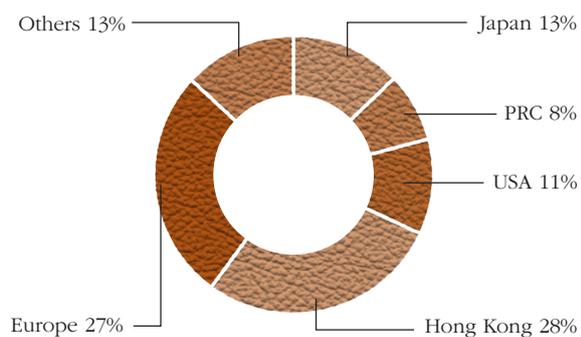
## PROFIT FOR THE YEAR

(HK\$'000)

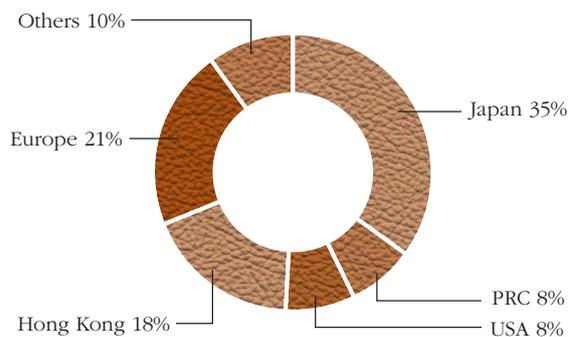


## TURNOVER BY GEOGRAPHICAL SEGMENT

Financial Year 2011

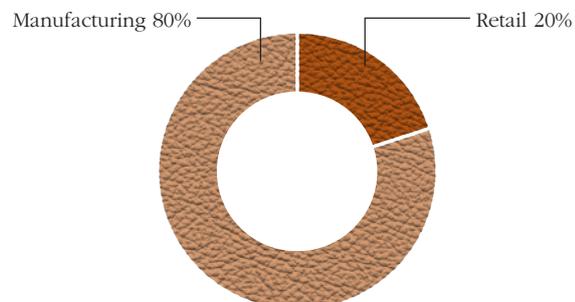


Financial Year 2010

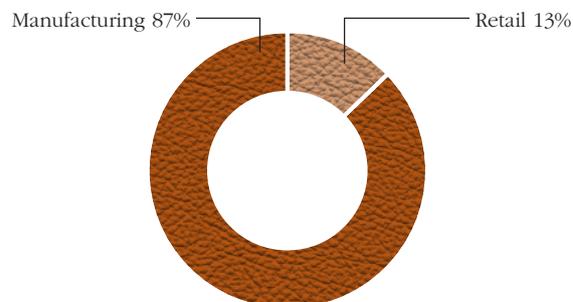


## TURNOVER BY BUSINESS SEGMENT

Financial Year 2011



Financial Year 2010



## Financial Highlights

	<b>2011</b>	2010	Change
	<b>HK\$'000</b>	HK\$'000	
<b><i>Operating results</i></b>			
Turnover	<b>222,277</b>	250,703	-11.3%
Gross Profit	<b>72,626</b>	79,249	-8.4%
Profit before income tax expense	<b>20,053</b>	25,841	-22.4%
Profit for the year	<b>16,910</b>	21,983	-23.1%
<b><i>Business performance ratios</i></b>			
Gross profit margin	<b>32.7%</b>	31.6%	
Net profit margin	<b>7.6%</b>	8.8%	
Return on shareholders' equity	<b>5.9%</b>	8.1%	
Current ratio	<b>12.36</b>	11.16	
Quick ratio	<b>10.05</b>	8.44	
Debt ratio	<b>0.08</b>	0.09	
<b><i>Share data (as at year end date)</i></b>			
Shares in issue ('000)	<b>318,804</b>	318,804	
Shares closing price	<b>HK\$0.55</b>	HK\$0.63	
Market capitalization (HK\$'000)	<b>175,342</b>	200,847	
Basic earnings per share	<b>HK5.30 cents</b>	HK6.90 cents	
Price earnings ratio	<b>10.38</b>	9.13	
Interim dividend per share	<b>Nil</b>	Nil	
Final dividend per share	<b>HK0.8 cent</b>	HK1.4 cents	
Total dividend per share	<b>HK0.8 cent</b>	HK1.4 cents	
Dividend payout ratio	<b>15.1%</b>	20.3%	
Net asset value per share	<b>HK\$0.90</b>	HK\$0.85	
Price-to-book value ratio	<b>0.61</b>	0.74	

# 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 2011.

2010 marked another year of challenges for Chanco. The global economy has gradually recovered from the financial crisis. Other than Japan, we saw our export sales to major markets regained growth momentum even though the pace of recovery was uneven and also varied across regions. Although the global economy has continued to recover, it remains fragile and volatile. In the year under review, our manufacturing business was still affected by highly unstable customer demands and harsh market conditions. Sales to Japan have continued to reduce since the first half of the financial year 2011. Under such circumstances, we have carefully navigated our business with utmost prudence during the reporting year.

In 2010, the Hong Kong economy stayed robust. Hong Kong retail sales continued to grow notably on the back of strong rebound of Hong Kong economy as well as vibrant inbound tourism. Our retail sales continued to grow but operating profit decreased. The sales performance of our strategic store in Causeway Bay was far from satisfactory. Nevertheless, we are still pleased with the progress we have made in our brand equity enhancement in the past year. As at 31 March 2011, we operated five AREA 0264 stores in Hong Kong.

## FINANCIAL PERFORMANCE

The Group's turnover dropped from HK\$250,703,000 in the financial year 2010 to HK\$222,277,000 in the financial year 2011, as the Group experienced lower sales volume in manufacturing business. The Group's gross profit reduced from HK\$79,249,000 to HK\$72,626,000, a decrease of approximately 8.4%. Gross profit margin increased slightly from 31.6% to 32.7%. This was mainly due to the increase in the proportion of profit contribution from retail business.

Other income and gains mainly represents bank interest income and dividend income from investment in securities. In the financial year 2011, other income and gains reduced slightly to HK\$2,118,000 (2010: HK\$2,294,000).

Selling and distribution expenses increased from HK\$19,894,000 to HK\$24,774,000. This was largely attributed to increase of staff costs and rental expenses in relation to the Group's retail business. Staff costs and rental expenses increased due largely to the increase in the number of stores and inclusion of full year rental expenses of the Group's strategic store in Causeway Bay in the current year.

Administrative and other operating expenses decreased from HK\$35,808,000 to HK\$29,917,000. This was largely due to one-off share based payment expense of HK\$4,904,000 recognized in last year. In addition, payment of performance bonus to the executive directors decreased in the financial year 2011.

As a result, the Group's net profit attributable to shareholders decreased by 23.1% to HK\$16,910,000. If the one-off share based payment expense of HK\$4,904,000 recognized in last year was excluded, the Group's net profit attributable to shareholders would have decreased by 37.1% when compared with last year. Basic earnings per share was HK5.3 cents compared to HK6.9 cents of last year.

### BUSINESS REVIEW

#### *Manufacturing Business*

Manufacturing business continued to be the major revenue contributor, accounting for about 80.5% of the Group's turnover even though we saw a considerable drop in sales this year. This segment recorded revenue from external customers of HK\$178,847,000 in the financial year 2011, downed around 18.3% from HK\$218,904,000 in the financial year 2010. The decline of sales was primary due to the decrease of sales to Japan. Export sales to Japan decreased from HK\$87,776,000 to HK\$28,544,000 as a result of unexpected reduction of orders from the major customer in Japan during the reporting year. The customer strategically distributed its purchase orders to several manufacturers and largely reduced purchase orders with us in the reporting year. To cope with the unexpected reduction of orders from Japan, we endeavored to explore new market and find new customers in Europe, the U.S. and other Asian countries. Both export sales to the U.S. and European markets were better off on the back of gradual recovery of economy in these countries. Sales to the U.S. and European market increased from HK\$20,264,000 to HK\$24,029,000 and increased from HK\$51,185,000 to HK\$60,245,000 respectively. Sales to the PRC market dropped from HK\$19,859,000 to HK\$17,631,000. Sales in Hong Kong increased to HK\$19,215,000, due to sales orders from new customers. Apart from the major markets, sales to other countries increased by around 12.9%, to HK\$29,183,000. This was mainly attributed to the increase of sales to Australia, Korea and Malaysia. Other than Japan, export sales to the U.S., Europe and other Asian countries showed signs of improvement. Nevertheless, the overall market conditions remained unstable and customer demands were fluctuating during the year.

In terms of product mix, sales of belts decreased to HK\$166,619,000 (2010: HK\$204,746,000). Sales of leather goods and other accessories were approximately HK\$12,228,000 (2010: HK\$14,158,000). Gross profit margin decreased marginally to around 26.6% (2010: 27.5%). Experiencing a decrease in sales, we had put extra emphasis on streamlining our workforce and improving operational efficiency. To remain cost effective, we cut down the number of fresh and unskillful workers in our factories to match lower orders. During the reporting year, we reduced purchase of leather and largely consumed our inventories of lower average cost for production. With our continuing effort on reducing wastage of raw materials, we managed to sustain our profitability in the tough period.

#### *Retail Business*

Retail business was on the right track of development. Revenue from retail business increased from HK\$31,799,000 to HK\$43,430,000, an increase of approximately 36.6%. This was largely attributed to vibrant inbound tourism, as well as strengthening domestic consumption on the back of economic growth. During the reporting year, we expanded our in-house design team and put strong effort on product design and development. Sales of in-house brands products continued to grow satisfactorily. Our in-house footwear and apparel products continued to be the growth driver to our in-house brands sales. On the other hand, one of the international footwear brands we marketed in our stores became more popular in the market and contributed a significant amount of sales to our retail business. Comparable same store sales increased around 12.9% against same period last year. Gross profit margin went down from 60.1% to around 56.8%. This was largely due to the substantial increase of sales of international footwear brand products in the reporting year. Sales performance of the new shop in Causeway Bay was far from satisfactory. Because of high rental cost, the overall shop rental to turnover ratio rose notably from 24.7% to around 30.7%. Consequently, the operating profit for the year decreased from HK\$3,974,000 to HK\$2,164,000. In the year under review, one new store was opened and one store was relocated to a bigger store. As at 31 March 2011, the Group operated five AREA 0264 stores in Hong Kong.

## Chairman's Statement

### *Prospects*

Moving forward, we expect the business environment in financial year 2012 to be challenging as the adverse impact of rising production costs in the PRC, and volatility in raw materials prices will likely affect our profit margin. Besides, there continues to be uncertainties surrounding the pace of global economic recovery in 2011 and 2012. Market demands continue to be unstable. Our customer base remains strong and well diversified but customers become increasingly volatile and demanding. In the coming year, we will focus our efforts on business growth in the U.S., Europe and Asian countries other than Japan. In light of the remaining uncertainties surrounding the current economic and business environment, we will continue to be diligent in our cost management and maximize the production efficiency.

Hong Kong retail outlook is expected to be positive on the back of improving job and income prospects, coupled with further growth in tourist arrivals from the Mainland China. The appreciation of Renminbi will continue to provide the Chinese tourists with extra incentive to visit Hong Kong. In addition, some travelers may consider visiting Hong Kong in lieu of Japan after the recent natural disasters. In the first two months of the financial year 2012, our comparable same store sales recorded double-digit growth. As renovation works for our flagship store is implemented, our retail performance in the first half of the financial year 2012 will be adversely affected. We will continue our search for strategic locations to further strengthen our sales network. One new store will be opened at a shopping mall in Tsing Yi in August 2011. The development of customer loyalty and further enhancement of our brand equity of "AREA 0264" and "Urban Stranger" will continue to be our main focus. To remain competitive, we will continue to renovate our existing stores and make necessary adjustments to the merchandise lineup and brand mix to stay ahead of the fast and ever changing markets. We will also continue to introduce innovative target sales promotion to increase our market share and to focus on cost rationalization exercise to improve operating leverage.

### *Appreciation*

In appreciation of the shareholders' faith in the Company, the Board has proposed the payment of a final dividend of HK0.8 cent per share for the year ended 31 March 2011.

Lastly, 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 ongoing support.

# Management Discussion and Analysis

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2011, the Group's cash and bank deposits were approximately HK\$214,586,000 (2010: HK\$190,885,000).

As at 31 March 2011, 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\$294,724,000 as at 31 March 2011 (2010: HK\$282,490,000) and total current liabilities of approximately HK\$23,837,000 (2010: HK\$25,315,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 12 times as at 31 March 2011 (2010: 11 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\$272,345,000 as at 31 March 2010 to approximately HK\$286,460,000 at 31 March 2011. The increase was mainly attributable to operating profit generated during the year.

## TREASURY POLICY

The Group generally finances its operation with internally generated resources. Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars, US dollars, Renminbi and Euro. Transactions of the Group are mainly denominated in Hong Kong dollars, US dollars, Renminbi and Euro. It is estimated that the Group's exposure to foreign exchange fluctuation in Renminbi and Euro against Hong Kong dollars would have insignificant effects on profit or loss and other components of equity of the Group. 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.

## 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 2011.

## Management Discussion and Analysis

### EMPLOYEE INFORMATION

As at 31 March 2011, the Group had 168 full time 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 961 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 2011, the Group did not have any contingent liabilities.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. CHAN King Hong Edwin**, aged 53, 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 26 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 50, 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 26 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 47, 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 21 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 71, 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 68, 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 41, 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 15 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 46, 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 20 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 35, 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 13 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 55, 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 27 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 47, 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 14 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 40, 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 18 years of experience in product development and brand building. Prior to joining the Group, Mr. Hui had worked as product designer of Tough Jeans Ltd. and had successfully build up the distribution network for TOUGH bags and other accessories product to Japan, Singapore, Malaysia, Thailand, Germany, Italy, Spain and Australia. He joined the Group in October 2003.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) during the year ended 31 March 2011 except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer.

## DIRECTOR’S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 the Listing Rules during the year ended 31 March 2011.

## BOARD OF DIRECTORS

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

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

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

## Corporate Governance Report

During the financial year ended 31 March 2011, 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 2011 is as follows:

	<b>Number of board meetings attended</b>
<b>Executive Directors</b>	
Mr. Chan King Hong, Edwin ( <i>Chairman and Chief Executive Officer</i> )	5/5
Mr. Chan King Yuen, Stanley	5/5
Ms. Chan Wai Po, Rebecca	5/5
<b>Independent non-executive directors</b>	
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.

## Corporate Governance Report

### 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 2011, 3 audit committee meetings were held by the Company. Individual attendance of each committee member at the meeting is as follows:

	<b>Number of meetings attended</b>
<b>Independent non-executive directors</b>	
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 2010 and audited financial statements and results of the Group for the year ended 31 March 2011.

## Corporate Governance Report

### AUDITOR'S REMUNERATION

For the financial year ended 31 March 2011, the fees paid/payable to the Group's auditor, BDO Limited, is set out as follow:–

<b>Nature of services</b>	<b>Amount</b> <i>HK'\$000</i>
Audit Services	394
Non-audit services	74
Total:	<u>468</u>

### REMUNERATION COMMITTEE

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

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

During the financial year ended 31 March 2011, 1 remuneration committee meeting was held by the Company. Individual attendance of each committee member at the meeting is as follows:

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

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

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

## Corporate Governance Report

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

## NOMINATION COMMITTEE

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

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

During the financial year ended 31 March 2011, 1 nomination committee meeting was held by the Company. Individual attendance of each committee member at the meeting is as follows:

	<b>Number of meetings attended</b>
<b>Independent non-executive directors</b>	
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 2011. 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 2011.

## PRINCIPAL ACTIVITIES AND SEGMENTAL INFORMATION

The principal activity of the Company is investment holding. The principal 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 6 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2011 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 73.

The Directors recommended the payment of a final dividend of HK0.8 cent per share to shareholders, whose names appear in the register of members of the Company on 30 August 2011. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about 6 September 2011.

## 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 2011, amounted to HK\$81,836,000. 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 2011.

### 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 74.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

### DIRECTORS

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

#### **Executive directors**

Mr. Chan King Hong Edwin

Mr. Chan King Yuen Stanley

Ms. Chan Wai Po Rebecca

#### **Independent non-executive directors**

Ms. Chau Cynthia Sin Ha

Mr. Fong Pui Sheung David

Mr. Or Kam Chung Janson

## Report of the Directors

In accordance with Article 87 of the Company's Articles of Association, Ms. Chan Wai Po, Rebecca and Mr. Or Kam Chung, Janson shall retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### DIRECTORS' SERVICE CONTRACTS

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

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

Ms. Chau Cynthia Siu Ha and Mr. Fong Pui Sheung David are independent non-executive directors. They entered into service contracts with the Company for an initial term of two years commencing from 1 March 2003. On 31 January 2011, their contracts were renewed for another two year term expiring on 28 February 2013.

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 confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all the independent non-executive directors are independent.

## Report of the Directors

### DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2011, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### *Long positions*

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

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital</b>
Chan King Hong Edwin	Interest of a controlled corporation	47,727,352 <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

## Report of the Directors

### (b) Share options

Name	Capacity	Number of options held	Number of underlying shares
Chan King Hong Edwin	Beneficial owner	11,881,200 (Note 4)	11,881,200
	Interest of spouse	4,681,200 (Note 1(b))	4,681,200
Chan King Yuen Stanley	Beneficial owner	11,881,200 (Note 4)	11,881,200
Chan Wai Po Rebecca	Beneficial owner	11,881,200 (Note 4)	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 2011.

## Report of the Directors

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2011, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

#### *Long positions*

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

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital</b>
Leopark Worldwide Inc.	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
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	22,111,000	6.93
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	<u>2,872,000</u>	
		27,574,000 <i>(Note v)</i>	8.65

## Report of the Directors

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital</b>
Lim Mee Hwa	Interest of a controlled corporation	24,702,000	
	Beneficial owner	<u>2,872,000</u>	
		27,574,000 <i>(Note vi)</i>	8.65
Yeoman 3-Rights Value Asia Fund	Beneficial owner	22,000,000 <i>(Note vii)</i>	6.90

### *(b) Share Options*

<b>Name</b>	<b>Capacity</b>	<b>Number of options held</b>	<b>Number of underlying shares</b>
Li Shuk Han	Beneficial owner and interest of spouse	16,562,400 <i>(Note viii)</i>	16,562,400
Chan Woon Man	Beneficial owner	3,181,200 <i>(Note ii)</i>	3,181,200

#### *Notes:*

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors' interests in shares and underlying shares" above.
- (ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man. In addition, an option to subscribe for 3,181,200 shares of the Company was granted to Mr. Chan Woon Man on 24 September 2003.
- (iii) 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.

## Report of the Directors

- (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.
- (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, 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 2011.

## Report of the Directors

### 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.

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.

## Report of the Directors

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.

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

Name or category of participant	Date of grant	Outstanding as at		Exercise price per share
		1 April 2010 and 31 March 2011	Exercisable period	
<b>(a) Executive directors</b>				
Chan King Hong Edwin	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.57
Chan King Yuen Stanley	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.57
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.57
<b>(b) Employees, in aggregate</b>				
	26 May 2003	60,000	26 May 2003 – 25 May 2013	0.58
	24 Sept 2003	6,362,400	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	3,000,000	22 July 2009 – 21 July 2019	0.57
<b>(c) Others, in aggregate</b>				
	26 May 2003	<u>3,000,000</u>	26 May, 2003 – 25 May, 2013	0.58
Total		<u>48,066,000</u>		

*Note:* All the options were immediately vested upon granted.

## 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.

## Report of the Directors

### 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	18%
– five largest suppliers combined	38%
Sales	
– the largest customer	13%
– five largest customers combined	43%

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 2011, which constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### DONATIONS

During the year, the Group made charitable donations amounting to HK\$8,935.

### 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.

## Report of the Directors

### 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, 29 June 2011

# 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") and its subsidiaries (together the "Group") set out on pages 33 to 73 which comprise the consolidated and company statements of financial position as at 31 March 2011, 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 information.

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated 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 of consolidated financial statements that give a true and fair view 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 affairs of the Company and of the Group as at 31 March 2011 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, 29 June 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	<i>Notes</i>	<b>2011</b> <b>HK\$'000</b>	2010 HK\$'000
Turnover	7	<b>222,277</b>	250,703
Cost of sales		<u><b>(149,651)</b></u>	<u>(171,454)</u>
Gross profit		<b>72,626</b>	79,249
Other income and gains		<b>2,118</b>	2,294
Selling and distribution costs		<b>(24,774)</b>	(19,894)
Administrative and other operating expenses		<u><b>(29,917)</b></u>	<u>(35,808)</u>
Profit before income tax expense	8	<b>20,053</b>	25,841
Income tax expense	11	<u><b>(3,143)</b></u>	<u>(3,858)</u>
<b>Profit for the year attributable to owners of the Company</b>	12	<u><b>16,910</b></u>	<u>21,983</u>
<b>Other comprehensive income</b>			
Change in fair value of available-for-sale investments		<b>173</b>	1,582
Exchange differences arising on translation of financial statements of operations outside Hong Kong		<u><b>1,495</b></u>	<u>55</u>
Other comprehensive income for the year		<u><b>1,668</b></u>	<u>1,637</u>
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<u><b>18,578</b></u>	<u>23,620</u>
Earnings per share	13		
– Basic		<u><b>HK5.30 cents</b></u>	<u>HK6.90 cents</u>
– Diluted		<u><b>HK5.30 cents</b></u>	<u>HK6.90 cents</u>

# Consolidated Statement of Financial Position

As at 31 March 2011

	<i>Notes</i>	<b>2011</b> <b>HK\$'000</b>	2010 <i>HK\$'000</i>
<b>Non-current asset</b>			
Property, plant and equipment	14	8,429	8,876
Available-for-sale investments	16	5,333	4,161
Rental deposits		<u>1,934</u>	<u>2,282</u>
		<u>15,696</u>	<u>15,319</u>
<b>Current assets</b>			
Inventories	17	55,158	68,843
Trade and bills receivables	18	20,944	19,566
Other receivables, deposits and prepayments		3,666	2,599
Tax recoverable		370	597
Cash and cash equivalents		<u>214,586</u>	<u>190,885</u>
		<u>294,724</u>	<u>282,490</u>
<b>Current liabilities</b>			
Trade and bills payables	20	7,463	9,595
Other payables and accrued charges		15,835	14,915
Current tax liabilities		<u>539</u>	<u>805</u>
		<u>23,837</u>	<u>25,315</u>
<b>Net current assets</b>		<u>270,887</u>	<u>257,175</u>
<b>Total assets less current liabilities</b>		<b>286,583</b>	272,494
<b>Non-current liabilities</b>			
Deferred tax liabilities	21	<u>123</u>	<u>149</u>
<b>Total net assets</b>		<u>286,460</u>	<u>272,345</u>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	22	3,188	3,188
Reserves		<u>283,272</u>	<u>269,157</u>
<b>Total equity</b>		<u>286,460</u>	<u>272,345</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 2011

	<i>Notes</i>	<b>2011</b> <b>HK\$'000</b>	2010 <i>HK\$'000</i>
<b>Assets</b>			
<b>Non-current asset</b>			
Investments in subsidiaries	15	48,181	48,181
Available-for-sale investments	16	<u>5,333</u>	<u>4,161</u>
		<b>53,514</b>	52,342
<b>Current assets</b>			
Other receivables		131	151
Amounts due from subsidiaries	19	24,891	22,885
Cash and cash equivalents		<u>11,825</u>	<u>13,175</u>
		<b>36,847</b>	36,211
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accrued charges and other payables		<u>16</u>	<u>16</u>
<b>Net current assets</b>		<u><b>36,831</b></u>	36,195
<b>Total net assets</b>		<u><b>90,345</b></u>	<u>88,537</u>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	22	3,188	3,188
Reserves	24	<u>87,157</u>	<u>85,349</u>
<b>Total equity</b>		<u><b>90,345</b></u>	<u>88,537</u>

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 2011

	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 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 and 1 April 2010	3,188	32,608	4,904	2,776	888	244	223,274	4,463	272,345
Total comprehensive income for the year	-	-	-	1,495	-	173	16,910	-	18,578
2010 final dividend paid	-	-	-	-	-	-	-	(4,463)	(4,463)
2011 proposed final dividend	-	-	-	-	-	-	(2,550)	2,550	-
	-	-	-	1,495	-	173	14,360	(1,913)	14,115
At 31 March 2011	3,188	32,608	4,904	4,271	888	417	237,634	2,550	286,460

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 2011

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
<b>Cash flows from operating activities</b>		
Profit before income tax expense	20,053	25,841
Adjustments for:		
Interest income	(1,574)	(1,529)
Dividend income from available-for-sale investments	(130)	(127)
Depreciation of property, plant and equipment	2,215	2,292
Loss on disposal of property, plant and equipment	36	286
Impairment loss on trade receivables	1	195
Write-down of inventories	1,445	727
Equity settled share-based payment expenses	-	4,904
<b>Operating profit before working capital changes</b>	<b>22,046</b>	32,589
Decrease/(increase) in rental deposits	348	(2,282)
Decrease in inventories	12,423	8,612
(Increase)/decrease in trade and bills receivables	(1,171)	2,641
(Increase)/decrease in other receivables, deposits and prepayments	(1,059)	385
Decrease in trade and bills payables	(2,159)	(488)
Increase in other payables and accrued charges	853	966
<b>Cash generated from operations</b>	<b>31,281</b>	42,423
Hong Kong Profits Tax paid	(1,396)	(3,184)
PRC Enterprise Income Tax paid	(1,834)	(1,485)
<b>Net cash from operating activities</b>	<b>28,051</b>	37,754
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(1,789)	(1,971)
Purchase of available-for-sale investments	(890)	-
Interest received	1,574	1,529
Dividend received from available-for-sale investments	21	127
<b>Net cash used in investing activities</b>	<b>(1,084)</b>	(315)
<b>Cash flows from financing activities</b>		
Dividends paid	(4,463)	(3,188)
<b>Net cash used in financing activities</b>	<b>(4,463)</b>	(3,188)
<b>Net increase in cash and cash equivalents</b>	<b>22,504</b>	34,251
<b>Cash and cash equivalents at beginning of year</b>	<b>190,885</b>	156,594
<b>Effect of exchange rate changes     on cash and cash equivalents</b>	<b>1,197</b>	40
<b>Cash and cash equivalents at end of year</b>	<b>214,586</b>	190,885

# Notes to Financial Statements

31 March 2011

## 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) Adopting of new/revised HKFRSs

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

The adoption of these new/revised standards and interpretations has no significant impact on the Group’s financial statements.

### (b) New/revised HKFRSs that have been issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs <sup>1&amp;2</sup>
Amendments to HK(IFRIC) – Interpretation 14	Prepayments of a Minimum Funding Requirements <sup>2</sup>
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>2</sup>
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets <sup>3</sup>
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets <sup>4</sup>
HKFRS 9	Financial Instruments <sup>5</sup>

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

### *(b) New/revised HKFRSs that have been issued but not yet effective (Continued)*

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2010
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2011
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2011
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2012
- <sup>5</sup> 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 Group’s financial statements.

## 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 together with unrealised profits 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 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.

*(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.

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

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

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.

##### *(d) Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The total rentals payable under the operating 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.

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

#### *(e) Financial Instruments*

##### *(i) Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other 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 measured 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)*

###### *(vi) 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 the 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.

## Notes to Financial Statements

31 March 2011

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

#### *(b) Income taxes (Continued)*

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 goodwill and 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

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

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

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.

##### *(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.

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

#### *(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.

#### *(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, to the extent 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.

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

##### *(m) Provisions and contingent liabilities (Continued)*

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.

#### 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.

## Notes to Financial Statements

31 March 2011

### 6. 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.

#### (a) Reportable segments

	Manufacturing		Retail business		Total	
	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<b>178,847</b>	218,904	<b>43,430</b>	31,799	<b>222,277</b>	250,703
Inter-segment revenue	<b>947</b>	1,592	<b>33</b>	–	<b>980</b>	1,592
Reportable segment revenue	<b>179,794</b>	220,496	<b>43,463</b>	31,799	<b>223,257</b>	252,295
Reportable segment profit	<b>17,079</b>	26,224	<b>2,164</b>	3,974	<b>19,243</b>	30,198
Depreciation of property, plant and equipment	<b>954</b>	1,390	<b>794</b>	597	<b>1,748</b>	1,987
Reportable segment assets	<b>118,822</b>	110,335	<b>21,836</b>	14,600	<b>140,658</b>	124,935
Additions to property, plant and equipment	<b>66</b>	115	<b>1,301</b>	908	<b>1,367</b>	1,023
Reportable segment liabilities	<b>21,866</b>	23,111	<b>1,416</b>	1,384	<b>23,282</b>	24,495

## Notes to Financial Statements

31 March 2011

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

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

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
<b>Revenue</b>		
Reportable segment revenue	<b>223,257</b>	252,295
Elimination of inter-segment revenue	<b>(980)</b>	(1,592)
Consolidated revenue	<b>222,277</b>	250,703
<b>Profit before income tax expense</b>		
Reportable segment profit	<b>19,243</b>	30,198
Elimination of inter-segment profits	<b>138</b>	51
Interest income	<b>1,574</b>	1,529
Dividend income from available-for-sale investments	<b>130</b>	127
Unallocated other income and gains	<b>64</b>	14
Unallocated corporate expenses	<b>(1,096)</b>	(6,078)
Consolidated profit before income tax expense	<b>20,053</b>	25,841
<b>Depreciation of property, plant and equipment</b>		
Reportable segment depreciation	<b>1,748</b>	1,987
Depreciation of unallocated property, plant and equipment	<b>467</b>	305
Consolidated depreciation of property, plant and equipment	<b>2,215</b>	2,292
<b>Additions to property, plant and equipment</b>		
Reportable segment additions	<b>1,367</b>	1,023
Unallocated additions to property, plant and equipment	<b>422</b>	948
Consolidated additions to property, plant and equipment	<b>1,789</b>	1,971
<b>Assets</b>		
Reportable segment assets	<b>140,658</b>	124,935
Available-for-sale investments	<b>5,333</b>	4,161
Tax recoverable	<b>370</b>	597
Unallocated corporate cash and cash equivalents	<b>161,833</b>	165,823
Other unallocated corporate assets	<b>2,226</b>	2,293
Consolidated total assets	<b>310,420</b>	297,809
<b>Liabilities</b>		
Reportable segment liabilities	<b>23,282</b>	24,495
Current tax liabilities	<b>539</b>	805
Deferred tax liabilities	<b>123</b>	149
Unallocated corporate liabilities	<b>16</b>	15
Consolidated total liabilities	<b>23,960</b>	25,464

## Notes to Financial Statements

31 March 2011

### 6. 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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Hong Kong (place of domicile)	<b>62,645</b>	45,776	<b>3,267</b>	2,841
Europe	<b>60,245</b>	51,185	-	-
Japan	<b>28,544</b>	87,776	-	-
The United States of America	<b>24,029</b>	20,264	-	-
PRC	<b>17,631</b>	19,859	<b>5,162</b>	6,035
Other countries	<b>29,183</b>	25,843	-	-
Total	<b>159,632</b>	204,927	<b>5,162</b>	6,035
	<b>222,277</b>	250,703	<b>8,429</b>	8,876

#### *(d) Information about a major customer*

Revenue from major customers, each of them account for 10% or more of the Group's revenue, are set out below:

	2011 HK\$'000	2010 HK\$'000
Customer A	<b>29,487</b>	87,410
Customer B	<b>22,998</b>	-

### 7. 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.

## Notes to Financial Statements

31 March 2011

### 8. PROFIT BEFORE INCOME TAX EXPENSE

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Auditor's remuneration	430	418
Cost of inventories recognised as expenses	149,651	171,454
Staff costs, excluding directors' emoluments ( <i>note 9</i> )	18,856	16,615
Depreciation of property, plant and equipment	2,215	2,292
Loss on disposal of property, plant and equipment	36	286
Impairment loss on trade receivables	1	195
Write-down of inventories	1,445	727
Foreign exchange gain, net	(64)	(242)
Interest income	(1,574)	(1,529)
Dividend income from available-for-sale investments	(130)	(127)

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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Salaries and other benefits	18,066	15,266
Equity settled share-based payment expenses	–	506
Retirement benefits scheme contributions	790	843

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

#### (a) Directors' emoluments

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Directors' fees	150	150
Other emoluments:		
Salaries and other benefits	5,658	5,064
Discretionary bonuses	2,000	3,000
Equity settled share-based payment expenses	–	4,398
Retirement benefits scheme contributions	60	60

## Notes to Financial Statements

31 March 2011

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

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

Details of directors' emoluments for the year ended 31 March 2011 are as follows:

	<b>Fees</b>	<b>Salaries and other benefits</b>	<b>Discretionary bonuses</b>	<b>Retirement benefits scheme contributions</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Executive directors:</b>					
Chan King Hong Edwin	–	1,926	800	24	2,750
Chan King Yuen Stanley	–	1,926	800	24	2,750
Chan Wai Po Rebecca	–	1,806	400	12	2,218
<b>Independent non- executive directors:</b>					
Chau Cynthia Sin Ha	50	–	–	–	50
Fong Pui Sheung David	50	–	–	–	50
Or Kam Chung Janson	50	–	–	–	50
<b>Total</b>	<u>150</u>	<u>5,658</u>	<u>2,000</u>	<u>60</u>	<u>7,868</u>

## Notes to Financial Statements

31 March 2011

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

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

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

	Salaries and other benefits		Discretionary bonuses	Equity settled share-based payment expenses	Retirement benefits scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors:</b>						
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
<b>Independent non-executive directors:</b>						
Chau Cynthia Sin Ha	50	-	-	-	-	50
Fong Pui Sheung David	50	-	-	-	-	50
Or Kam Chung Janson	50	-	-	-	-	50
<b>Total</b>	<b>150</b>	<b>5,064</b>	<b>3,000</b>	<b>4,398</b>	<b>60</b>	<b>12,672</b>

No directors waived any emoluments during the years ended 31 March 2011 and 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.

## Notes to Financial Statements

31 March 2011

### 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 (2010: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2010: two) individuals are as follows:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>1,725</b>	1,215
Discretionary bonuses	<b>77</b>	220
Equity settled share-based payment expenses	<b>-</b>	506
Retirement benefits scheme contributions	<b>24</b>	24
	<b>1,826</b>	1,965

The emoluments of each of the remaining individuals were below HK\$1,000,000 for the years ended 31 March 2011 and 2010.

During the years ended 31 March 2011 and 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 Financial Statements

31 March 2011

### 11. INCOME TAX EXPENSE

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

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Current tax – Hong Kong Profits Tax		
– tax for the year	<b>1,568</b>	2,362
– overprovision in respect of prior years	<b>(1)</b>	(15)
	<b>1,567</b>	2,347
Current tax – PRC Enterprise Income Tax		
– tax for the year	<b>1,533</b>	1,271
– underprovision in respect of prior years	<b>69</b>	255
	<b>1,602</b>	1,526
Deferred tax ( <i>note 21</i> )		
– current year	<b>(26)</b>	(15)
	<b>(26)</b>	(15)
Income tax expense	<b>3,143</b>	3,858

Hong Kong Profits Tax is calculated at 16.5% (2010: 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% (2010: 25%).

## Notes to Financial Statements

31 March 2011

### 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:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Profit before income tax expense	<u>20,053</u>	<u>25,841</u>
Tax calculated at the domestic tax rate of 16.5% (2010: 16.5%)	<b>3,309</b>	4,264
Tax effect of expenses not deductible for tax purpose	<b>12,721</b>	15,902
Tax effect of income not taxable for tax purpose	<b>(13,546)</b>	(17,074)
Under provision in respect of prior years	<b>68</b>	240
Effect of different tax rate of a subsidiary operating in other jurisdiction	<b>480</b>	562
Tax effect of deductible temporary difference not recognised	<b>39</b>	(79)
Tax effect of tax losses not recognised	-	43
Utilisation of tax losses previously not recognised	<b>(43)</b>	-
Others	<u>115</u>	<u>-</u>
Income tax expense	<u><b>3,143</b></u>	<u>3,858</u>

### 12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders for the year includes an amount of approximately HK\$6,098,000 (2010: a loss of HK\$5,325,000) which has been dealt with in the financial statements of the Company.

### 13. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to owners of the Company for the year of approximately HK\$16,910,000 (2010: HK\$21,983,000) and weighted average number of 318,804,000 (2010: 318,804,000) ordinary shares in issue during the year.

## Notes to Financial Statements

31 March 2011

### 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>
<b>Cost</b>					
At 1 April 2010	8,930	4,986	11,169	1,819	26,904
Additions	11	513	1,265	–	1,789
Disposals	–	(58)	(465)	–	(523)
Exchange realignment	91	5	–	15	111
At 31 March 2011	<u>9,032</u>	<u>5,446</u>	<u>11,969</u>	<u>1,834</u>	<u>28,281</u>
<b>Accumulated depreciation</b>					
At 1 April 2010	7,838	3,600	5,643	947	18,028
Provided for the year	332	362	1,259	262	2,215
Eliminated on disposals	–	(34)	(453)	–	(487)
Exchange realignment	82	3	–	11	96
At 31 March 2011	<u>8,252</u>	<u>3,931</u>	<u>6,449</u>	<u>1,220</u>	<u>19,852</u>
<b>Cost</b>					
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
At 31 March 2010	<u>8,930</u>	<u>4,986</u>	<u>11,169</u>	<u>1,819</u>	<u>26,904</u>
<b>Accumulated depreciation</b>					
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
At 31 March 2010	<u>7,838</u>	<u>3,600</u>	<u>5,643</u>	<u>947</u>	<u>18,028</u>
<b>Net book value</b>					
At 31 March 2011	<u>780</u>	<u>1,515</u>	<u>5,520</u>	<u>614</u>	<u>8,429</u>
At 31 March 2010	<u>1,092</u>	<u>1,386</u>	<u>5,526</u>	<u>872</u>	<u>8,876</u>

## Notes to Financial Statements

31 March 2011

### 15. INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>48,181</b>	48,181

Details of the Company's subsidiaries at 31 March 2011 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 Financial Statements

31 March 2011

### 16. AVAILABLE-FOR-SALE INVESTMENTS

	<b>The Group and the Company</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Equity securities listed in Hong Kong, at fair value	<u>5,333</u>	<u>4,161</u>

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

### 17. INVENTORIES

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Raw materials	38,232	55,450
Work in progress	3,971	4,579
Finished goods	<u>12,955</u>	<u>8,814</u>
	<u>55,158</u>	<u>68,843</u>

### 18. TRADE AND BILLS RECEIVABLES

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Trade and bills receivables	21,591	20,212
Less: impairment loss	<u>(647)</u>	<u>(646)</u>
	<u>20,944</u>	<u>19,566</u>

## Notes to Financial Statements

31 March 2011

### 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	
	2011	2010
	HK\$'000	HK\$'000
Current to 30 days	10,838	10,986
31 – 60 days	2,816	3,329
61 – 90 days	3,600	4,103
91 – 120 days	420	866
121 – 365 days	3,192	7
Over 365 days	78	275
	<u>20,944</u>	<u>19,566</u>

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

	The Group	
	2011	2010
	HK\$'000	HK\$'000
Less than 30 days past due	4,869	9,885
31 – 60 days past due	5,716	3,315
61 – 90 days past due	1,631	1,151
91 – 120 days past due	149	32
121 – 365 days past due	83	2
Over 365 days past due	78	275
	<u>12,526</u>	<u>14,660</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 Financial Statements

31 March 2011

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

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

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
At beginning of the year	<b>646</b>	514
Impairment loss recognised	<b>3</b>	211
Reversal of impairment loss previously recognised	<b>(2)</b>	(16)
Bad debts written off	<b>-</b>	(63)
	<hr/>	<hr/>
At end of the year	<b>647</b>	646

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:

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>3,126</b>	8,233
31 – 60 days	<b>2,361</b>	578
61 – 90 days	<b>1,454</b>	376
91 – 120 days	<b>251</b>	213
121 – 365 days	<b>102</b>	131
Over 365 days	<b>169</b>	64
	<hr/>	<hr/>
	<b>7,463</b>	9,595

## Notes to Financial Statements

31 March 2011

### 21. DEFERRED TAX LIABILITIES

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

	<b>Accelerated tax depreciation</b>
	<i>HK\$'000</i>
At 1 April 2009	164
Credit to consolidated statement of comprehensive income for the year ( <i>note 11</i> )	<u>(15)</u>
	149
At 31 March 2010 and 1 April 2010	
Credit to consolidated statement of comprehensive income for the year ( <i>note 11</i> )	<u>(26)</u>
At 31 March 2011	<u>123</u>

At 31 March 2011, the Group had deductible temporary difference of approximately HK\$1,540,000 (2010: HK\$1,306,000) and unused tax losses of Nil (2010: HK\$261,000). The deductible temporary difference can be carried forward indefinitely. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

No deferred tax liability has been recognised on temporary difference of approximately HK\$13,732,000 (2010: HK\$8,614,000) 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 2011, the Company did not have other material unprovided deferred tax assets and liabilities (2010: nil).

## Notes to Financial Statements

31 March 2011

### 22. SHARE CAPITAL

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

	<b>The Company</b>	
	<b>Number of share</b>	<b>Amount</b>
		<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
<b>Authorised:</b>		
At 1 April 2009, 31 March 2010, 1 April 2010 and 31 March 2011	<u>2,000,000,000</u>	<u>20,000</u>
<b>Issued and fully paid:</b>		
At 1 April 2009, 31 March 2010, 1 April 2010 and 31 March 2011	<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.

### 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.

## Notes to Financial Statements

31 March 2011

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

The following table discloses movements in the Company's share option during the years ended 31 March 2010 and 2011.

Name or category of Participant	Date of grant	Outstanding as at		Exercise price per share <i>HK\$</i>
		1 April 2009, 31 March 2010, 1 April 2010 and 31 March 2011	Exercisable period	
<b>(a) Executive directors</b>				
Chan King Hong Edwin	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.570
Chan King Yuen Stanley	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.570
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.570
<b>(b) Employees, in aggregate</b>				
	26 May 2003	60,000	26 May 2003 – 25 May 2013	0.580
	24 Sept 2003	6,362,400	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	3,000,000	22 July 2009 – 21 July 2019	0.570
<b>(c) Others, in aggregate</b>				
	26 May 2003	<u>3,000,000</u>	26 May 2003 – 25 May 2013	0.580
Total		<u>48,066,000</u>		
Weighted average exercise price		HK\$0.657		

The options outstanding at 31 March 2011 had an exercise price of HK\$0.57, HK\$0.58 or HK\$0.83 (2010: HK\$0.57, HK\$0.58 or HK\$0.83) and a weighted average remaining contractual life of 5.99 years (2010: 6.99 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.

No options have been granted during the year ended 31 March 2011.

## Notes to Financial Statements

31 March 2011

### 24. RESERVES

#### The Company

	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Available- for-sale investment reserve <i>HK\$'000</i>	Retained earnings/ (accumulated losses) <i>HK\$'000</i>	Proposed dividends <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 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 and 1 April 2010	80,779	4,904	244	(5,041)	4,463	85,349
Profit for the year	-	-	-	6,098	-	6,098
Change in fair value of available-for-sale investments	-	-	173	-	-	173
2010 final dividend paid	-	-	-	-	(4,463)	(4,463)
2011 proposed final dividend	-	-	-	(2,550)	2,550	-
At 31 March 2011	80,779	4,904	417	(1,493)	2,550	87,157

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.

## Notes to Financial Statements

31 March 2011

### 25. DIVIDENDS

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Proposed final dividend of HK\$0.008 (2010: HK\$0.014) per ordinary share	<u>2,550</u>	<u>4,463</u>

The proposed final dividend of HK\$0.008 (2010: HK\$0.014) per share has been proposed by the directors on 29 June 2011 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 29 June 2011 (2010: 318,804,000 shares in issue as at 19 July 2010).

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 2012.

The Company had accumulated losses of approximately HK\$1,493,000 at 31 March 2011. On 20 June 2011, a subsidiary of the Company declared an interim dividend of HK\$3,000,000 to the Company. After the dividend income was recognised, the Company had sufficient distributable profit for the distribution of the proposed dividend on 29 June 2011.

### 26. CONTINGENT LIABILITIES

At 31 March 2011, the Company issued a guarantee to banks in respect of general facilities granted to its subsidiaries to the extent of HK\$15,000,000 (2010: HK\$15,000,000), the guarantee has not been utilised by the subsidiaries (2010: HK\$1,262,000). 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 2011, there were no rental payables by the subsidiary under these lease agreements (2010: nil) and the non-cancellable future minimum lease payment under these lease agreements was approximately HK\$16,502,000 (2010: HK\$12,403,000).

## Notes to Financial Statements

31 March 2011

### 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:

	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Minimum lease payments	<b>17,739</b>	12,326
Contingent rents	<b>440</b>	606
	<b>18,179</b>	12,932

The total future minimum lease payments are due as follows:

	<b>2011</b> <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Not later than one year	<b>13,765</b>	11,481
Later than one year and not later than five years	<b>6,425</b>	4,880
	<b>20,190</b>	16,361

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.

## Notes to Financial Statements

31 March 2011

### 28. CAPITAL COMMITMENTS

	<b>The Group</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>-</u>	<u>236</u>

### 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:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	<u>572</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:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Short-term benefits	<b>11,657</b>	11,655
Equity settled share-based payment expenses	-	4,904
Post employment benefits	<u>120</u>	<u>120</u>
	<u><b>11,777</b></u>	<u>16,679</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, RMB and Euro. 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% (2010: 4%) in RMB against HK\$, and an appreciation or depreciation of 9% (2010: 9%) in Euro against HK\$, at 31 March 2011 and 2010 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 2011 and 2010. 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.

### 31. FINANCIAL RISK MANAGEMENT *(Continued)*

#### *(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 2011 and 2010, 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 2011 and 2010.

#### *(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 2011 and 2010 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 credit risk for bank deposits is limited because the counterparties are banks with high credit-ratings.

#### *(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 2011 and 2010, 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 2011 and 2010.

## Notes to Financial Statements

31 March 2011

### 31. FINANCIAL RISK MANAGEMENT *(Continued)*

#### *(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).

	<b>The Group and the Company</b>			
	<b>2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Available-for-sale investments – Listed	<u>5,333</u>	<u>-</u>	<u>-</u>	<u>5,333</u>

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

- (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 29 June 2011.

# Five Year Financial Summary

31 March 2011

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

	<b>2011</b>	2010	2009	2008	2007
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Results</b>					
Profit for the year	<u>16,910</u>	<u>21,983</u>	<u>36,626</u>	<u>51,623</u>	<u>40,227</u>
Assets and liabilities					
Total assets	<b>310,420</b>	297,809	272,391	257,104	214,468
Total liabilities	<b>(23,960)</b>	<u>(25,464)</u>	<u>(25,382)</u>	<u>(34,042)</u>	<u>(26,641)</u>
Total equity	<b>286,460</b>	<u>272,345</u>	<u>247,009</u>	<u>223,062</u>	<u>187,827</u>