



CHANCO INTERNATIONAL GROUP LIMITED

卓高國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 0264)



**INTERIM REPORT
2006**

CORPORATE INFORMATION

Directors

Executive Directors

Chan King Hong Edwin

(Chairman & Chief Executive Officer)

Chan King Yuen Stanley *(Vice Chairman)*

Chan Wai Po Rebecca

Independent Non-executive Directors

Chau Cynthia Sin Ha *JP*

Fong Pui Sheung David *MH*

Or Kam Chung Janson *FCCA, CPA*

Qualified Accountant and Company Secretary

Lau Wai Hung *FCCA, CPA*

Audit Committee

Fong Pui Sheung David *MH (Chairman)*

Chau Cynthia Sin Ha *JP*

Or Kam Chung Janson *FCCA, CPA*

Remuneration Committee

Or Kam Chung Janson *FCCA, CPA (Chairman)*

Fong Pui Sheung David *MH*

Chau Cynthia Sin Ha *JP*

Nomination Committee

Chau Cynthia Sin Ha *JP (Chairman)*

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

No. 151-157 Wo Yi Hop Road

Kwai Chung

New Territories

Hong Kong

Auditors

BDO McCabe Lo Limited

Certified Public Accountants

Legal Adviser on the Cayman Islands Law

Conyers Dill & Pearman

Cayman Islands Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Ltd

Butterfield House

68 Fort Street

P.O. Box 705

George Town

Grand Cayman

Hong Kong Branch Share and Registrar and Transfer Office

Computershare Hong Kong Investor

Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

Principal Bankers

Nanyang Commercial Bank Limited

Wing Hang Bank Limited

Company Website

www.chancogroup.com

www.irasia.com/listco/hk/chanco/index.htm

Stock Code

264

FINANCIAL HIGHLIGHTS

**For the six months ended
30th September,**

	2006	2005	
Unaudited	Unaudited	Unaudited	Change %
HK\$ '000	HK\$ '000	HK\$ '000	

Operating results

Turnover	141,348	129,289	+9.3%
Gross Profit	43,436	43,109	+0.8%
Profit before tax	24,454	25,323	-3.4%
Profit for the period	22,060	22,995	-4.1%

Business performance ratios

Gross profit margin	30.7%	33.3%
Net profit margin	15.6%	17.8%
Return on shareholders' equity	12.5%	15.3%
Current ratio	6.77	7.55
Quick ratio	5.00	5.85
Debt ratio	0.14	0.13

Share data

Shares in issue ('000)	318,500	318,500
Shares closing price (as at period end date)	HK\$0.68	HK\$0.67
Market capitalization (HK\$'000)	216,580	213,395
Basic earnings per share	HK6.9 cents	HK7.2 cents
Interim dividend per share	HK2.3 cents	HK2.4 cents
Net asset value per share	HK\$0.55	HK\$0.47

The Board of Directors (the "Directors") of Chanco International Group Limited (the "Company") is pleased to announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2006 as follows:-

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006

		Six months ended	
		30th September,	
		2006	2005
		Unaudited	Unaudited
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	4	141,348	129,289
Cost of sales		(97,912)	(86,180)
Gross profit		43,436	43,109
Other income		1,833	905
Selling and distribution costs		(8,043)	(6,606)
Administrative and other operating expenses		(12,772)	(12,085)
Profit before tax	5	24,454	25,323
Income tax expense	6	(2,394)	(2,328)
Profit for the period attributable to shareholders		22,060	22,995
Dividends	7	7,326	7,644
Basic earnings per share	8	HK6.9 cents	HK7.2 cents
Diluted earnings per share	8	HK6.9 cents	HK7.2 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH SEPTEMBER, 2006

	<i>Notes</i>	30th September, 2006 Unaudited HK\$'000	31st March, 2006 Audited HK\$'000
Assets			
Non-current assets			
Property, plant and equipment		10,457	10,409
Current assets			
Inventories		51,191	55,811
Trade and bills receivables	9	40,040	20,935
Other receivables, deposits and prepayments		5,546	4,463
Tax recoverable		-	18
Cash and cash equivalents		98,701	90,999
Total current assets		195,478	172,226
Total assets		205,935	182,635
Liabilities			
Current liabilities			
Trade and bills payables	10	12,371	9,203
Other payables and accrued charges		14,117	11,022
Tax payable		2,391	1,291
Total current liabilities		28,879	21,516
Non-current liabilities			
Deferred tax liabilities		348	266
Total liabilities		29,227	21,782
TOTAL NET ASSETS		176,708	160,853
Capital and reserves			
Share capital	11	3,185	3,185
Reserves		173,523	157,668
TOTAL EQUITY		176,708	160,853

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006

	Share capital Unaudited HK\$'000	Share premium Unaudited HK\$'000	Exchange reserve Unaudited HK\$'000	Statutory surplus reserve Unaudited HK\$'000	Retained earnings Unaudited HK\$'000	Proposed dividend Unaudited HK\$'000	Total Unaudited HK\$'000
At 1st April, 2005	3,185	32,435	-	-	91,159	7,007	133,786
Profit for the period	-	-	-	-	22,995	-	22,995
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	136	-	-	-	136
2004/05 final dividend paid	-	-	-	-	-	(7,007)	(7,007)
2005/06 proposed interim dividend	-	-	-	-	(7,644)	7,644	-
At 30th September, 2005	3,185	32,435	136	-	106,510	7,644	149,910
At 1st April, 2006	3,185	32,435	217	888	117,758	6,370	160,853
Profit for the period	-	-	-	-	22,060	-	22,060
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	165	-	-	-	165
2005/06 final dividend paid	-	-	-	-	-	(6,370)	(6,370)
2006/07 proposed interim dividend	-	-	-	-	(7,326)	7,326	-
At 30th September, 2006	3,185	32,435	382	888	132,492	7,326	176,708

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006

	Six months ended	
	30th September,	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash from operating activities	13,378	10,092
Net cash from/(used in) investing activities	539	(1,525)
Net cash used in financing activities	(6,370)	(7,007)
Net increase in cash and cash equivalents	7,547	1,560
Cash and cash equivalents at the beginning of the period	90,999	89,597
Effect of foreign exchange rate changes	155	136
Cash and cash equivalents at the end of the period, representing bank balances and cash	98,701	91,293

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. General

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

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

2. Basis of preparation

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

3. Principal accounting policies

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

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31st March, 2006.

In the current interim period, the Group has applied, for the first time, a number of Hong Kong Financial Reporting Standards ("HKFRS"), amendments to Hong Kong Accounting Standards ("HKAS (Amendment(s))") and Interpretations (HK(IFRIC) – INT(s)) (hereafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st December, 2005, 1st January, 2006 and 1st March, 2006. The application of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

3. Principal accounting policies (Continued)

The following new standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted. The directors of the Company anticipate that the adoption of the standards and interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – Int 8	Scope of HKFRS 2 "Share-based payment" ²
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives ³
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ⁴

1. Effective for annual periods beginning on or after 1st January, 2007
2. Effective for annual periods beginning on or after 1st May, 2006
3. Effective for annual periods beginning on or after 1st June, 2006.
4. Effective for annual periods beginning on or after 1st November, 2006

4. Segment information

Primary reporting format – business segment

Segment information about these business is presented below:

	Manufacturing business		Retail business		Inter-segment elimination		Consolidated	
	Six months ended 30th September, 2006	2005	Six months ended 30th September, 2006	2005	Six months ended 30th September, 2006	2005	Six months ended 30th September, 2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue								
External sales	131,365	123,066	9,983	6,223	-	-	141,348	129,289
Inter-segment sales	833	510	-	-	(833)	(510)	-	-
	132,198	123,576	9,983	6,223	(833)	(510)	141,348	129,289
Segment results	23,765	26,004	(758)	(1,000)	(12)	(178)	22,995	24,826
Unallocated income							1,833	905
Unallocated expenses							(374)	(408)
Profit before tax							24,454	25,323
Income tax expenses							(2,394)	(2,328)
Profit for the period attributable to shareholders							22,060	22,995

4. Segment information (Continued)*Secondary reporting format – geographical segment*

	Turnover	
	Six months ended 30th September,	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Japan	31,864	52,114
Europe	37,879	29,850
The United States of America (the "U.S.")	27,605	9,213
Hong Kong	23,161	18,739
The People's Republic of China, other than Hong Kong (the "PRC")	8,574	5,423
Australia	4,235	4,486
Others	8,030	9,464
	141,348	129,289

5. Profit before tax

Profit before tax is stated after charging:

	Six months ended 30th September,	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	97,912	86,180
Depreciation of property, plant and equipment	1,199	1,247
Operating lease rentals in respect of land and buildings	4,795	3,534
Write down of inventories	258	279
Staff costs (excluding directors' emoluments)	6,948	5,000
and crediting:		
Interest income	1,777	693
Unrealised holding gain on financial assets at fair value through profit or loss	-	143

6. Income tax expense

	Six months ended 30th September,	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	1,852	2,162
– Other jurisdictions	460	94
Deferred tax	82	72
	2,394	2,328

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

7. Dividends

	Six months ended 30th September,	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interim dividend of HK2.3 cents (2005: HK2.4 cents) per ordinary share	7,326	7,644

At a board meeting held on 19th December, 2006, the directors declared an interim dividend of HK2.3 cents per share, aggregating a total of approximately HK\$7,326,000 for the six months ended 30th September, 2006. This proposed dividend is not reflected as a dividend payable in the condensed financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31st March, 2007.

The amount of proposed interim dividend is based on 318,500,000 shares in issue at 19th December, 2006.

8. Earnings per share

The calculation of basic earnings per share is based on the Group's profit for the period of HK\$22,060,000 (2005: HK\$22,995,000) and weighted average of 318,500,000 (2005: 318,500,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the Group's profit for the period of HK\$22,060,000 (2005: HK\$22,995,000) and the weighted average number of 318,972,299 (2005: 319,017,000) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,500,000 (2005: 318,500,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 472,299 (2005: 517,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

9. Trade and bills receivables

Customers are generally granted with credit terms of 30 to 90 days. Longer payment terms might grant to those customers which have good payment history and long-term business relationship with the Group. Details of the ageing analysis are as follows:

	30th September, 2006 Unaudited HK\$'000	31st March, 2006 Audited HK\$'000
Current to 30 days	22,383	14,731
31-60 days	8,590	3,434
61-90 days	1,490	1,195
91-120 days	4,033	554
121-365 days	3,491	990
Over 365 days	53	31
	40,040	20,935

10. Trade and bills payables

Details of the ageing analysis are as follows:

	30th September, 2006 Unaudited HK\$'000	31st March, 2006 Audited HK\$'000
Current to 30 days	7,858	5,556
31-60 days	2,508	3,318
61-90 days	1,394	187
91-120 days	462	10
121-365 days	35	28
Over 365 days	114	104
	<hr/> 12,371 <hr/>	9,203

11. Share capital

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

12. Contingent liabilities

The Group had no material contingent liabilities as at 30th September, 2006 (At 31st March, 2006: nil).

13. Related party transactions

- (a) During the period, the Group had entered into the following transactions with related parties:

	Six months ended	
	30th September,	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	132	130

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 period was as follows:

	Six months ended	
	30th September,	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short-term benefits	4,353	3,621
Post employment benefits	54	54
	4,407	3,675

INTERIM DIVIDEND

The Directors has resolved to declare an interim dividend of HK2.3 cents per ordinary share for the six months ended 30th September, 2006. The interim dividend will be paid on or about 23rd January, 2007 to members, whose names appear on the register of members of the Company at the close of business on 12th January, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30th September, 2006, the Group's turnover increased approximately 9% to HK\$141,348,000. The increase in turnover was mainly attributable to the increase in OEM/ODM sales to the U.S. and Europe and the improving revenue contribution from the Group's retail business during the reporting period. Gross profit was HK\$43,436,000 while gross profit margin dropped to around 31% compared to 33% of the corresponding period last year.

Selling and distribution expenses for the period increased to approximately HK\$8,043,000 as a result of upsurge operating expenses for retail business. Administrative and other operating expenses increased by 6%, to HK\$12,772,000 which was due to the increase of staff remuneration and bonus paid to the executive directors of the Company.

Net profit for the six month ended 30th September, 2006 was down by 4% to HK\$22,060,000. The basic earnings per share was HK6.9 cents as compared to HK7.2 cents for the corresponding period last year.

BUSINESS REVIEW

Manufacturing Business

During the period under review, turnover of manufacturing business grew by approximately 7% to HK\$131,365,000. Sales growth was mainly due to strong orders for fashion belts placed by the customers in Europe and the U.S. The Group reported sales growth of 200% and 27% to the U.S. and Europe respectively. However, sales to Japan reported 39% decline to HK\$31,864,000 which was attributable to the reduction of orders from the Group's major customer in Japan. The customer was adjusting their ordering strategy during the reporting period. In September 2006, orders from Japan were fully recovered and the corresponding sales would be reflected in the second half of fiscal year. For the PRC market, driven by increased orders from reputable brand customers, sales rose by 58% to HK\$8,574,000.

Revenue from manufacturing of belts increased from HK\$118,743,000 to HK\$126,563,000. Sales of leather goods and other accessories was approximately HK\$4,802,000. The gross profit of manufacturing business decreased to HK\$39,372,000 and the gross margin dropped to around 30%. The decrease of gross margin was due to the rise of labor cost and outsourcing jobs, and additional rental for expanded production floor and dormitory for labor. During the review period, the Group raised the average wages of the processing factory in order to retain experienced workers. In the meantime, more new workers were hired but the average quality was not up to standard. The overall production efficiency was relatively lower than corresponding period last year.

Retail Business

Retail sales for the six months ended 30th September, 2006 was approximately HK\$9,983,000, representing around 7% of the Group's total turnover. The retail performance kept improving and the operating loss reduced to HK\$758,000 compared to HK\$1,000,000 in corresponding period last year. The overall shop rental to turnover ratio was lower as compared to the same period last year as a result of improvement in top-line. Nevertheless, the gross margin for retail sales was still far from satisfactory as low proportion of in-house brand sales was made during the reporting period. More resources would be allocated to advertising and promotion activities in order to enhance the brand image and popularity.

PROSPECTS

With years of development, the Group has successfully consolidated its leading position in leather accessories manufacturing. Better sales performance is foreseeable in the second half of fiscal year especially for the recovery of orders from the Group's major customer in Japan. Sales orders placed by new customers with extensive retail network over Europe and the U.S are promising. Nevertheless, the management expects that the pressure on manufacturing margin still exist in the second half of fiscal year. The Group has employed several experienced production management personnel who are responsible for improving production flow and enhancing workers quality. To cope with the increasing orders in future, the Group will strive to improve the production efficiency and increase the production capacity.

For retail business, the Group's strategy is to maintain the momentum of growth through adjusting the existing product mix and improving the operational efficiency. The Group will endeavor to increase the proportion of in-house brand sales in order to drive up the overall retail profit margin. To fully utilize the competitive strength in leather surface treatment, the Group will focus on developing diversified products with strong rough and raw leather element. For retail network expansion, the Group will open the forth AREA0264 store at a new shopping mall in Kowloon Bay around June 2007.

Looking forward, based on our continuous effort on product development and favorable global market condition, the management is cautiously optimistic towards the Group's performance in the second half of fiscal year 2006/07.

Liquidity, Financial Resources and Capital Structure

As at 30th September, 2006, the Group's cash and bank deposits were approximately HK\$98,701,000, compared to approximately HK\$90,999,000 as at 31st March, 2006.

As at 30th September, 2006, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8,000,000 which were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$195,478,000 as at 30th September, 2006 (31st March, 2006: HK\$172,226,000) and total current liabilities of approximately HK\$28,879,000 (31st March, 2006: HK\$21,516,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 7 times as at 30th September, 2006 (31st March, 2006: 8 times).

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

The Group recorded an increase in shareholders' funds from approximately HK\$160,853,000 as at 31st March, 2006 to approximately HK\$176,708,000 as at 30th September, 2006.

Treasury Policy

The Group generally finances its operation with internally generated resources.

Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars.

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi or United States dollars such that the Group does not have significance exposure to foreign exchange fluctuation. Though the Group does not engage in any hedging contracts, the Group's exposure to foreign exchange risk is minimal.

Charges on Assets

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

Material Acquisitions/Disposals

The Group had no material acquisitions/disposals for the six months ended 30th September, 2006.

Human Resources

As at 30th September, 2006, the Group had 202 employees in Hong Kong and the PRC and the processing factory had around 1,500 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.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th September, 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long positions

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

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

(b) Share options

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

Notes:

- 1(a). 47,727,352 shares are held by Leopark Worldwide Inc., a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Hong Edwin.
- 1(b). An option to subscribe for 3,181,200 shares of the Company was granted to Ms. Li Shuk Han on 24th September, 2003, who is the spouse of Mr. Chan King Hong Edwin. By virtue of the SFO, Mr. Chan King Hong Edwin is taken to be interested in these 3,181,200 long positions held by Ms. Li Shuk Han.
2. 47,727,352 shares are held by New Paramount Profits Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Yuen Stanley.
3. 39,204,648 shares are held by Prevail Assets Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Ms. Chan Wai Po Rebecca.
4. On 24th September, 2003, each of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca was granted an option to subscribe for 3,181,200 shares of the Company. Details of the options are stated under section headed "Share Option" below.

Save as disclosed above, none of the directors, chief executives and their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 30th September, 2006.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2006, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions

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

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Leopark Worldwide Inc.	Beneficial owner	47,727,352 <i>(Note i)</i>	14.99
New Paramount Profits Limited	Beneficial owner	47,727,352 <i>(Note i)</i>	14.99
Prevail Assets Limited	Beneficial owner	39,204,648 <i>(Note i)</i>	12.31
Smarty Worldwide Limited	Beneficial owner	39,204,648 <i>(Note ii)</i>	12.31
Chan Woon Man	Interest of a controlled corporation	39,204,648 <i>(Note ii)</i>	12.31
Li Shuk Han	Interest of spouse	52,187,352 <i>(Note iii)</i>	16.39
Chelverton Dividend Income Fund Limited	Investment manager	25,553,000	8.02
Yeoman Capital Management Pte Ltd	Investment manager	19,308,000	6.06

(b) Share Options

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

Notes:

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors' interests in shares and underlying shares" above.
- (ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man. In addition, an option to subscribe for 3,181,200 shares of the Company was granted to Mr. Chan Woon Man on 24th September, 2003.
- (iii) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong, Edwin and 4,460,000 shares are held by Mr. Chan King Hong, Edwin. By virtue of the SFO, Ms. Li Shuk Han, who is the spouse of Mr. Chan King Hong Edwin, is taken to be interested in these long positions.
- (iv) Being an option to subscribe for 3,181,200 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 3,181,200 shares of the Company granted to Ms. Li Shuk Han on 24th September, 2003.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30th September, 2006.

SHARE OPTIONS

Pursuant to the written resolutions of all the shareholders of the Company passed on 18th February, 2003, the Company adopted a share option scheme (the "Share Option Scheme").

There were no movements in share options during the six months ended 30th September, 2006. Details of share options outstanding at 30th September, 2006 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1st April, 2006 and 30th September, 2006	Exercisable period	Exercise price per share
(a) Executive directors				
Chan King Hong Edwin	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
Chan King Yuen Stanley	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
Chan Wai Po Rebecca	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
(b) Employees, in aggregate	26th May, 2003	516,000	26th May, 2003 – 25th May, 2013	0.580
	24th Sept, 2003	6,362,400	24th Sept, 2003 – 23rd Sept, 2013	0.830
(c) Others, in aggregate	26th May, 2003	3,000,000	26th May, 2003 – 25th May, 2013	0.580
Total		<u>19,422,000</u>		

Notes:

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30th September, 2006.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30th September, 2006, except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer. Due to the small size of the existing management team, both the roles of the chairman and chief executive officer of the Company are currently played by Mr. Chan King Hong, Edwin. Mr. Chan has considerable experience in manufacturing industry and is the person most knowledgeable about the business of the Group. The Board believes that the current structure will enable us to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the six months ended 30th September, 2006.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Mr. Fong Pui Sheung David (Chairman), Ms. Chau Cynthia Sin Ha, and Mr. Or Kam Chung Janson. The Audit Committee has reviewed with Group's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited interim financial statements and the results of the Group for the six months ended 30th September, 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 10th January, 2007 to Friday, 12th January, 2007 both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on Tuesday, 9th January, 2007.

By order of the Board
Chan King Hong Edwin
Chairman

Hong Kong, 19th December, 2006