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DESIGNER & MANUFACTURER
OF
**QUALITY LEATHER
ACCESSORIES**

Interim Report 2008

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)

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 (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
 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 Fulcrum Group (Cayman) Limited
 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
30 September

	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000	Change%
Operating results			
Turnover	169,416	170,954	-1%
Gross Profit	46,634	54,471	-14%
Profit before income tax expense	23,011	33,360	-31%
Profit for the period	20,760	30,126	-31%
Business performance ratios			
Gross profit margin	27.5%	31.9%	
Net profit margin	12.3%	17.6%	
Return on shareholders' equity	8.8%	14.3%	
Current ratio	6.50	6.76	
Quick ratio	4.66	5.11	
Debt ratio	0.15	0.14	
Share data			
Shares in issue ('000)	318,804	318,804	
Shares closing price (as at period end date)	HK\$0.64	HK\$0.76	
Market capitalization (HK\$'000)	204,034	242,291	
Basic earnings per share	HK6.5 cents	HK9.5 cents	
Interim dividend per share	HK1.3 cents	HK3.1 cents	
Net asset value per share	HK\$0.74	HK\$0.66	

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 30 September 2008 as follows:–

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Notes	Six months ended 30 September	
		2008 Unaudited HK\$'000	2007 Unaudited HK\$'000
Turnover	4	169,416	170,954
Cost of sales		(122,782)	(116,483)
Gross profit		46,634	54,471
Other income and gains		2,972	2,565
Selling and distribution costs		(8,790)	(8,665)
Administrative and other operating expenses		(17,805)	(15,011)
Profit before income tax expense	5	23,011	33,360
Income tax expense	6	(2,251)	(3,234)
Profit for the period		20,760	30,126
Dividends	7	4,144	9,883
Basic earnings per share	8	HK6.5 cents	HK9.5 cents
Diluted earnings per share	8	HK6.5 cents	HK9.4 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2008

	<i>Notes</i>	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Assets			
Non-current assets			
Property, plant and equipment		10,459	9,987
Available-for-sale investments	9	3,781	–
		14,240	9,987
Current assets			
Inventories		74,212	55,703
Trade and bills receivables	10	30,166	34,452
Other receivables, deposits and prepayments		4,206	5,095
Cash and cash equivalents		154,702	151,867
		263,286	247,117
Current liabilities			
Trade and bills payables	11	22,687	15,317
Other payables and accrued charges		15,147	17,388
Tax payable		2,699	1,094
		40,533	33,799
Net current assets		222,753	213,318
Total assets less current liabilities		236,993	223,305
Non-current liabilities			
Deferred tax liabilities		191	243
Net Assets		236,802	223,062
Capital and reserves			
Share capital	12	3,188	3,188
Reserves		233,614	219,874
Total equity		236,802	223,062

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Share capital	Share premium	Exchange reserve	Available- for-sale investments revaluation reserve	Statutory surplus reserve	Retained earnings	Proposed dividends	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	3,185	32,435	659	-	888	142,379	8,281	187,827
Profit for the period	-	-	-	-	-	30,126	-	30,126
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	332	-	-	-	-	332
2006/07 final dividend paid	-	-	-	-	-	(6)	(6,051)	(6,057)
2006/07 special dividend paid	-	-	-	-	-	(2)	(2,230)	(2,232)
2007/08 proposed interim dividend	-	-	-	-	-	(9,883)	9,883	-
Exercise of share options	3	173	-	-	-	-	-	176
At 30 September 2007	3,188	32,608	991	-	888	162,614	9,883	210,172
At 1 April 2008	3,188	32,608	2,267	-	888	176,460	7,651	223,062
Profit for the period	-	-	-	-	-	20,760	-	20,760
Change in fair value of available-for-sale investments	-	-	-	51	-	-	-	51
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	580	-	-	-	-	580
2007/08 final dividend paid	-	-	-	-	-	-	(7,651)	(7,651)
2008/09 proposed interim dividend	-	-	-	-	-	(4,144)	4,144	-
At 30 September 2008	3,188	32,608	2,847	51	888	193,076	4,144	236,802

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	Six months ended 30 September	
	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000
Net cash from operating activities	13,505	22,503
Net cash (used in)/from investing activities	(3,391)	84
Net cash used in financing activities	(7,651)	(8,113)
Net increase in cash and cash equivalents	2,463	14,474
Cash and cash equivalents at the beginning of the period	151,867	119,573
Effect of foreign exchange rate changes	372	380
Cash and cash equivalents at the end of the period, representing bank balances and cash	154,702	134,427

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. General

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 (“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 unaudited condensed interim 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 31 March 2008.

In the current interim period, the Group adopted the following new interpretations to existing standards that are published and mandatory for the Group’s financial year ending 31 March 2009.

HK(IFRIC) – Interpretation 12

Service Concession Arrangements

HK(IFRIC) – Interpretation 14

HKAS 19 – The Limit on a Defined Benefit Asset,
Minimum Funding Requirements and their Interaction

The adoption of the above new interpretations to existing standards had no material impact on the Group’s condensed interim financial information for the six months ended 30 September 2008.

3. Principal accounting policies (Continued)

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

HKFRSs (Amendments)	Improvement to HKFRSs ¹
Amendments to HKAS 32 and HKAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation ²
Amendment to HKAS 39	Eligible Hedged Items ⁴
Amendments to HKFRS 1 and HKAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ⁴
HKFRS 8	Operating Segments ²
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes ³
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation ⁵

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 July 2009

⁵ Effective for annual periods beginning on or after 1 October 2008

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		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue								
External sales	156,718	160,814	12,698	10,140	-	-	169,416	170,954
Inter-segment sales	1,458	973	-	-	(1,458)	(973)	-	-
Total	158,176	161,787	12,698	10,140	(1,458)	(973)	169,416	170,954
Segment results	20,190	31,536	1,287	(356)	(98)	15	21,379	31,195
Unallocated income							1,957	2,487
Unallocated expenses							(325)	(322)
Profit before income tax expense							23,011	33,360
Income tax expense							(2,251)	(3,234)
Profit for the period							20,760	30,126

4. Segment information (Continued)

Secondary reporting format – geographical segment

	Turnover	
	Six months ended 30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Japan	62,612	52,847
Europe	48,830	48,027
The United States of America	11,729	16,472
Hong Kong	21,991	25,484
The People's Republic of China, other than Hong Kong (the "PRC")	9,867	13,148
Australia	6,265	5,002
Others	8,122	9,974
	169,416	170,954

5. Profit before income tax expense

Profit before income tax expense is arrived at after charging:

	Six months ended	
	30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	122,782	116,483
Depreciation of property, plant and equipment	1,142	1,291
Operating lease rentals in respect of land and buildings	5,297	5,201
Write down of inventories	299	860
Staff costs (excluding directors' emoluments)	8,555	8,315
and crediting:		
Interest income	1,935	2,143

6. Income tax expense

	Six months ended 30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	1,981	2,530
– Other jurisdictions	322	685
Deferred tax	(52)	19
	2,251	3,234

Hong Kong profits tax is calculated at 16.5% (2007: 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.

7. Dividends

	Six months ended 30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interim dividend of HK1.3 cents (2007: HK3.1 cents) per ordinary share	4,144	9,883

At a board meeting held on 17 December 2008, the directors declared an interim dividend of HK1.3 cents per share, aggregating a total of approximately HK\$4,144,000 for the six months ended 30 September 2008. This proposed dividend is not reflected as a dividend payable in the condensed financial statements, but is reflected as an appropriation of retained earnings for the year ending 31 March 2009.

The amount of proposed interim dividend is based on 318,804,000 shares in issue at 17 December 2008.

8. Earnings per share

The calculation of basic earnings per share is based on the Group's profit for the period of HK\$20,760,000 (2007: HK\$30,126,000) and weighted average number of 318,804,000 (2007: 318,604,656) 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\$20,760,000 (2007: HK\$30,126,000) and the weighted average number of 321,312,000 (2007: 319,558,610) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,804,000 (2007: 318,604,656) ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of 2,508,000 (2007: 953,954) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

9. Available-for-sale investments

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Equity securities listed in Hong Kong, stated at quoted market price	3,781	–

During the period, the net increase in fair value of the Group's available-for-sale investments of HK\$51,000 (2007: Nil) were recognised directly in the available-for-sale investments revaluation reserve.

10. Trade and bills receivables

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Trade and bills receivables	30,734	35,088
Less: allowance for doubtful debts	(568)	(636)
	30,166	34,452

10. 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 allowance for doubtful debts) at the balance sheet date is as follows:

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Current (<i>note a</i>)	11,410	10,624
Less than 30 days past due	16,126	10,031
31-60 days past due	834	7,467
61-90 days past due	516	2,504
91-120 days past due	344	746
121-365 days past due	794	3,062
Over 365 days past due	142	18
Amount past due at balance sheet date but not impaired (<i>note b</i>)	18,756	23,828
	30,166	34,452

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

11. Trade and bills payables

Details of the ageing analysis are as follows:

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Current to 30 days	17,032	7,762
31-60 days	2,022	4,382
61-90 days	1,960	1,671
91-120 days	1,299	385
121-365 days	197	706
Over 365 days	177	411
	22,687	15,317

12. Share capital

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

13. Contingent liabilities

The Group had no material contingent liabilities as at 30 September 2008 (At 31 March 2008: nil).

14. Related party transactions

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

	Six months ended 30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	132	132

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 30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short-term benefits	7,155	5,887
Post employment benefits	60	60
	7,215	5,947

INTERIM DIVIDEND

The Directors has resolved to declare an interim dividend of HK1.3 cents per ordinary share for the six months ended 30 September 2008. The interim dividend will be paid on or about 20 January 2009 to members, whose names appear on the register of members of the Company at the close of business on 9 January 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 September 2008, the Group reported turnover amounting to HK\$169,416,000 (2007: HK\$170,954,000). The decline in turnover was mainly due to the decrease of sales revenue from the Group's manufacturing business. Gross profit was around HK\$46,634,000 while gross profit margin was approximately 28% (2007: 32%). Significant increase of PRC labor cost and appreciation of Renminbi have resulted in a lower gross profit reported.

The rise in selling and distribution costs for the period was mainly related to higher operating cost for retail operation. Administrative and other operating expenses increased by 19%, to HK\$17,805,000 which were primarily attributable to the increase of staff salaries and bonus paid to the executive directors of the Company.

Net profit for the six month ended 30 September 2008 decreased by 31% to HK\$20,760,000. Basic earnings per share were HK6.5 cents (2007: HK9.5 cents).

BUSINESS REVIEW

Manufacturing Business

From the manufacturing business, the Group posted revenue of HK\$156,718,000, a decrease of 3% as compared with HK\$160,814,000 in the same period last year.

Geographically, Japan once again became the largest export market of the Group. Satisfactory growth of export sales to Japan nearly offset the slow down of sales in various market segments such as U.S., Hong Kong and the PRC. Sales to Japan surged by 18% to HK\$62,612,000 which was driven by strong demand from the major customer in Japan. Export sales to Europe increased by 2% to HK\$48,830,000. In view of continuing economy slowdown in the U.S., sales to this market segment plunged by 29% to HK\$11,729,000 compared with HK\$16,472,000 in the same period last year. Facing possible economic downturn, Hong Kong apparel retailers turned conservative and began to tighten inventory control and delayed their order placement. For the PRC market, sales dropped by 25% to HK\$9,867,000 as a result of customer portfolio restructuring. Apart from the major export markets, sales revenue from other countries including Canada, Taiwan, Philippines, Singapore and Malaysia, etc. decreased by 19%, to HK\$8,122,000.

In terms of product mix, sales of belts decreased to HK\$149,982,000 (2007: HK\$152,068,000). Sales of leather goods and other accessories was approximately HK\$6,736,000 (2007: HK\$8,746,000). The gross profit of manufacturing business down to HK\$39,808,000 (2007: HK\$49,609,000). With significant rise of PRC labor cost and appreciation of Renminbi, the gross margin was squeezed to around 25% (2007: 31%).

Retail Business

The Group's retail operation earned a profit of HK\$1,287,000. Retail sales for the reporting period surged 25% to HK\$12,698,000, representing 7% of the Group's turnover. Comparable same store sales grew around 4% against same period of last year. With continuing effort on widening the product range like footwear, shirt, jeans and trendy accessories, sales of in-house brand products doubled over that of last year. Retail gross profit margin increased by 5 percentage points to 53%. The overall shop rental to turnover ratio decreased to around 22% as a result of better sales performance during the reporting period. As at 30 September 2008, the Group operated 4 AREA 0264 stores in Hong Kong.

PROSPECTS

The global economic environment continues to be very challenging. The deteriorating financial conditions in the U.S. and Europe will further accelerate the slow down of global economy. Looking forward to the second half of the fiscal year 2009, sales orders from customers in the U.S. and European markets are declining. Weak consumer confidence slows consumer spending in these market segments. Nevertheless, the Group expects sales to Japan will keep growing as sales orders from major customer remains steadily increasing. Consumers tend to buy popular-priced but good quality products in depressed economic environment.

In the first half of fiscal year 2009, the Group's manufacturing operation was suffered from the impacts of significant rise of labor cost and appreciation of Renminbi. Nevertheless, looking at the recent change of PRC government policy, the Group believes it will partially relieve the huge pressure of labor cost on the manufacturers. Decreasing raw materials cost and stable exchange rate of Renminbi offer favorable conditions for the manufacturers with sound business foundation to overcome current challenges. The Group will continue to focus its efforts to grow new businesses, maintain tight cost control and improve operation efficiency.

In Hong Kong, retail market condition is deteriorating. Consumer confidence will continue to weaken and consumer expenditure will continue to contract due to rising unemployment rate and negative wealth effects amid the slump of stock and property markets. Facing unfavorable business environment, the Group will take every necessary measures to reduce cost and enhance operation efficiency. The Group will adjust the product mix by reducing import of luxury brand products. In additions, the Group will close loss-making store and negotiate with the landlords for rental reduction when renewal of the lease. With relatively small scale of operation, the Group has greater flexibility to overcome the upcoming difficulties. Barring unforeseeable circumstances, the Group expects the retail operation will remain profitable for the full fiscal year 2009.

Despite the very challenging global economic conditions, we remain optimistic about the Group's longer term prospects for sustained revenue and profit growth given our solid business fundamental.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2008, the Group's cash and bank deposits were approximately HK\$154,702,000, compared to approximately HK\$151,867,000 as at 31 March 2008.

As at 30 September 2008, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8,000,000 which were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$263,286,000 as at 30 September 2008 (31 March 2008: HK\$247,117,000) and total current liabilities of approximately HK\$40,533,000 (31 March 2008: HK\$33,799,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 6 times as at 30 September 2008 (31 March 2008: 7 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\$223,062,000 as at 31 March 2008 to approximately HK\$236,802,000 as at 30 September 2008.

Treasury Policy

The Group generally finances its operation with internally generated resources.

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

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

Charges on Assets

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

Material Acquisitions/Disposals

The Group had no material acquisitions/disposals for the six months ended 30 September 2008.

Human Resources

As at 30 September 2008, the Group had around 220 employees in Hong Kong and the PRC and the processing factory had around 1,800 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 30 September 2008, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long positions

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

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Chan King Hong Edwin	Interest of a controlled corporation	47,727,352 <i>(Note 1(a))</i>	
	Beneficial owner	<u>4,488,000</u>	
		<u>52,215,352</u>	16.38
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 <i>(Note 2)</i>	
	Beneficial owner	<u>5,216,000</u>	
		<u>52,943,352</u>	16.61
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 <i>(Note 3)</i>	12.30

(b) Share options

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

Notes:

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

Save as disclosed above, none of the directors, chief executives and their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 30 September 2008.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions

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

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Leopark Worldwide Inc.	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
New Paramount Profits Limited	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
Prevail Assets Limited	Beneficial owner	39,204,648 <i>(Note i)</i>	12.30
Smarty Worldwide Limited	Beneficial owner	39,204,648 <i>(Note ii)</i>	12.30
Chan Woon Man	Interest of a controlled corporation	39,204,648 <i>(Note ii)</i>	12.30

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Li Shuk Han	Interest of spouse	52,215,352 <i>(Note iii)</i>	16.38
CIM Dividend Income Fund Limited	Investment manager	28,692,000	9.00
Yeoman Capital Management Pte Ltd	Investment manager	32,052,000	10.05
Yeoman 3-Rights Value Asia Fund	Beneficial owner	19,732,000	6.19
Yeo Seng Chong	Interest of a controlled corporation	33,568,000	
	Interest of spouse	2,600,000	
		<hr/> 36,168,000	11.34
Lim Mee Hwa	Interest of a controlled corporation	33,568,000	
	Beneficial owner	2,600,000	
		<hr/> 36,168,000	11.34

(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 24 September 2003.
- (iii) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong, Edwin and 4,488,000 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 24 September 2003.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30 September 2008.

SHARE OPTIONS

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

There were no movements in share options during the six months ended 30 September 2008. Details of share options outstanding at 30 September 2008 are as follows:

Name or category of participant	Date of grant	Outstanding as at		Exercisable period	Exercise price per share
		1 April 2008 and	30 Sept 2008		
(a) Executive directors					
Chan King Hong Edwin	24 Sept 2003		3,181,200	24 Sept 2003 – 23 Sept 2013	HK\$ 0.830
Chan King Yuen Stanley	24 Sept 2003		3,181,200	24 Sept 2003 – 23 Sept 2013	HK\$ 0.830
Chan Wai Po Rebecca	24 Sept 2003		3,181,200	24 Sept 2003 – 23 Sept 2013	HK\$ 0.830
(b) Employees, in aggregate					
	26 May 2003		60,000	26 May 2003 – 25 May 2013	HK\$ 0.580
	24 Sept 2003		6,362,400	24 Sept 2003 – 23 Sept 2013	HK\$ 0.830
(c) Others, in aggregate					
	26 May 2003		3,000,000	26 May 2003 – 25 May 2013	HK\$ 0.580
Total			<u>18,966,000</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 30 September 2008.

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

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 30 September 2008.

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 30 September 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 7 January 2009 to Friday, 9 January 2009 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, 6 January 2009.

By order of the Board

Chan King Hong Edwin

Chairman

Hong Kong, 17 December 2008