

The Premier
Designer & Manufacturer
of Quality Leather Accessories



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 2009

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

AUDITOR

BDO Limited
Certified Public Accountants

LEGAL ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE 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**

	2009	2008
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Operating results		
Turnover	115,319	169,416
Gross profit	26,188	46,634
(Loss)/profit before income tax expense	(1,295)	23,011
(Loss)/profit for the period	(2,297)	20,760
Business performance ratios		
Gross profit margin	22.7%	27.5%
Net profit margin	N/A	12.3%
Return on shareholders' equity	N/A	8.8%
Current ratio	7.44	6.50
Quick ratio	5.28	4.66
Debt ratio	0.13	0.15
Share data		
Shares in issue ('000)	318,804	318,804
Shares closing price (as at period end date)	HK\$0.57	HK\$0.64
Market capitalization (HK\$'000)	181,718	204,034
Basic (loss)/earnings per share	(HK0.7 cent)	HK6.5 cents
Interim dividend per share	Nil	HK1.3 cents
Net asset value per share	HK\$0.78	HK\$0.74

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 2009 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

		Six months ended 30 September	
	<i>Notes</i>	2009 Unaudited HK\$'000	2008 Unaudited HK\$'000
Turnover	4	115,319	169,416
Cost of sales		(89,131)	(122,782)
Gross profit		26,188	46,634
Other income and gains		1,377	2,972
Selling and distribution costs		(7,264)	(8,790)
Administrative and other operating expenses		(21,596)	(17,805)
(Loss)/profit before income tax expense	5	(1,295)	23,011
Income tax expense	6	(1,002)	(2,251)
(Loss)/profit for the period		(2,297)	20,760
(Loss)/earnings per share			
– Basic	8	(HK0.7 cent)	HK6.5 cents
– Diluted	8	(HK0.7 cent)	HK6.5 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009



	Six months ended 30 September	
	2009 Unaudited HK\$'000	2008 Unaudited HK\$'000
(Loss)/profit for the period	(2,297)	20,760
Other comprehensive income for the period		
Change in fair value of available-for-sale investments	1,795	51
Exchange differences arising on translation of financial statements of operations outside Hong Kong	28	580
Total comprehensive income for the period	(474)	21,391

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2009

	Notes	30 September 2009 Unaudited HK\$'000	31 March 2009 Audited HK\$'000
Non-current assets			
Property, plant and equipment		8,698	9,482
Available-for-sale investments	9	4,374	2,579
		13,072	12,061
Current assets			
Inventories		78,765	78,175
Trade and bills receivables	10	17,286	22,390
Other receivables, deposits and prepayments		3,137	2,983
Tax recoverable		1,030	188
Cash and cash equivalents		171,657	156,594
		271,875	260,330
Current liabilities			
Trade and bills payables	11	15,965	10,082
Other payables and accrued charges		16,040	13,945
Dividend payable		3,188	-
Tax payable		1,359	1,191
		36,552	25,218
Net current assets		235,323	235,112
Total assets less current liabilities		248,395	247,173
Non-current liabilities			
Deferred tax liabilities		144	164
NET ASSETS		248,251	247,009
Capital and reserves			
Share capital	12	3,188	3,188
Reserves		245,063	243,821
TOTAL EQUITY		248,251	247,009

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Share capital	Share premium	Share option reserve	Exchange reserve	Investment revaluation reserve	Statutory surplus reserve	Retained earnings	Proposed dividends	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	3,188	32,608	-	2,267	-	888	176,460	7,651	223,062
Total comprehensive income for the period	-	-	-	580	51	-	20,760	-	21,391
2008 final dividend paid	-	-	-	-	-	-	-	(7,651)	(7,651)
2009 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
At 1 April 2009	3,188	32,608	-	2,721	(1,338)	888	205,754	3,188	247,009
Total comprehensive income for the period	-	-	-	28	1,795	-	(2,297)	-	(474)
Equity settled share-based payment transactions	-	-	4,904	-	-	-	-	-	4,904
2009 final dividend	-	-	-	-	-	-	-	(3,188)	(3,188)
At 30 September 2009	3,188	32,608	4,904	2,749	457	888	203,457	-	248,251

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Six months ended 30 September	
	2009 Unaudited HK\$'000	2008 Unaudited HK\$'000
Net cash from operating activities	14,261	13,505
Net cash from/(used in) investing activities	782	(3,391)
Net cash used in financing activities	–	(7,651)
Net increase in cash and cash equivalents	15,043	2,463
Cash and cash equivalents at the beginning of the period	156,594	151,867
Effect of foreign exchange rate changes	20	372
Cash and cash equivalents at the end of the period, representing bank balances and cash	171,657	154,702



NOTES TO THE CONDENSED INTERIM 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 interim financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by HKICPA, which are effective for the Group's financial year beginning on 1 April 2009.

Amendments to HKFRSs
Amendments to HKFRSs
HKAS 1 (Revised)
HKAS 23 (Revised)
Amendments to HKAS 32 and
HKAS 1
Amendments to HKFRS 1 and
HKAS 27

Improvement to HKFRSs
Improvement to HKFRSs 2009
Presentation of Financial Statements
Borrowing Costs
Puttable Financial Instruments and Obligations
Arising on Liquidation
Cost of an Investment in a Subsidiary, Jointly
Controlled Entity or Associate

3. Principal accounting policies *(Continued)*

Amendments to HKFRS 2	Share-based Payments – Vesting Conditions and Cancellations
Amendments to HKFRS 7	Improving Disclosures about Financial Instruments
Amendments to HK(IFRIC) – Interpretation 9 and HKAS 9	Embedded Derivatives
HKFRS 8	Operating Segments
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Interpretation 18	Transfers of Assets from Customers

Except for HKFRS 8 and HKAS 1 (Revised) giving rise to new accounting policies and additional disclosure as further described below, the adoption of the new interpretations and amendments has had no significant effect on these condensed interim financial statements.

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces a number of terminology changes, including revised titles and changes in presentation. As a result of the adoption of HKAS 1 (Revised), details of changes in equity during the period arising from transaction with equity shareholders in their capacity as such have been presented separately from all other income and expenses in the condensed consolidated statement of changes in equity. All other items of income and expenses are presented in the condensed consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the condensed consolidated statement of comprehensive income. The Group has decided to present separate condensed income statement and condensed statement of comprehensive income. Comparative information has been re-presented in order to achieve a consistent presentation.

HKFRS 8 Operating Segments

HKFRS 8 'Operating segments'. HKFRS 8 replaces HKAS 14 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group compared to the annual financial statements for the year ended 31 March 2009.

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.

3. Principal accounting policies (Continued)

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKFRS 1 (Revised)	First-time Adoption of HKFRSs ⁴
Amendments to HKAS 32	Classification of Rights Issues ⁵
Amendment to HKAS 39	Eligible Hedged Items ⁴
Amendments to HKFRS 1	Amendments to HKFRS 1 First-time Adoption of HKFRSs – Additional Exemptions for First-time Adopters ³
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions ³
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKFRS 3 (Revised)	Business Combinations ⁴
HKFRS 9	Financial Instruments ⁷
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners ⁴

¹ 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 July 2009 and 1 January 2010 as appropriate

³ Effective for annual periods beginning on or after 1 January 2010

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

⁵ Effective for annual periods beginning on or after 1 February 2010

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ Effective for annual periods beginning on or after 1 January 2013

4. Turnover and segment information

The principal activities of the Group are manufacture and distribution of leather products and retail of fashion apparel and leather accessories.

The chief operating decision-maker has been identified as the executive Directors of the Group. The executive Directors review the Group's internal reporting in order to assess performance and allocate resources. The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions. The Group has 2 reportable segments:

(1) Manufacturing business – manufacture and distribution of leather products

(2) Retail business – retail of fashion apparel and leather accessories

4. Turnover and segment information (Continued)

The executive Directors assess the performance of the operating segments based on their respective segment results.

An analysis of the Group's revenue and operating results for the six months ended 30 September 2009 by reportable segment is as follows:

	Manufacturing business		Retail business		Inter-segment elimination		Total	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reporting segment revenue	105,278	158,176	10,728	12,698	(687)	(1,458)	115,319	169,416
Inter-segment sales	(687)	(1,458)	-	-	687	1,458	-	-
Revenue from external customers	104,591	156,718	10,728	12,698	-	-	115,319	169,416
Reporting segment results	1,923	20,190	1,007	1,287	53	(98)	2,983	21,379
Dividend income from available-for-sale investments							95	22
Finance income							873	1,935
Corporate expenses							(5,246)	(325)
(Loss)/profit before income tax expense							(1,295)	23,011
Income tax expense							(1,002)	(2,251)
(Loss)/profit for the period							(2,297)	20,760

5. (Loss)/profit before income tax expense

(Loss)/profit before income tax expense is arrived at after charging:

	Six months ended 30 September	
	2009 Unaudited HK\$'000	2008 Unaudited HK\$'000
Cost of inventories sold	89,131	122,782
Depreciation of property, plant and equipment	860	1,142
Operating lease rentals in respect of land and buildings	5,042	5,297
Write down of inventories	121	299
Staff costs (excluding directors' emoluments)	9,130	8,555
and crediting:		
Dividend income from available-for-sale investments	95	22
Interest income	873	1,935

6. Income tax expense

	Six months ended 30 September	
	2009 Unaudited HK\$'000	2008 Unaudited HK\$'000
Current taxation:		
– Hong Kong profits tax	242	1,981
– Other jurisdictions	780	322
Deferred tax	(20)	(52)
	1,002	2,251

Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) 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

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2009. For the six months ended 30 September 2008, the directors declared an interim dividend of HK1.3 cents per share, aggregating a total of approximately HK\$4,144,000.

8. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's loss for the period of HK\$2,297,000 (2008: profit of HK\$20,760,000) and weighted average number of 318,804,000 (2008: 318,804,000) ordinary shares in issue during the period.

Diluted loss per share is equal to the basic loss per share for the period as there is no dilutive effect on the outstanding share options. For the six months ended 30 September 2008, the calculation of diluted earnings per share for the period was based on the Group's profit for the period of HK\$20,760,000 and the weighted average number of 321,312,000 ordinary shares. The weighted average number of ordinary shares used in the calculation was the weighted average number of 318,804,000 ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of 2,508,000 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 2009 Unaudited HK\$'000	31 March 2009 Audited HK\$'000
Equity securities listed in Hong Kong, at fair value	4,374	2,579

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

10. Trade and bills receivables

	30 September 2009 Unaudited HK\$'000	31 March 2009 Audited HK\$'000
Trade and bills receivables	17,903	22,904
Less: allowance for doubtful debts	(617)	(514)
	17,286	22,390

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 end of reporting period is as follows:

	30 September 2009 Unaudited HK\$'000	31 March 2009 Audited HK\$'000
0 to 30 days	11,390	12,574
31-60 days	3,929	3,090
61-90 days	1,401	4,786
91-120 days	134	1,392
121-365 days	192	326
Over 365 days	240	222
	17,286	22,390

11. Trade and bills payables

Details of the ageing analysis are as follows:

	30 September 2009 Unaudited HK\$'000	31 March 2009 Audited HK\$'000
0 to 30 days	12,840	7,098
31-60 days	1,940	2,203
61-90 days	729	339
91-120 days	24	219
121-365 days	385	184
Over 365 days	47	39
	15,965	10,082

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 2009 (At 31 March 2009: 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	
	2009	2008
	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	
	2009	2008
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short-term benefits	7,271	7,155
Post employment benefits	60	60
Share-based payment expenses	4,904	-
	12,235	7,215

INTERIM DIVIDEND

In view of the losses incurred by the Company, the Directors are not recommending an interim dividend for the six months ended 30 September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The outbreak of financial crisis in third quarter of 2008 caused significant impact in global consumption. During the reporting period, the Group's export business was adversely affected by weak demand from overseas customers which resulted in significant decline in the Group's turnover. For the six months ended 30 September 2009, the Group recorded turnover of HK\$115,319,000 as compared to HK\$169,416,000 of same period last year. Gross profit was around HK\$26,188,000 (2008: HK\$46,634,000) while gross profit margin was approximately 23% (2008: 28%).

Other income and gains dropped to HK\$1,377,000 from HK\$2,972,000 for the same period of 2008. This was mainly attributed to the decrease of bank interest income received during the reporting period.

Selling and distribution costs decreased 17% to HK\$7,264,000. Selling and distribution costs for manufacturing business decreased in line with the drop of sales. Administrative and other operating expense increased by 21%, to HK\$21,596,000 which was primarily attributable to the recognition of share based payment expenses of HK\$4,904,000 in respect of share option granted during the reporting period.

For the six months ended 30 September 2009, the Group reported a net loss of HK\$2,297,000. If the recognition of share based payment expenses was excluded, the Group would have recorded a net profit for the period of HK\$2,607,000. Loss per share was HK0.7 cent (2008: earnings per share of HK6.5 cents).



BUSINESS REVIEW

Manufacturing Business

As demand for leather products from overseas market was severely hit by the financial turmoil, revenue generated from manufacturing business dropped 33% to HK\$104,591,000 compared with HK\$156,718,000 in the same period last year.

Geographically, Japan remained the largest export market of the Group. Sales to Japan decreased by 30% to HK\$43,772,000 as compared with the historical high of sales reported in the same period of last year. Orders from major customer in Japan were steady and stable during the reporting period. Export sales to European market dropped 51% to HK\$23,716,000. It was mainly attributable to substantial drop of orders from one of the key customers in Europe during the period. With continuing economy slowdown in the U.S., sales to this market segment plunged by 18% to HK\$9,623,000 compared with HK\$11,729,000 in the same period last year.

Retailers in Hong Kong remained conservative during the reporting period; as a result, sales in Hong Kong dropped around 34% to HK\$6,100,000. Sales to the PRC market dropped very slightly to HK\$9,710,000 compared to HK\$9,867,000 of last year. Sales to Australia became insignificant for management analysis and the corresponding sales were combined with other markets segment for comparison starting from this fiscal year. Apart from the major markets, sales revenue from other countries including Australia, Canada, Taiwan, Philippines, Singapore and Malaysia, etc. decreased by 19%, to HK\$11,670,000 compared to HK\$14,387,000 of last year.

In terms of product mix, sales of belts decreased to HK\$96,859,000 (2008: HK\$149,982,000). Sales of leather goods and other accessories was approximately HK\$7,732,000. Gross profit reduced to approximately HK\$19,893,000 (2008: HK\$39,808,000) and gross margin slipped to 19% (2008: 25%). The decline of profit margin was mainly attributed to pricing pressure from customers and higher production cost per unit as a result of output volume reduced. To cope with the current difficulties, the management had endeavored to minimize manpower at the optimum level and implemented cost cutting measures during the reporting period.

Retail Business

The retail business recorded an operating profit of HK\$1,007,000 for the six months ended 30 September 2009 (2008: HK\$1,287,000). Retail sales for the reporting period decreased 16% to HK\$10,728,000 in light of weaker domestic consumption and lower tourist arrivals, amidst the economic recession as well as the outbreak of H1N1. Comparable same store sales dropped around 16% against same period last year. In-house brands sales kept growing during the reporting period on the back of continuing marketing effort on the products promotion. Retail gross margin went up to around 58% compared with 53% of same period last year. The overall shop rental to turnover ratio stayed at around 23%. As at 30 September 2009, the Group operated 4 AREA 0264 stores in Hong Kong.

PROSPECTS

The global economic outlook remains uncertain even though there were signs of stabilization of global economy in the third quarter of 2009. Demand from various overseas markets such as the U.S. and the European countries stay weak in the near term. Export sales to Japan are expected to be stable as the business performance of the Group's major customer in Japan keeps strong even after the outbreak of financial tsunami last year. However, pricing pressure from overseas customers will be persisted.

In recent, the overall operating cost in the PRC is relative stable. The cost of key raw materials such as cow leather and metal accessories are comparatively lower than same period of last year. Since the Group's cost of sales is calculated by using first-in first-out method, the lower leather cost will be enjoyed in the second half of fiscal year 2009/10. In the meantime, the management will continue to maintain rigid cost control and optimize the current production capacity.

Retail market condition improved a lot in the second half of 2009 with the rebound in stock and property market and improvement of employment market. The Group's comparable same store sales for October and November 2009 are very encouraging. Retail performance in the second half of the fiscal year is expected to be much better than same period of last year. In December, the Group opened another new store at the prime location of Causeway Bay. The Group will continue to look for new location in prime shopping district for expansion



and develop customer loyalty and further enhance the brand equity of AREA 0264 and Stranger/Urban Stranger. The Group expects the retail business will grow faster for the coming years and will become another key driving force for the group's turnover growth in future.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2009 the Group's cash and bank deposits were approximately HK\$171,657,000, compared to approximately HK\$156,594,000 as at 31 March 2009.

As at 30 September 2009, 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\$271,875,000 as at 30 September 2009 (31 March 2009: HK\$260,330,000) and total current liabilities of approximately HK\$36,552,000 (31 March 2009: HK\$25,218,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 7 times as at 30 September 2009 (31 March 2009: 10 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\$247,009,000 as at 31 March 2009 to approximately HK\$248,251,000 as at 30 September 2009.

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. 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 2009.

Human Resources

As at 30 September 2009, the Group had around 200 employees in Hong Kong and the PRC and the processing factory had around 1,360 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 2009, 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>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>8,244,000</u>	
		<u>55,971,352</u>	17.56
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 <i>(Note 3)</i>	12.30

(b) Share options

Name	Capacity	Number of options held	Number of underlying shares
Chan King Hong Edwin	Beneficial owner	11,881,200 (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. 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 2009.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2009, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions

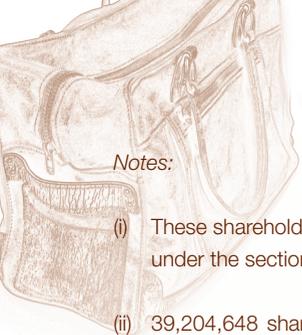
(a) Ordinary shares of HK\$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Leopark Worldwide Inc.	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
New Paramount Profits Limited	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
Prevail Assets Limited	Beneficial owner	39,204,648 <i>(Note i)</i>	12.30
Smarty Worldwide Limited	Beneficial owner	39,204,648 <i>(Note ii)</i>	12.30
Chan Woon Man	Interest of a controlled corporation	39,204,648 <i>(Note ii)</i>	12.30
Li Shuk Han	Interest of spouse	53,515,352 <i>(Note iii)</i>	16.79

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
CIM Dividend Income Fund Limited	Investment manager	28,692,000	9.00
Yeoman Capital Management Pte Ltd	Investment manager	35,412,000	11.11
Yeoman 3-Rights Value Asia Fund	Beneficial owner	19,732,000	6.19
Yeo Seng Chong	Interest of a controlled corporation	35,660,000	
	Interest of spouse	<u>2,600,000</u>	
		38,260,000	12.00
Lim Mee Hwa	Interest of a controlled corporation	35,660,000	
	Beneficial owner	<u>2,600,000</u>	
		38,260,000	12.00

(b) Share Options

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



Notes:

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors' interests in shares and underlying shares" above.
- (ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man. In addition, an option to subscribe for 3,181,200 shares of the Company was granted to Mr. Chan Woon Man on 24 September 2003.
- (iii) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong, Edwin and 5,788,000 shares are held 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 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.

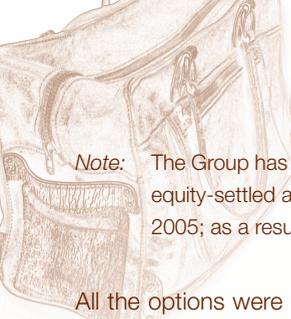
Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30 September 2009.

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

Name or category of participant	Date of grant	Outstanding as at 1 April 2009	Options granted	Outstanding as at 30 Sept 2009	Exercisable period	Exercise price per share
(a) Executive directors						
Chan King Hong Edwin	24 Sept 2003 (Note)	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	-	8,700,000	8,700,000	22 July 2009 – 21 July 2019	0.57
Chan King Yuen Stanley	24 Sept 2003 (Note)	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	-	8,700,000	8,700,000	22 July 2009 – 21 July 2019	0.57
Chan Wai Po Rebecca	24 Sept 2003 (Note)	3,181,200	-	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	-	8,700,000	8,700,000	22 July 2009 – 21 July 2019	0.57
(b) Employees, in aggregate						
	26 May 2003 (Note)	60,000	-	60,000	26 May 2003 – 25 May 2013	0.58
	24 Sept 2003 (Note)	6,362,400	-	6,362,400	24 Sept 2003 – 23 Sept 2013	0.83
	22 July 2009	-	3,000,000	3,000,000	22 July 2009 – 21 July 2019	0.57
(c) Others, in aggregate						
	26 May 2003 (Note)	3,000,000	-	3,000,000	26 May 2003 – 25 May 2013	0.58
Total		18,966,000	29,100,000	48,066,000		



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

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

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

The expected volatility is based on the historic volatility of share prices of the Company. Expected dividends are based on historical dividend payment record of the Company. There were no market conditions associated with the share option grants. Under this share option scheme, HK\$4,904,000 of share-based payment expense has been included in the consolidated income statement for the six months ended 30 September 2009 (2008: nil) and the corresponding amount has been credited to share option reserve.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares and underlying shares" and "Share 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 2009.

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 2009, 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 2009.



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 2009.

By order of the Board
Chan King Hong Edwin
Chairman

Hong Kong, 17 December 2009