



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 2010



THE PREMIER  
DESIGNER & MANUFACTURER  
of Quality Leather Accessories

## **CORPORATE INFORMATION**

### **DIRECTORS**

#### **Executive Directors**

Chan King Hong Edwin  
*(Chairman & Chief Executive Officer)*  
Chan King Yuen Stanley *(Vice Chairman)*  
Chan Wai Po Rebecca

#### **Independent Non-executive Directors**

Chau Cynthia Sin Ha *JP*  
Fong Pui Sheung David *MH*  
Or Kam Chung Janson *FCCA, CPA*

#### **COMPANY SECRETARY**

Lau Wai Hung *FCCA, CPA*

#### **AUDIT COMMITTEE**

Fong Pui Sheung David *MH (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  
Bank of Communications Co. Ltd. Hong Kong Branch  
Wing Hang Bank Limited

### **COMPANY WEBSITE**

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

### **STOCK CODE**

264

## FINANCIAL HIGHLIGHTS

	For the six months ended 30 September	
	2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
<b>Operating results</b>		
Turnover	<b>103,271</b>	115,319
Gross profit	<b>28,454</b>	26,188
Profit/(loss) before income tax expense	<b>2,463</b>	(1,295)
Profit/(loss) for the period	<b>1,403</b>	(2,297)
<b>Business performance ratios</b>		
Gross profit margin	<b>27.6%</b>	22.7%
Net profit margin	<b>1.4%</b>	N/A
Return on shareholders' equity	<b>0.5%</b>	N/A
Current ratio	<b>8.96</b>	7.44
Quick ratio	<b>6.80</b>	5.28
Debt ratio	<b>0.11</b>	0.13
<b>Share data</b>		
Shares in issue ('000)	<b>318,804</b>	318,804
Shares closing price (as at period end date)	<b>HK\$0.61</b>	HK\$0.57
Market capitalization (HK\$'000)	<b>194,470</b>	181,718
Basic earnings/(loss) per share	<b>HK 0.4 cent</b>	(HK 0.7 cent)
Interim dividend per share	<b>Nil</b>	Nil
Net asset value per share	<b>HK\$0.85</b>	HK\$0.78

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 2010 as follows:–

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Notes	Six months ended 30 September	
		2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
Turnover	4	103,271	115,319
Cost of sales		(74,817)	(89,131)
Gross profit		28,454	26,188
Other income and gains		650	1,377
Selling and distribution costs		(11,046)	(7,264)
Administrative and other operating expenses		(15,595)	(21,596)
Profit/(loss) before income tax expense	5	2,463	(1,295)
Income tax expense	6	(1,060)	(1,002)
Profit/(loss) for the period attributable to owners of the Company		1,403	(2,297)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Notes	Six months ended 30 September	
		2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
<b>Other comprehensive income</b>			
Change in fair value of available-for-sale investments		(165)	1,795
Exchange differences arising on translation of financial statements of operations outside Hong Kong		416	28
Other comprehensive income for the period		251	1,823
<b>Total comprehensive income for the period attributable to owners of the Company</b>		<b>1,654</b>	<b>(474)</b>
Earnings/(loss) per share			
– Basic	8	HK0.4 cent	(HK0.7 cent)
– Diluted	8	HK0.4 cent	(HK0.7 cent)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2010

	Notes	30 September 2010 Unaudited HK\$'000	31 March 2010 Audited HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		8,779	8,876
Available-for-sale investments	9	4,918	4,161
Rental deposits		3,101	2,282
		<b>16,798</b>	15,319
<b>Current assets</b>			
Inventories		68,626	68,843
Trade and bills receivables	10	19,949	19,566
Other receivables, deposits and prepayments		3,290	2,599
Tax recoverable		1,029	597
Cash and cash equivalents		191,792	190,885
		<b>284,686</b>	282,490
<b>Current liabilities</b>			
Trade and bills payables	11	12,924	9,595
Other payables and accrued charges		18,295	14,915
Current tax liabilities		570	805
		<b>31,789</b>	25,315
<b>Net current assets</b>		<b>252,897</b>	257,175
<b>Total assets less current liabilities</b>		<b>269,695</b>	272,494
<b>Non-current liabilities</b>			
Deferred tax liabilities		159	149
<b>Total Net Assets</b>		<b>269,536</b>	272,345
<b>Capital and reserves</b>			
Share capital	12	3,188	3,188
Reserves		266,348	269,157
<b>Total Equity</b>		<b>269,536</b>	272,345

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Share capital	Share premium	Share option reserve	Foreign exchange reserve	Available- for-sale investment reserve	Statutory and discretionary 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 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	-	-	4,904	-	-	-	-	-	4,904
2009 final dividend	-	-	-	-	-	-	-	(3,188)	(3,188)
<b>At 30 September 2009</b>	<b>3,188</b>	<b>32,608</b>	<b>4,904</b>	<b>2,749</b>	<b>457</b>	<b>888</b>	<b>203,457</b>	<b>-</b>	<b>248,251</b>
<b>At 1 April 2010</b>	<b>3,188</b>	<b>32,608</b>	<b>4,904</b>	<b>2,776</b>	<b>244</b>	<b>888</b>	<b>223,274</b>	<b>4,463</b>	<b>272,345</b>
Total comprehensive income for the period	-	-	-	416	(165)	-	1,403	-	1,654
2010 final dividend paid	-	-	-	-	-	-	-	(4,463)	(4,463)
<b>At 30 September 2010</b>	<b>3,188</b>	<b>32,608</b>	<b>4,904</b>	<b>3,192</b>	<b>79</b>	<b>888</b>	<b>224,677</b>	<b>-</b>	<b>269,536</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

	Six months ended 30 September	
	2010	2009
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash from operating activities	<b>6,314</b>	14,261
Net cash (used in)/from investing activities	<b>(1,252)</b>	782
Net cash used in financing activities	<b>(4,463)</b>	–
Net increase in cash and cash equivalents	<b>599</b>	15,043
Cash and cash equivalents at the beginning of the period	<b>190,885</b>	156,594
Effect of foreign exchange rate changes	<b>308</b>	20
Cash and cash equivalents at the end of the period, representing bank balances and cash	<b>191,792</b>	171,657

# 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 2010.

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 2010.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs
HKFRSs (Amendments)	Improvements to HKFRSs 2009
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation ("INT") 17	Distribution of Non-cash Assets to Owners

### 3. Principal accounting policies *(Continued)*

The adoption of the new interpretations and amendments has had no significant effect on these condensed interim financial statements.

The Group has not yet applied the following new standards, amendments and interpretations, potentially relevant to the Group's operations, that have been issued but not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>2</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>3</sup>
HKFRS 9	Financial Instruments <sup>4</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2011
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2011
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

### 4. Turnover and segment information

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

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

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

#### 4. Turnover and segment information (Continued)

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

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

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

	Manufacturing business		Retail business		Total	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	Unaudited 2010 HK\$'000	Unaudited 2009 HK\$'000	Unaudited 2010 HK\$'000	Unaudited 2009 HK\$'000	Unaudited 2010 HK\$'000	Unaudited 2009 HK\$'000
Revenue from external customers	88,450	104,591	14,821	10,728	103,271	115,319
Inter-segment revenue	387	687	–	–	387	687
Reportable segment revenue	88,837	105,278	14,821	10,728	103,658	116,006
Reportable segment result	4,140	1,923	(1,396)	1,007	2,744	2,930
Elimination of inter-segment profits					46	53
Dividend income from available-for-sale investments					116	95
Interest income					381	873
Unallocated other income and gains					40	–
Unallocated corporate expenses					(864)	(5,246)
Profit/(loss) before income tax expense					2,463	(1,295)
Income tax expense					(1,060)	(1,002)
Profit/(loss) for the period					1,403	(2,297)

4. Turnover and segment information *(Continued)*

	<b>Manufacturing</b> <i>HK\$'000</i>	<b>Retail</b> <i>HK\$'000</i>	<b>Unallocated</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Reportable segment assets:</b>				
<b>30 September 2010</b>	<b>104,904</b>	<b>21,942</b>	<b>174,638</b>	<b>301,484</b>
31 March 2010	110,335	14,600	172,874	297,809

5. Profit/(loss) before income tax expense

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

	<b>Six months ended</b> <b>30 September</b>	
	<b>2010</b> <b>Unaudited</b> <b>HK\$'000</b>	2009 Unaudited <i>HK\$'000</i>
Cost of inventories sold	<b>74,817</b>	89,131
Depreciation of property, plant and equipment	<b>909</b>	860
Operating lease rentals in respect of land and buildings	<b>9,007</b>	5,042
Write down of inventories	<b>309</b>	121
Staff costs (excluding directors' emoluments)	<b>8,654</b>	9,130
and crediting:		
Dividend income from available-for-sale investments	<b>116</b>	95
Interest income	<b>381</b>	873

## 6. Income tax expense

	Six months ended 30 September	
	2010	2009
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	196	242
– Other jurisdictions	854	780
Deferred tax	10	(20)
	<b>1,060</b>	1,002

Hong Kong profits tax is calculated at 16.5% (2009: 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. Interim dividend

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2010 (2009: Nil).

## 8. Earnings per share

The calculation of basic earnings/(loss) per share is based on the Group's profit for the period of HK\$1,403,000 (2009: loss of HK\$2,297,000) and weighted average number of 318,804,000 (2009: 318,804,000) ordinary shares in issue during the period.

For the six months ended 30 September 2010 and 2009, diluted earnings/(loss) per share is equal to the basic earnings/(loss) per share for the period as there is no dilutive effect on the outstanding share options.

## 9. Available-for-sale investments

	30 September 2010	31 March 2010
	Unaudited	Audited
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at fair value	<b>4,918</b>	4,161

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

## 10. Trade and bills receivables

	<b>30 September 2010 Unaudited HK\$'000</b>	31 March 2010 Audited HK\$'000
Trade and bills receivables	<b>20,598</b>	20,212
Less: impairment loss	<b>(649)</b>	(646)
	<b>19,949</b>	19,566

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

	<b>30 September 2010 Unaudited HK\$'000</b>	31 March 2010 Audited HK\$'000
0 - 30 days	<b>14,502</b>	10,986
31 - 60 days	<b>2,900</b>	3,329
61 - 90 days	<b>1,234</b>	4,103
91 - 120 days	<b>137</b>	866
121 - 365 days	<b>1,101</b>	7
Over 365 days	<b>75</b>	275
	<b>19,949</b>	19,566

## 11. Trade and bills payables

Details of the ageing analysis are as follows:

	<b>30 September 2010 Unaudited HK\$'000</b>	31 March 2010 Audited HK\$'000
0 - 30 days	<b>8,587</b>	8,233
31 - 60 days	<b>1,379</b>	578
61 - 90 days	<b>2,008</b>	376
91 - 120 days	<b>623</b>	213
121 - 365 days	<b>233</b>	131
Over 365 days	<b>94</b>	64
	<b>12,924</b>	9,595

## 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 2010 (At 31 March 2010: nil).

## 14. Related party transactions

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

	<b>Six months ended 30 September 2010 Unaudited HK\$'000</b>	2009 Unaudited HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	<b>272</b>	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.

## 14. Related party transactions (Continued)

### (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	
	2010 Unaudited HK\$'000	2009 Unaudited HK\$'000
Short-term benefits	6,633	7,271
Post employment benefits	60	60
Share-based payment expenses	–	4,904
	<b>6,693</b>	<b>12,235</b>

## DIVIDEND

The Board would not recommend the payment of an interim dividend for the six months ended 30 September 2010 (30 September 2009: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the six months ended 30 September 2010, the Group's turnover decreased from HK\$115,319,000 to HK\$103,271,000. The fall in total turnover was due to lower sales from manufacturing business segment. Gross profit was around HK\$28,454,000 (2009: HK\$26,188,000) while gross profit margin was approximately 28% (2009: 23%).

Other income and gains decreased from HK\$1,377,000 to HK\$650,000. This was mainly attributed to the decrease of bank interest income received during the reporting period.

Selling and distribution costs increased 52% to HK\$11,046,000. The rise in selling and distribution costs was mainly attributable to substantial increase of rental expenses for the group's retail business. Administrative and other operating expense decreased from HK\$21,596,000 to HK\$15,595,000 for the reporting period. Administrative and other operating expense was lower by 28% owing to one-off share based payment expenses of HK\$4,904,000 recognized in the same period last year.

On the whole, the Group reported a net profit of HK\$1,403,000 for the six months ended 30 September 2010. Earnings per share was HK0.4 cent (2009: loss per share of HK0.7 cent).

## **BUSINESS REVIEW**

### **Manufacturing Business**

For the six months ended 30 September 2010, turnover of manufacturing business segment from external customers reduced by approximately 15% to HK\$88,450,000, accounting for 86% of the Group's total turnover. The fall in turnover was mainly attributed to the significant decrease of export sales to Japan.

Geographically, export sales to Japan dropped significantly from HK\$43,772,000 to HK\$13,328,000. During the reporting period, the major customer in Japan diversified their orders placement to several manufacturers for strategic reason. To cope with the unexpected reduction of orders from Japan, the Group had shifted its focus on the U.S and European markets. Export sales to the U.S. and European markets were better off in the reporting period. Sales to the U.S. and European market increased from HK\$9,623,000 to HK\$15,719,000 and increased from HK\$23,716,000 to HK\$29,156,000 respectively. Sales to the PRC market dropped slightly to HK\$8,916,000 compared with HK\$9,710,000 same period last year. Apart from the major markets, sales revenue from other countries including Australia, Canada, Korea, Taiwan, Philippines, Singapore and Malaysia, etc. increased by 19%, to HK\$13,936,000.

In terms of product mix, sales of belts decreased to HK\$80,788,000 (2009: HK\$96,859,000). Sales of leather goods and other accessories was approximately HK\$7,661,000. Gross profit was approximately HK\$19,811,000 (2009: HK\$19,893,000). During the reporting period, the Group was mainly using lower cost stock leather for production. Despite the fixed overhead cost and labor cost per piece was higher as a result of output volume reduced, gross profit margin still increased from 19% to 22% for the reporting period.

### **Retail Business**

Retail sales for the reporting period increased from HK\$10,728,000 to HK\$14,821,000. Comparable same store sales increased around 18% against same period last year. Retail gross profit margin was stayed at around 58%. However, sales performance of the new shop in Causeway Bay was far from satisfactory. Because of high rental costs, the overall shop rental to turnover ratio rose significantly from 23% to around 43%. Consequently, our retail business segment incurred an operating loss of around HK\$1,396,000. During the

reporting period, we continued to build up our in-house brands value through strengthening product design and quality and brand promotion. A new store was opened at Shatin in August 2010. As at 30 September 2010, the Group operated 5 AREA 0264 stores in Hong Kong.

## **PROSPECTS**

The second half of the financial year 2011 will continue to be challenging. The rising labor costs, growing inflation pressure in the PRC and continuing appreciation of Renminbi will put pressure on the profit margin. Faced with these difficulties, we will continue to maintain rigid cost control and optimize the production capacity in order to maintain the profitability. In terms of market, we expect the sales order from Japan will reduce in the second half of the financial year as compared with same period last year. We will endeavor to explore new markets and find new customers in Europe, the U.S. and the PRC to increase our sales.

The retail market is expected to remain prosperous in the second half of financial year 2011 on the back of steady economic growth, growing wealth effect and continued strong mainland Chinese tourist arrivals. The stronger Renminbi will provide mainland visitors with extra incentive to travel to Hong Kong for consumption. Despite negative result reported in the first half of the financial year, we are confident that the retail business will remain profitable for the full financial year.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 September 2010 the Group's cash and bank deposits were approximately HK\$191,792,000, compared to approximately HK\$190,885,000 as at 31 March 2010.

As at 30 September 2010, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$15,000,000 which were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$284,686,000 as at 30 September 2010 (31 March 2010: HK\$282,490,000) and total current liabilities of approximately HK\$31,789,000 (31 March 2010: HK\$25,315,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 9 times as at 30 September 2010 (31 March 2010: 11 times).

In view of its strong financial and liquidity position, the Group did not raise any bank loan during the period.

The Group recorded a decrease in shareholders' funds from approximately HK\$272,345,000 as at 31 March 2010 to approximately HK\$269,536,000 as at 30 September 2010.

## **TREASURY POLICY**

The Group generally finances its operation with internally generated resources.

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

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

## **CHARGES ON ASSETS**

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

## **MATERIAL ACQUISITIONS/DISPOSALS**

The Group had no material acquisitions/disposals for the six months ended 30 September 2010.

## **HUMAN RESOURCES**

As at 30 September 2010, the Group had around 171 employees in Hong Kong and the PRC and the processing factory, an independent third party with which the Group has entered into a processing agreement, had around 1,088 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 2010, 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>9,372,000</u>	
		<u>57,099,352</u>	17.91
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 <i>(Note 3)</i>	12.30

## (b) Share options

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

### Notes:

- 1(a) 47,727,352 shares are held by Leopark Worldwide Inc., a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Hong Edwin.
- 1(b) An option to subscribe for 3,181,200 shares and 1,500,000 shares of the Company was granted to Ms. Li Shuk Han on 24 September 2003 and 22 July 2009 respectively, who is the spouse of Mr. Chan King Hong Edwin. By virtue of the SFO, Mr. Chan King Hong Edwin is taken to be interested in these 4,681,200 long positions held by Ms. Li Shuk Han.
2. 47,727,352 shares are held by New Paramount Profits Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Yuen Stanley.
3. 39,204,648 shares are held by Prevail Assets Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Ms. Chan Wai Po Rebecca.
4. On 24 September 2003, each of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca was granted an option to subscribe for 3,181,200 shares of the Company. On 22 July 2009, each of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca was granted an option to subscribe for 8,700,000 shares of the Company. 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 2010.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

### LONG POSITIONS

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

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital</b>
Leopark Worldwide Inc.	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
New Paramount Profits Limited	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
Prevail Assets Limited	Beneficial owner	39,204,648 <i>(Note i)</i>	12.30
Smarty Worldwide Limited	Beneficial owner	39,204,648 <i>(Note ii)</i>	12.30
Chan Woon Man	Interest of a controlled corporation	39,204,648 <i>(Note ii)</i>	12.30
Li Shuk Han	Interest of spouse	53,515,352 <i>(Note iii)</i>	16.79
CIM Dividend Income Fund Limited	Investment manager	25,420,000	7.97

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital</b>
Yeoman Capital Management Pte Ltd	Investment manager	24,702,000 <i>(Note iv)</i>	7.75
Yeo Seng Chong	Interest of a controlled corporation	24,702,000	
	Interest of spouse	<u>2,872,000</u>	
		27,574,000 <i>(Note v)</i>	8.65
Lim Mee Hwa	Interest of a controlled corporation	24,702,000	
	Beneficial owner	<u>2,872,000</u>	
		27,574,000 <i>(Note vi)</i>	8.65
Yeoman 3-Rights Value Asia Fund	Beneficial owner	22,000,000 <i>(Note vii)</i>	6.90

**(b) Share Options**

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

*Notes:*

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors' interests in shares and underlying shares" above.
- (ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man. In addition, an option to subscribe for 3,181,200 shares of the Company was granted to Mr. Chan Woon Man on 24 September 2003.
- (iii) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong, Edwin and 5,788,000 shares are held by Mr. Chan King Hong, Edwin. By virtue of the SFO, Ms. Li Shuk Han, who is the spouse of Mr. Chan King Hong Edwin, is taken to be interested in these long positions.
- (iv) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Yeoman Capital Management Pte Ltd, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, all of them are wholly owned by Yeoman Capital Management Pte Ltd, an investment manager, hold 22,000,000 shares, 350,000 shares and 1,252,000 shares in the Company respectively. By virtue of the SFO, Yeoman Capital Management Pte Ltd, being the holding company of Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, is deemed to be interested in the same 23,602,000 shares in the Company. In addition, 1,100,000 shares of the Company were held directly by Yeoman Capital Management Pte Ltd.
- (v) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Yeo Seng Chong, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, all of them are wholly owned by Yeoman Capital Management Pte Ltd, hold 22,000,000 shares, 350,000 shares and 1,252,000 shares in the Company respectively. In addition, 1,100,000 shares of the Company were held directly by Yeoman Capital Management Pte Ltd. 35% of the equity interests of Yeoman Capital Management Pte Ltd is held by Yeo Seng Chong. By virtue of the SFO, Yeo Seng Chong is deemed to be interested in the same 24,702,000 shares in the Company held by Yeoman Capital Management Pte Ltd, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2. In addition, 2,872,000 shares of the Company were held by Lim Mee Hwa, the spouse of Yeo Seng Chong. By virtue of the SFO, Yeo Seng Chong, being the spouse of Lim Mee Hwa, is also deemed to be interested in the same 2,872,000 shares of the Company held by Lim Mee Hwa.

- (vi) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Lim Mee Hwa, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, all of them are wholly owned by Yeoman Capital Management Pte Ltd, hold 22,000,000 shares, 350,000 shares and 1,252,000 shares in the Company respectively. In addition, 1,100,000 shares of the Company were held directly by Yeoman Capital Management Pte Ltd. 35% of the equity interests of Yeoman Capital Management Pte Ltd is held by Lim Mee Hwa. By virtue of the SFO, Lim Mee Hwa is deemed to be interested in the same 24,702,000 shares in the Company held by Yeoman Capital Management Pte Ltd, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2. In addition, 2,872,000 shares of the Company were held directly by Lim Mee Hwa.
- (vii) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Yeoman Capital Management Pte Ltd, the holding company of Yeoman 3-Rights Value Asia Fund, Yeoman 3-Rights Value Asia Fund hold 22,000,000 shares in the Company.
- (viii) Being an option to subscribe for 3,181,200 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 3,181,200 shares of the Company granted to Ms. Li Shuk Han on 24 September 2003 and an option to subscribe for 8,700,000 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 1,500,000 shares of the Company granted to Ms. Li Shuk Han on 22 July 2009.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30 September 2010.

## SHARE OPTIONS

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

There were no movements in share options during the six months ended 30 September 2010. Details of share options outstanding at 30 September 2010 are as follows:

Name or category of participant	Date of grant	Outstanding as at		Exercise price per share
		1 April 2010 and 30 Sept 2010	Exercisable period	
<b>(a) Executive directors</b> Chan King Hong Edwin	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	HK\$0.830
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	HK\$0.570

Name or category of participant	Date of grant	Outstanding as at 1 April 2010 and 30 Sept 2010	Exercisable period	Exercise price per share
Chan King Yuen Stanley	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	HK\$0.830
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	HK\$0.570
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	HK\$0.830
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	HK\$0.570
<b>(b) Employees, in aggregate</b>	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
	22 July 2009	3,000,000	22 July 2009 – 21 July 2019	HK\$0.570
<b>(c) Others, in aggregate</b>	26 May 2003	3,000,000	26 May, 2003 – 25 May, 2013	HK\$0.580
Total		<u>48,066,000</u>		

## 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 2010.

## **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 2010, except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer. Due to the small size of the existing management team, both the roles of the chairman and chief executive officer of the Company are currently played by Mr. Chan King Hong, Edwin. Mr. Chan has considerable experience in manufacturing industry and is the person most knowledgeable about the business of the Group. The Board believes that the current structure will enable us to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of Group.

## **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 2010.

## **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 2010.

By order of the Board  
**Chan King Hong Edwin**  
*Chairman*

Hong Kong, 22 November 2010