



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
2013



Urban Stranger

www.area0264.com

CAUSEWAY BAY
wtc more

TSIM SHA TSUI
No.26 Kimberley Road

MONG KOK
Langham Place

KWUN TONG
APM

TUEN MUN
tmtplaza

TSEUNG KWAN O
PopCorn

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Lau Wai Hung FCCA, CPA

AUDIT COMMITTEE

Fong Pui Sheung David MH
(Committee Chairman)
Chau Cynthia Sin Ha JP
Or Kam Chung Janson FCCA, CPA

REMUNERATION COMMITTEE

Or Kam Chung Janson FCCA, CPA
(Committee Chairman)
Fong Pui Sheung David MH
Chau Cynthia Sin Ha JP

NOMINATION COMMITTEE

Chau Cynthia Sin Ha JP
(Committee Chairlady)
Fong Pui Sheung David MH
Or Kam Chung Janson FCCA, CPA

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3rd Floor, Victory Industrial Building
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

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co. Ltd. Hong
Kong Branch
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	
	2013	2012
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Operating results		
Turnover	59,826	92,133
Gross profit	6,708	21,587
Loss before income tax expense	(14,315)	(4,317)
Loss for the period	(14,661)	(4,944)
Business performance ratios		
Gross profit margin	11.2%	23.4%
Net profit margin	N/A	N/A
Return on shareholders' equity	N/A	N/A
Current ratio	12.64	12.42
Quick ratio	9.29	8.82
Share data		
Shares in issue ('000)	318,804	318,804
Shares closing price (as at period end date)	HK\$0.330	HK\$0.385
Market capitalization (HK\$'000)	105,205	122,740
Loss per share	(HK4.6 cents)	(HK1.6 cents)
Interim dividend per share	Nil	HK0.33 cent
Net asset value per share	HK\$0.86	HK\$0.90

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 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	Notes	Six months ended 30 September	
		2013 Unaudited HK\$'000	2012 Unaudited HK\$'000
Turnover	4	59,826	92,133
Cost of sales		(53,118)	(70,546)
Gross profit		6,708	21,587
Other income and gains		4,459	2,311
Selling and distribution costs		(11,880)	(12,278)
Administrative and other operating expenses		(13,602)	(15,937)
Loss before income tax expense	5	(14,315)	(4,317)
Income tax expense	6	(346)	(627)
Loss for the period attributable to owners of the Company		(14,661)	(4,944)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	Notes	Six months ended 30 September	
		2013 Unaudited HK\$'000	2012 Unaudited HK\$'000
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Change in fair value of available-for-sale investments		140	–
Exchange differences arising on translation of financial statements of operations outside Hong Kong		599	(143)
Other comprehensive income for the period		739	(143)
Total comprehensive income for the period attributable to owners of the Company		(13,922)	(5,087)
Loss per share			
– Basic	8	(HK4.6 cents)	(HK1.6 cents)
– Diluted	8	(HK4.6 cents)	(HK1.6 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2013

	Notes	30 September 2013 Unaudited HK\$'000	31 March 2013 Audited HK\$'000
Non-current assets			
Property, plant and equipment		6,755	7,456
Available-for-sale investments	9	6,208	6,068
Bank deposit with maturity after one year		–	9,294
Rental deposits		2,446	3,224
		15,409	26,042
Current assets			
Inventories		74,484	74,638
Trade and bills receivables	10	12,303	12,460
Other receivables, deposits and prepayments		5,896	5,401
Tax recoverable		123	123
Held-to-maturity investment		–	1,524
Bank deposit with maturity after one year		9,422	–
Cash and cash equivalents		179,205	188,764
		281,433	282,910
Current liabilities			
Trade payables	11	7,564	5,712
Other payables and accrued charges		14,217	14,071
Current tax liabilities		485	671
		22,266	20,454
Net current assets			
		259,167	262,456
Total assets less current liabilities			
		274,576	288,498
Non-current liabilities			
Deferred tax liabilities		61	61
Total Net Assets			
		274,515	288,437
Capital and reserves attributable to owners of the Company			
Share capital	12	3,188	3,188
Reserves		271,327	285,249
Total Equity			
		274,515	288,437

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	Share capital	Share premium	Share option reserve	Foreign exchange reserve	Available- for-sale investments 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 2012	3,188	32,608	4,904	5,461	(643)	888	244,614	-	291,020
Total comprehensive income for the period	-	-	-	(143)	-	-	(4,944)	-	(5,087)
2013 interim dividend (Note 7)	-	-	-	-	-	-	(1,052)	1,052	-
At 30 September 2012	3,188	32,608	4,904	5,318	(643)	888	238,618	1,052	285,933
At 1 April 2013	3,188	32,608	4,904	5,780	76	888	240,993	-	288,437
Total comprehensive income for the period	-	-	-	599	140	-	(14,661)	-	(13,922)
At 30 September 2013	3,188	32,608	4,904	6,379	216	888	226,332	-	274,515

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	Six months ended	
	30 September	
	2013	2012
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash used in operating activities	(13,385)	(9,238)
Net cash from investing activities	3,437	1,232
Net decrease in cash and cash equivalents	(9,948)	(8,006)
Cash and cash equivalents at the beginning of the period	188,764	180,597
Effect of foreign exchange rate changes on cash and cash equivalents	389	(89)
Cash and cash equivalents at the end of the period	179,205	172,502

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.

Except as described below, 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 2013.

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 the HKICPA, that are relevant for the Group’s condensed interim financial statements:

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 19 (2011)	Employee Benefits

3. Principal accounting policies (Continued)

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

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

Amendment to HKAS 32	Offsetting Financial Assets and Financial Liabilities ¹
HKFRS 9	Financial Instruments ²

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 January 2015

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, footwear 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.

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, footwear 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.

4. Turnover and segment information (Continued)

	Manufacturing business		Retail business		Total	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	Unaudited 2013 HK\$'000	Unaudited 2012 HK\$'000	Unaudited 2013 HK\$'000	Unaudited 2012 HK\$'000	Unaudited 2013 HK\$'000	Unaudited 2012 HK\$'000
Revenue from						
external customers	45,791	70,864	14,035	21,269	59,826	92,133
Inter-segment revenue	1,683	1,524	-	-	1,683	1,524
Reportable segment revenue	47,474	72,388	14,035	21,269	61,509	93,657
Reportable segment result	(12,527)	(5,212)	(4,067)	(580)	(16,594)	(5,792)
Elimination of inter-segment profits					(24)	(29)
Dividend income from available-for-sale investments					168	146
Interest income					2,493	1,966
Unallocated other income and gains					206	-
Unallocated corporate expenses					(564)	(608)
Loss before income tax expense					(14,315)	(4,317)
Income tax expense					(346)	(627)
Loss for the period					(14,661)	(4,944)

4. Turnover and segment information (Continued)

	Manufacturing business		Retail business		Total	
	30 September 2013 Unaudited HK\$'000	31 March 2013 Audited HK\$'000	30 September 2013 Unaudited HK\$'000	31 March 2013 Audited HK\$'000	30 September 2013 Unaudited HK\$'000	31 March 2013 Audited HK\$'000
Reportable segment assets	159,109	157,236	24,331	27,848	183,440	185,084
Available-for-sales investments					6,208	6,068
Held-to-maturity investment					–	1,524
Tax recoverable					123	123
Unallocated cash and cash equivalents					105,230	114,457
Other unallocated corporate assets					1,841	1,696
					296,842	308,952

5. Loss before income tax expense

Loss before income tax expense is arrived at after charging:

	Six months ended 30 September	
	2013 Unaudited HK\$'000	2012 Unaudited HK\$'000
Cost of inventories sold	53,118	70,546
Depreciation of property, plant and equipment	1,196	958
Operating lease rentals in respect of land and buildings	9,120	8,248
Write down of inventories	1,396	192
Staff costs (excluding directors' emoluments)	8,105	8,816
Foreign exchange loss, net	–	775
and crediting:		
Dividend income from available-for-sale investments	168	146
Interest income	2,493	1,966
Foreign exchange gain, net	1,684	–

6. Income tax expense

	Six months ended 30 September	
	2013	2012
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	–	39
– PRC enterprise income tax	346	588
Deferred tax	–	–
	346	627

No provision for Hong Kong profits tax has been made for the period as the Group has no estimated assessable profits during the period. Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for the period ended 30 September 2012. The PRC enterprise income tax rate for the Company's subsidiary in the PRC is 25% (2012: 25%).

7. Interim dividend

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2013. For the six months ended 30 September 2012, the directors declared an interim dividend of HK0.33 cent per share, aggregating a total of approximately HK\$1,052,000.

8. Loss per share

The calculation of basic loss per share is based on the Group's loss for the period of HK\$14,661,000 (2012: loss of HK\$4,944,000) and weighted average number of 318,804,000 (2012: 318,804,000) ordinary shares in issue during the period.

For the six months ended 30 September 2013 and 2012, diluted loss per share is equal to the basic loss per share for the respective periods as there is no dilutive effect on the outstanding share options.

9. Available-for-sale investments

	30 September	31 March
	2013	2013
	Unaudited	Audited
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at fair value	6,208	6,068

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

10. Trade and bills receivables

	30 September 2013 Unaudited HK\$'000	31 March 2013 Audited HK\$'000
Trade and bills receivables	13,032	13,184
Less: impairment loss	(729)	(724)
	12,303	12,460

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:

	30 September 2013 Unaudited HK\$'000	31 March 2013 Audited HK\$'000
Less than 30 days	7,046	6,743
31-60 days	2,516	1,474
61-90 days	954	2,120
91-120 days	641	595
121-365 days	1,131	1,430
More than 365 days	15	98
	12,303	12,460

11. Trade payables

Details of the ageing analysis are as follows:

	30 September 2013 Unaudited HK\$'000	31 March 2013 Audited HK\$'000
Less than 30 days	5,944	2,342
31-60 days	190	1,382
61-90 days	749	1,065
91-120 days	131	8
121-365 days	301	634
More than 365 days	249	281
	7,564	5,712

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 2013 and 31 March 2013.

14. Related party transactions

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

	Six months ended 30 September	
	2013 Unaudited HK\$'000	2012 Unaudited HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	300	300

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	
	2013 Unaudited HK\$'000	2012 Unaudited HK\$'000
Short-term benefits	5,243	5,626
Post employment benefits	76	70
	5,319	5,696

DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group's turnover for the six months ended 30 September 2013 was approximately HK\$59,826,000 (2012: approximately HK\$92,133,000). Revenue from both manufacturing and retail business segments declined in the reporting period. Gross profit also dropped sharply, decreased from approximately HK\$21,587,000 to approximately HK\$6,708,000. Gross profit margin decreased from around 23% to around 11%.

Other income and gains increased from approximately HK\$2,311,000 to approximately HK\$4,459,000 which was mainly attributed to net foreign exchange gain of approximately HK\$1,684,000 recognized in the reporting period as compared to net foreign exchange loss recorded in the same period last year.

Selling and distribution costs decreased from approximately HK\$12,278,000 to approximately HK\$11,880,000. This was largely attributable to the decrease in freight and transportation expenses for the Group's manufacturing business in the reporting period. Administrative and other operating expense decreased from approximately HK\$15,937,000 to approximately HK\$13,602,000. This was mainly due to the reduction of staff cost through downsizing, decrease in directors' remuneration and net foreign exchange gain recognized in the reporting period.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK\$14,661,000 for the six month ended 30 September 2013 (2012: approximately HK\$4,944,000). Loss per share for the six month ended 30 September 2013 was HK4.6 cents (2012: HK1.6 cents).

BUSINESS REVIEW

Manufacturing Business

During the period under review, the Group's manufacturing business continued to face challenges. Turnover of manufacturing business segment from external customers for the six months ended 30 September 2013 decreased by approximately 35% to approximately HK\$45,791,000. Global market demands remained volatile and unstable in the first half of the financial year. The significant decline in demand from overseas market adversely affected the Group's business performance. Geographically, sales to Europe decreased from approximately HK\$26,117,000 to approximately HK\$17,604,000 and sales to the U.S. decreased from approximately HK\$11,829,000 to approximately HK\$3,567,000. Sales in Hong Kong amounted to approximately HK\$8,734,000 as compared with approximately HK\$8,578,000 of same period last year. Sales in the PRC market decreased from approximately HK\$8,205,000 to approximately HK\$5,423,000. Apart from the major markets, sales to other countries including Australia, Japan, India, Korea, Singapore and Malaysia, etc. decreased from approximately HK\$16,135,000 to approximately HK\$10,463,000. This was mainly due to the decrease in sales and shipment to Australia, Korea and South American countries.

In terms of product category, sales of belts decreased to HK\$39,346,000 (2012: HK\$63,010,000) and sales of leather goods and other accessories decreased to approximately HK\$6,445,000 (2012: HK\$7,854,000). Rising labor cost and increasing rental expenses of the production plant in Dongguan adversely affected the Group's profitability. Due to decline in revenue and low utilization of production capacity, the Group incurred marginal gross loss with gross loss margin of around 1% in the reporting period (2012: gross profit margin around 15%). The Group's manufacturing business segment therefore suffered an operating loss of around HK\$12,527,000 (2012: HK\$5,212,000).

During the period under review, the Group has incorporated a subsidiary company known as 東莞思捷皮具有限公司 ("Dongguan Sze Cheik"), a wholly owned foreign enterprise with limited liability in June 2013. The objective of establishing Dongguan Sze Cheik is to upgrade and transform the Group's processing factory in Dongguan into wholly owned foreign enterprise with legal person status as encouraged by

the local government in the PRC. Dongguan Sze Cheik will be responsible for the production of leatherware products export from the PRC to the Group's customers in Hong Kong and overseas. As at 30 September 2013, the Group had not made any capital injection to Dongguan Sze Cheik. Dongguan Sze Cheik is expected to commence business in the second half of the financial year 2013/14.

Retail Business

The retail business segment performance was also unsatisfactory. The Group's retail sales for the six months ended 30 September 2013 decreased from approximately HK\$21,269,000 to approximately HK\$14,035,000. Hong Kong retail sales growth was decelerated in the first half of the financial year. Price competition increased as numerous fashion retailers offer earlier and greater sales discount in low season period. In the reporting period, sales of international footwear brand products dropped significantly as compared to the same period last year. It was mainly due to sharp decline in demand and diminishing brand popularity in the market. The Group's in-house brand sales increased as a result of greater sales discount offered during the reporting period. The Group's in-house brand sales mainly "Urban Stranger" accounted for around 74% of total retail sales as compared to around 43% of same period last year. Despite increase in sales of our in-house brand products, the comparable same store sales decreased around 38% against same period last year. In view of slowdown of retail sales, the Group had made net provision for slow-moving stock of around HK\$774,000 for the period ended 30 September 2013. Gross profit margin stayed at around 51% (2012: 51%).

The overall shop rental to turnover ratio increased by 15 percentage points to approximately 42% (2012: 27%). This was mainly due to the lower sales and increase in rental expenses after renewal of tenancy in the reporting period. The staff cost reduced as a result of the decrease in number of sales staff in the reporting period.

As a consequence of lower sales, the operating loss of retail business segment increased from approximately HK\$580,000 to approximately HK\$4,067,000. During the reporting period, the Group closed one underperforming store upon expiry of the tenancy. As at 30 September 2013, the Group operated six AREA 0264 stores in Hong Kong.

Prospects

The global economy outlook in the latter half of the financial year 2013/14 remains cloudy. The Group's manufacturing business will be rather sluggish in the short term. In view of uncertain market conditions, the Group will uphold a positive attitude and maintain prudent business strategy through the tough time.

Retail business operating environment remains challenging in view of slowdown of retail sales growth and increasing market competition. The Group's sales performance in October 2013 was disappointing. Despite these challenge ahead, the Group will continue its efforts to monitor the greater and fast-changing market closely. The Group will also continue to optimize the product mix in its stores and focus on marketing our in-house brand products with creative design and premium quality.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2013 the Group's cash and bank deposits were approximately HK\$188,627,000 as compared to approximately HK\$198,058,000 as at 31 March 2013.

As at 30 September 2013, 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\$281,433,000 as at 30 September 2013 (31 March 2013: HK\$282,910,000) and total current liabilities of approximately HK\$22,266,000 (31 March 2013: HK\$20,454,000). The current ratio of the Group, calculated by dividing the total currents assets by the total current liabilities, was approximately 13 times as at 30 September 2013 (31 March 2013: 14 times).

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

The Group recorded a decrease in shareholders' funds from approximately HK\$288,437,000 as at 31 March 2013 to approximately HK\$274,515,000 as at 30 September 2013. The decrease was mainly attributable to operating loss incurred in the reporting period.

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 ("HK\$"), US dollars ("USD"), Renminbi ("RMB") and Euro. Transactions of the Group are mainly denominated in HK\$, USD, RMB and Euro. As HK\$ is pegged to USD, the Group does not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD. The Group has significant exposure to foreign exchange fluctuation in RMB and Euro against HK\$ at the end of reporting period. Foreign exchange forward contract can be used to eliminate the currency risk exposure. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Charges on Assets

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

Material Acquisitions/Disposals

The Group had no material acquisitions/disposals for the six months ended 30 September 2013.

Human Resources

As at 30 September 2013, the Group had around 112 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 587 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 2013, 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>6,548,000</u>	
		<u>54,275,352</u>	17.02
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 <i>(Note 2)</i>	
	Beneficial owner	<u>17,908,000</u>	
		<u>65,635,352</u>	20.59
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	8,700,000 <i>(Note 4)</i>	8,700,000
	Interest of spouse	1,500,000 <i>(Note 1(b))</i>	1,500,000
Chan King Yuen Stanley	Beneficial owner	8,700,000 <i>(Note 4)</i>	8,700,000
Chan Wai Po Rebecca	Beneficial owner	8,700,000 <i>(Note 4)</i>	8,700,000

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 1,500,000 shares of the Company was granted to Ms. Li Shuk Han on 22 July 2009, 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 1,500,000 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 22 July 2009, each of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca was granted an option to subscribe for 8,700,000 shares of the Company.

Save as disclosed above, none of the directors, chief executives and their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 30 September 2013.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2013, 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 and were directly or indirectly interested in 5% or more of the Company's issued share capital 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	54,275,352 <i>(Note iii)</i>	17.02

(b) Share Options

Name	Capacity	Number of options held	Number of underlying shares
Li Shuk Han	Beneficial owner and interest of spouse	10,200,000 <i>(Note iv)</i>	10,200,000

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.
- (iii) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong, Edwin and 6,548,000 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 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 2013.

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 the movements in the Company’s share options during the six months ended 30 September 2013.

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

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.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the Company discloses the changes in information of the Directors as follows:

The remuneration package of Mr. Chan King Hong, Edwin, Mr. Chan King Yuen, Stanley and Ms. Chan Wai Po, Rebecca has been adjusted to HK\$207,000, HK\$207,000 and HK\$194,000 per month respectively with reference to their contributions to the Group and the inflation rate of the year with effect from 1 October 2013.

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 2013.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 September 2013, except for the deviations from CG Code provisions A1.8 and A2.1. Under the CG Code provision A1.8, the Company should arrange appropriate insurance cover in respect of legal action against its directors. The Board decided that it was not necessary to arrange insurance cover to the Directors because Directors had always been prudent in making business decision for the Company and so the legal risk

to the Directors was quite low. Under the CG Code provision A2.1, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Due to the small size of the existing management team, both the roles of the chairman and chief executive officer of the Company are currently played by Mr. Chan King Hong, Edwin. 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 ("Model Code") 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 during the six months ended 30 September 2013.

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 2013.

By order of the Board
Chan King Hong Edwin
Chairman

Hong Kong, 28 November 2013