

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)

*The Premier
Designer & Manufacturer of
Quality Leather Accessories*

Interim Report 2014

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	
	2014	2013
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Operating results		
Turnover	56,987	59,826
Gross profit	7,484	6,708
Loss before income tax expense	(14,457)	(14,315)
Loss for the period	(15,014)	(14,661)
Business performance ratios		
Gross profit margin	13.1%	11.2%
Net profit margin	N/A	N/A
Return on shareholders' equity	N/A	N/A
Current ratio	11.18	12.64
Quick ratio	8.38	9.29
Share data		
Shares in issue ('000)	318,804	318,804
Shares closing price (as at period end date)	HK\$0.830	HK\$0.330
Market capitalization (HK\$'000)	264,607	105,205
Loss per share	(HK4.7 cents)	(HK4.6 cents)
Net asset value per share	HK\$0.74	HK\$0.86

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 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

		Six months ended	
		30 September	
		2014	2013
	<i>Notes</i>	Unaudited	Unaudited
		HK\$'000	HK\$'000
Turnover	4	56,987	59,826
Cost of sales		(49,503)	(53,118)
Gross profit		7,484	6,708
Other income and gains		3,395	4,459
Selling and distribution costs		(11,711)	(11,880)
Administrative and other operating expenses		(13,625)	(13,602)
Loss before income tax expense	5	(14,457)	(14,315)
Income tax expense	6	(557)	(346)
Loss for the period attributable to owners of the Company		(15,014)	(14,661)

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

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Notes	Six months ended 30 September	
		2014 Unaudited HK\$'000	2013 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		706	140
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments		(177)	–
Exchange differences arising on translation of financial statements of operations outside Hong Kong		159	599
Other comprehensive income for the period		688	739
Total comprehensive income for the period attributable to owners of the Company		(14,326)	(13,922)
Loss per share			
– Basic	8	(HK4.7 cents)	(HK4.6 cents)
– Diluted	8	(HK4.7 cents)	(HK4.6 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2014

	Notes	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000
Non-current assets			
Property, plant and equipment		2,085	1,862
Available-for-sale investments	9	7,126	6,985
Rental deposits		1,620	1,115
		10,831	9,962
Current assets			
Inventories		61,922	69,025
Trade and bills receivables	10	10,132	17,528
Other receivables, deposits and prepayments		7,399	6,884
Tax recoverable		132	132
Bank deposit with original maturity of over one year		–	9,434
Cash and cash equivalents		167,793	160,531
		247,378	263,534
Current liabilities			
Trade payables	11	8,626	8,474
Other payables and accrued charges		13,306	14,304
Current tax liabilities		186	301
		22,118	23,079
Net current assets			
		225,260	240,455
Total assets less current liabilities			
		236,091	250,417
Non-current liabilities			
Deferred tax liabilities		61	61
Total Net Assets			
		236,030	250,356
Capital and reserves attributable to owners of the Company			
Share capital	12	3,188	3,188
Reserves		232,842	247,168
Total Equity			
		236,030	250,356

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Share capital	Share premium	Share option reserve	Foreign exchange reserve	Available- for-sale investments reserve	Statutory and discretionary reserve	Retained earnings	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 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
At 1 April 2014	3,188	32,608	4,904	6,424	217	888	202,127	250,356
Total comprehensive income for the period	-	-	-	159	529	-	(15,014)	(14,326)
Transfer between reserves	-	-	-	-	-	2,031	(2,031)	-
At 30 September 2014	3,188	32,608	4,904	6,583	746	2,919	185,082	236,030

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	Six months ended	
	30 September	
	2014	2013
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash used in operating activities	(4,812)	(13,385)
Net cash from investing activities	11,937	3,437
Net increase/(decrease) in cash and cash equivalents	7,125	(9,948)
Cash and cash equivalents at the beginning of the period	160,531	188,764
Effect of foreign exchange rate changes on cash and cash equivalents	137	389
Cash and cash equivalents at the end of the period	167,793	179,205

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 2014.

3. Principal accounting policies (Continued)

In the current interim period, the Group has applied, for the first time, the following new standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, that are relevant for the Group’s condensed interim financial statements:

HKAS 32 (Amendment)	Financial instruments: presentation – offsetting financial assets and financial liabilities
HKAS 36 (Amendment)	Recoverable amount disclosures

The adoption of the new and revised HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

The following new and revised HKFRSs have been issued but are not effective for the financial year beginning 1 April 2014 and have not been early adopted:

HKAS 16 and 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation ¹
HKFRS 9 (2014)	Financial instruments ⁵
HKFRS 15	Revenue from contracts with customers ²
HKFRSs (Amendments)	Annual improvements 2010-2012 cycle ⁴
HKFRSs (Amendments)	Annual improvements 2011-2013 cycle ³

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 July 2014

⁴ Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

⁵ Effective for annual periods beginning on or after 1 January 2018

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors of the Company so far concluded that the adoption of these pronouncements will have no material impact on the Group’s financial statements.

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' result 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 2014 HK\$'000	Unaudited 2013 HK\$'000	Unaudited 2014 HK\$'000	Unaudited 2013 HK\$'000	Unaudited 2014 HK\$'000	Unaudited 2013 HK\$'000
Revenue from						
external customers	43,661	45,791	13,326	14,035	56,987	59,826
Inter-segment revenue	3,322	1,683	-	-	3,322	1,683
Reportable segment revenue	46,983	47,474	13,326	14,035	60,309	61,509
Reportable segment result	(13,346)	(12,527)	(3,532)	(4,067)	(16,878)	(16,594)
Elimination of inter-segment losses/(profits)					120	(24)
Dividend income from available-for-sale investments					206	168
Gain on disposal of available-for-sale investments					177	-
Interest income					2,304	2,493
Unallocated other income and gains					71	206
Unallocated corporate expenses					(457)	(564)
Loss before income tax expense					(14,457)	(14,315)
Income tax expense					(557)	(346)
Loss for the period					(15,014)	(14,661)

4. Turnover and segment information (Continued)

	Manufacturing business		Retail business		Total	
	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000
Reportable segment assets	120,258	142,240	15,795	15,826	136,053	158,066
Available-for-sales investments					7,126	6,985
Tax recoverable					132	132
Unallocated cash and cash equivalents					114,034	107,489
Other unallocated corporate assets					864	824
					258,209	273,496
Reportable segment liabilities	21,046	21,855	845	880	21,891	22,735
Current tax liabilities					186	301
Deferred tax liabilities					61	61
Unallocated corporate liabilities					41	43
					22,179	23,140

5. Loss before income tax expense

Loss before income tax expense is arrived at after charging:

	Six months ended	
	30 September	
	2014	2013
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	49,503	53,118
Depreciation of property, plant and equipment	342	1,196
Operating lease rentals in respect of land and buildings	9,331	9,120
Write down of inventories	412	1,396
Staff costs (excluding directors' emoluments)	8,049	8,105
and crediting:		
Dividend income from available-for-sale investments	206	168
Interest income	2,304	2,493
Foreign exchange gain, net	586	1,684
Gain on disposal of available-for-sale investments	177	–

6. Income tax expense

	Six months ended 30 September	
	2014 Unaudited HK\$'000	2013 Unaudited HK\$'000
Current taxation:		
– Hong Kong profits tax	–	–
– PRC enterprise income tax	557	346
Deferred tax	–	–
	557	346

No provision for Hong Kong profits tax has been made for the period as the Group has sustained estimated tax losses for both periods. The PRC enterprise income tax rate for the Company's subsidiary in the PRC is 25% (2013: 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 2014 and 2013.

8. Loss per share

The calculation of basic loss per share is based on the Group's loss for the period of HK\$15,014,000 (2013: loss of HK\$14,661,000) and weighted average number of 318,804,000 (2013: 318,804,000) ordinary shares in issue during the period.

For the six months ended 30 September 2014 and 2013, 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 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000
Equity securities listed in Hong Kong, at fair value	7,126	6,985

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

10. Trade and bills receivables

	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000
Trade and bills receivables	10,959	18,266
Less: impairment loss	(827)	(738)
	10,132	17,528

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 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000
Less than 30 days	6,282	9,817
31-60 days	2,758	784
61-90 days	656	4,092
91-120 days	157	1,507
121-365 days	278	1,328
More than 365 days	1	-
	10,132	17,528

11. Trade payables

Details of the ageing analysis are as follows:

	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000
Less than 30 days	6,212	5,149
31-60 days	193	1,943
61-90 days	1,428	892
91-120 days	490	322
121-365 days	227	154
More than 365 days	76	14
	8,626	8,474

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 2014 and 31 March 2014.

14. Related party transactions

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

	Six months ended 30 September	
	2014 Unaudited HK\$'000	2013 Unaudited HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	375	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	
	2014 Unaudited HK\$'000	2013 Unaudited HK\$'000
Short-term benefits	5,225	5,243
Post employment benefits	77	76
	5,302	5,319

15. Fair value measurement of financial instruments

(a) The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
30 September 2014 (unaudited)				
Available-for-sale investments				
– Listed	7,126	–	–	7,126
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000

31 March 2014 (audited)

Available-for-sale investments

– Listed	6,985	–	–	6,985
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(b) The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures).
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors consider the fair values of the Group's financial assets and financial liabilities approximate their carrying amounts as at the end of each reporting period.

DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The first half of the financial year 2014/15 continued to be challenging. For the six months ended 30 September 2014, the Group recorded a lower turnover of approximately HK\$56,987,000 as compared to approximately HK\$59,826,000 for the six months ended 30 September 2013. Revenue from both manufacturing and retail business segments declined in the reporting period. Nevertheless, gross profit increased from approximately HK\$6,708,000 to approximately HK\$7,484,000. It was mainly attributed to the increase of gross profit derived from retail business. Gross profit margin increased from around 11% to around 13%.

Other income and gains decreased from approximately HK\$4,459,000 to approximately HK\$3,395,000 which was mainly attributed to the decrease in net foreign exchange gain recognized in the reporting period.

Selling and distribution costs decreased slightly from approximately HK\$11,880,000 to approximately HK\$11,711,000. Administrative and other operating expense for the period was around approximately HK\$13,625,000 as compared to HK\$13,602,000 of same period last year. The Group implemented rigid cost control over the reporting period.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK\$15,014,000 for the six month ended 30 September 2014 (2013: approximately HK\$14,661,000). Loss per share for the six month ended 30 September 2014 was HK4.7 cents (2013: HK4.6 cents) and diluted loss per share for the six month ended 30 September 2014 was HK4.7 cents (2013: HK4.6 cents).

BUSINESS REVIEW

MANUFACTURING BUSINESS

Global manufacturing activity remained subdued. The Group's turnover of manufacturing business segment from external customers for the six months ended 30 September 2014 decreased by around 5% to approximately HK\$43,661,000. Global market demands remained weak and uncertain. Geographically, sales to Europe decreased from approximately HK\$17,604,000 to approximately HK\$14,392,000. Sales to the U.S. increased from approximately HK\$3,567,000 to approximately HK\$4,033,000. Sales in Hong Kong decreased from approximately HK\$8,734,000 to approximately HK\$6,340,000. Sales in the PRC market was approximately HK\$5,924,000 as compared to approximately HK\$5,423,000 in same period last year. Apart from the major markets, sales to other countries including Australia, Japan, India, Korea, Singapore and Malaysia, etc. increased from approximately HK\$10,463,000 to approximately HK\$12,972,000. This was mainly due to the increase in sales and shipment to Japan, Singapore and India.

In terms of product category, sales of belts decreased to HK\$35,478,000 (2013: HK\$39,346,000) and sales of leather goods and other accessories increased to approximately HK\$8,183,000 (2013: HK\$6,445,000). In the reporting period, the Group endeavored to reduce the inventory level of raw materials in particular to consume the slow-moving cowhide leathers. However, the utilization rate of production capacity remained low. As a result, the Group still incurred gross loss and gross loss margin was around 1% (2013: gross loss margin around 1%). Against the backdrop of tough operating environment, the Group's manufacturing business segment recorded an operating loss of around HK\$13,346,000 for the period ended 30 September 2014 (2013: HK\$12,527,000).

RETAIL BUSINESS

In the first half of the financial year, Hong Kong retail sales growth continued decelerating as a result of weaker tourist spending and softening of domestic consumption. The Group's turnover of retail business segment decreased around 5% from approximately HK\$14,035,000 to approximately HK\$13,326,000. The average

number of operating stores and its sales area in the reporting period was less than same period last year. The Group's in-house brand sales increased slightly and it accounted for around 80% of total retail sales as compared to around 71% of same period last year. Despite decrease in overall retail sales, the comparable same store sales increased around 10% against same period last year. The increase was mainly attributable to the surge of sales of in-house brand leather bags in the reporting period. High in-house brand sales drove up gross profit margin from around 51% to around 60%. The overall shop rental to turnover ratio increased by 3 percentage points to approximately 45%. This was mainly due to 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 staff in the reporting period. As a consequence of the above, the operating loss of retail business segment decreased from approximately HK\$4,067,000 to approximately HK\$3,532,000. During the reporting period, the Group closed two stores upon expiry of the tenancy and opened one new store in Kowloon Bay. As at 30 September 2014, the Group operated five AREA 0264 stores in Hong Kong.

PROSPECTS

The outlook of Group's manufacturing business in the second half of the financial year 2014/15 remains uncertain. In view of uncertain market conditions, the Group will continue to pursue cautious and prudent business strategies.

In retail aspect, the business environment remains challenging in view of slowdown of retail sales growth and increasing market competition in Hong Kong. Nevertheless, the Group's retail performance kept improving in October and November 2014. The Group will open one new store in Tsuen Wan. The Group will continue to look for strategic location to expand its sales networks. Barring unforeseeable circumstances, the management believes that the worst challenges are behind us and the Group's retail business will continue to improve in the second half year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September 2014 the Group's cash and bank deposits were approximately HK\$167,793,000 as compared to approximately HK\$169,965,000 as at 31 March 2014.

As at 30 September 2014, 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.

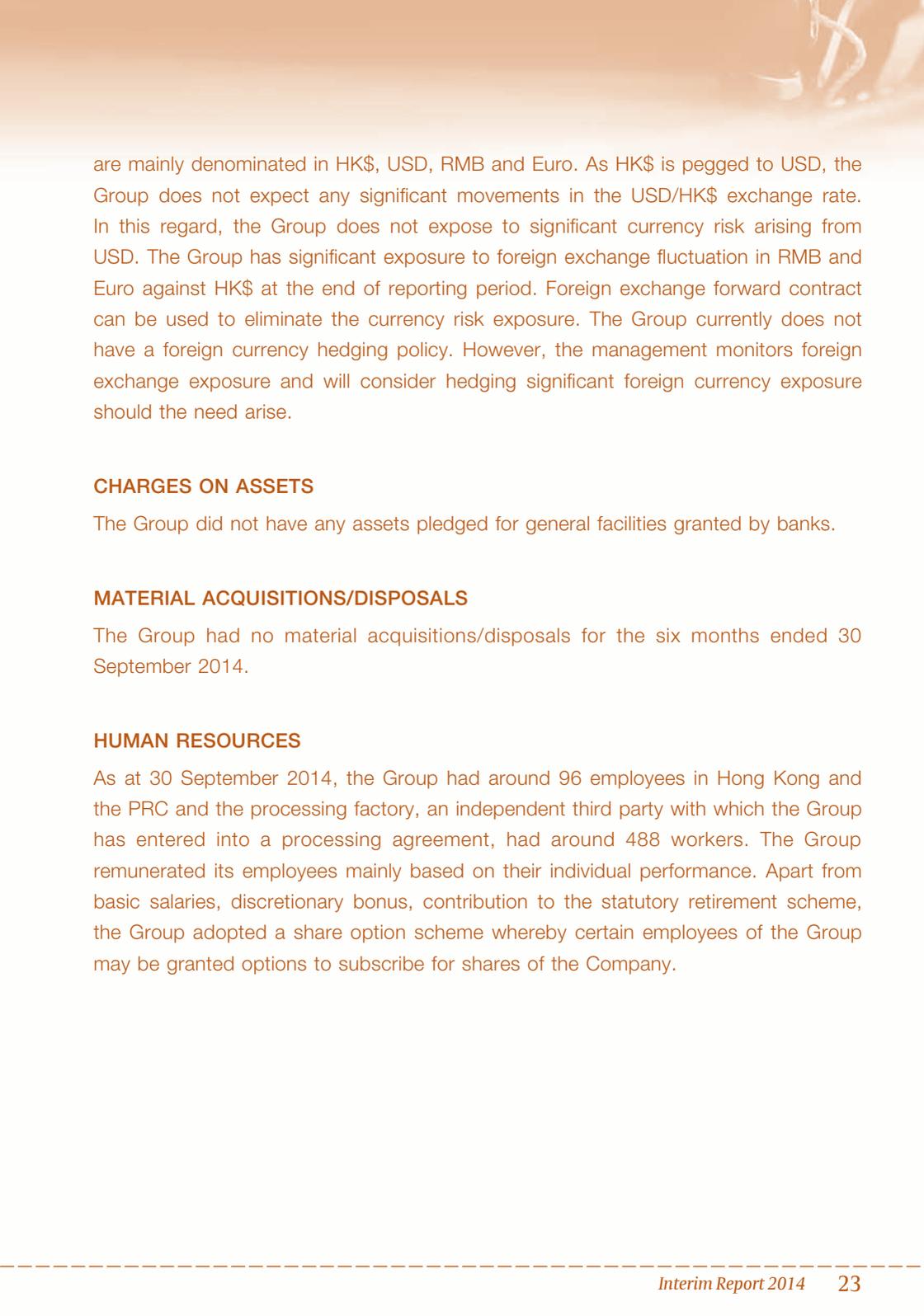
The Group recorded total current assets of approximately HK\$247,378,000 as at 30 September 2014 (31 March 2014: HK\$263,534,000) and total current liabilities of approximately HK\$22,118,000 (31 March 2014: HK\$23,079,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 11 times as at 30 September 2014 (31 March 2014: 11 times).

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

The Group recorded a decrease in shareholders' funds from approximately HK\$250,356,000 as at 31 March 2014 to approximately HK\$236,030,000 as at 30 September 2014. 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 2014.

HUMAN RESOURCES

As at 30 September 2014, the Group had around 96 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 488 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 2014, 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>7,484,000</u>	
		<u>55,211,352</u>	17.32
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 <i>(Note 2)</i>	
	Beneficial owner	<u>24,476,000</u>	
		<u>72,203,352</u>	22.65
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 2014.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2014, 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	55,211,352 <i>(Note iii)</i>	17.32

(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 7,484,000 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 2014.

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 2014. Details of share options outstanding at 30 September 2014 are as follows:

Name or category of participant	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options at 1 April 2014 and 30 September 2014
(a) Executive directors				
Chan King Hong Edwin	22 July 2009	22 July 2009 – 21 July 2019	0.57	8,700,000
Chan King Yuen Stanley	22 July 2009	22 July 2009 – 21 July 2019	0.57	8,700,000
Chan Wai Po Rebecca	22 July 2009	22 July 2009 – 21 July 2019	0.57	8,700,000
(b) Employees, in aggregate	22 July 2009	22 July 2009 – 21 July 2019	0.57	3,000,000
Total				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\$217,000, HK\$217,000 and HK\$204,000 per month respectively with reference to their contributions to the Group and the inflation rate of the year with effect from 1 October 2014.

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 2014.

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 2014, 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 2014.

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 2014.

By order of the Board
Chan King Hong Edwin
Chairman

Hong Kong, 28 November 2014