



**PEKING APPAREL INTERNATIONAL GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 761)

**2007/08**

**UNAUDITED INTERIM REPORT**

## UNAUDITED INTERIM RESULTS

The Board of Directors (the “Directors”) of Peking Apparel International Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2007 (the “period”). The unaudited condensed consolidated financial statements were not audited but have been reviewed by the Company’s audit committee (the “Audit Committee”).

### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>For the six months ended 30 September</b>	
		<b>2007</b>	2006
		<b>(Unaudited)</b>	(Unaudited)
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>REVENUE</b>	3	<b>57,748</b>	70,959
Cost of sales		<u><b>(46,227)</b></u>	<u>(54,651)</u>
Gross profit		<b>11,521</b>	16,308
Other income and gains		<b>586</b>	697
Selling and distribution costs		<b>(3,067)</b>	(2,763)
Administrative expenses		<b>(7,206)</b>	(6,253)
Other expenses		<b>(84)</b>	–
Finance costs	6	<u><b>(787)</b></u>	<u>(593)</u>
<b>PROFIT BEFORE TAX</b>	5	<b>963</b>	7,396
Tax	7	<u><b>(3)</b></u>	<u>(3)</u>
<b>PROFIT FOR THE PERIOD</b>			
<b>ATTRIBUTABLE TO ORDINARY</b>			
<b>EQUITY HOLDERS OF THE COMPANY</b>		<u><b>960</b></u>	<u>7,393</u>
<b>INTERIM DIVIDEND</b>	8	<u><b>–</b></u>	<u>3,170</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE</b>			
<b>TO ORDINARY EQUITY HOLDERS</b>			
<b>OF THE COMPANY – Basic</b>	9	<u><b>0.28 cents</b></u>	<u>2.33 cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
	<i>Note</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		40,987	40,513
Livestock	10	4,703	2,520
Available-for-sale equity investments	11	–	–
Total non-current assets		<u>45,690</u>	<u>43,033</u>
<b>CURRENT ASSETS</b>			
Inventories		62,190	68,783
Trade and bills receivables	12	31,067	22,727
Other receivables, prepayments and deposits		35,150	3,965
Pledged bank deposits		29,558	29,514
Cash and bank balances		12,178	979
Total current assets		<u>170,143</u>	<u>125,968</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	15,425	13,262
Other payables and accruals	14	6,514	5,476
Amount due to a minority shareholder		1,562	1,562
Interest-bearing bank borrowings		18,375	17,376
Tax payable		1,224	1,176
Total current liabilities		<u>43,100</u>	<u>38,852</u>
<b>NET CURRENT ASSETS</b>		<u>127,043</u>	<u>87,116</u>
Total assets less current liabilities		<u>172,733</u>	<u>130,149</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings		4,200	4,400
Deferred tax liabilities		2,984	2,984
Total non-current liabilities		<u>7,184</u>	<u>7,384</u>
Net assets		<u>165,549</u>	<u>122,765</u>
<b>EQUITY</b>			
Issued capital	15	38,004	31,704
Reserves		127,545	91,061
Total equity		<u>165,549</u>	<u>122,765</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Land and buildings revaluation reserve (Unaudited) HK\$'000	Reserve funds (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed dividend (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 April 2006	31,704	49,586	15,589	173	(335)	24,233	4,755	125,705
Exchange realignment	-	-	-	-	(157)	-	-	(157)
Revaluation surplus not recognised in the income statement	-	-	513	-	-	-	-	513
Deferred tax liabilities arising on revaluation of land and buildings	-	-	(85)	-	-	-	-	(85)
Total income and expense recognised directly in equity	-	-	428	-	(157)	-	-	271
Profit for the year	-	-	-	-	-	4,714	-	4,714
Total income and expense for the year	-	-	428	-	(157)	4,714	-	4,985
Final 2006 dividend declared	-	-	-	-	-	-	(4,755)	(4,755)
Interim 2007 dividend	-	-	-	-	-	(3,170)	-	(3,170)
At 31 March 2007 and 1 April 2007	31,704	49,586	16,017	173	(492)	25,777	-	122,765
Issue of shares	6,300	35,611	-	-	-	-	-	41,911
Exchange realignment	-	-	330	-	(417)	-	-	(87)
Profit for the period	-	-	-	-	-	960	-	960
At 30 September 2007	<b>38,004</b>	<b>85,197*</b>	<b>16,347*</b>	<b>173*</b>	<b>(909)*</b>	<b>26,737*</b>	<b>-</b>	<b>165,549</b>

\* These reserve accounts comprise the consolidated reserves of HK\$127,545,000 (2007: HK\$91,061,000) in the condensed consolidated balance sheet.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

As at

	30 September 2007 (Unaudited) <i>HK\$'000</i>	30 September 2006 (Unaudited) <i>HK\$'000</i>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(29,850)</b>	9,441
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(457)</b>	(3,302)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>41,753</b>	(5,348)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>11,446</b>	791
Cash and cash equivalents at beginning of period	<b>(13,926)</b>	(6,429)
Effect of foreign exchange rate changes, net	<b>(417)</b>	–
<b>Cash and cash equivalents at end of period</b>	<b><u>(2,897)</u></b>	<b><u>(5,638)</u></b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and bank balances	<b>12,178</b>	6,764
Bank overdrafts, secured	<b>(15,075)</b>	(12,402)
	<b><u>(2,897)</u></b>	<b><u>(5,638)</u></b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1. **Basis of preparation**

The unaudited condensed consolidated interim results are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) on the Stock Exchange of Hong Kong Limited (“Stock Exchange”).

### 2. **Principal accounting policies**

The unaudited condensed consolidated interim results have been prepared under the historic cost convention, except for land and buildings, which have been measured at fair values.

The accounting policies and basis of preparation used in the preparation of these unaudited condensed interim results are consistent with those used in the annual accounts for the year ended 31 March 2007.

The Group has applied, for the first time, a number of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and HKASs and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for the current accounting period. The adoption of these new and revised HKFRSs has no material effect on the Group’s results and financial position for the current or prior accounting periods reflected in these financial statements.

### 3. **Revenue**

Revenue, which is also the Group’s turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the period.

#### 4. Segmental information

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business and geographical segments:

##### (a) Business segments

	Unaudited for the six months ended 30 September 2007				
	Fur HK\$'000	Leather HK\$'000	Fabric garments HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
<b>Segment revenue:</b>					
Sales to external customers	<u>24,132</u>	<u>7,806</u>	<u>25,643</u>	<u>167</u>	<u>57,748</u>
Segment results	<u>1,782</u>	<u>1,154</u>	<u>5,509</u>	<u>(7,203)</u>	1,242
Bank interest income					508
Finance costs					(787)
Profit before tax					963
Tax					(3)
Profit for the period					<u>960</u>
<b>Assets and liabilities:</b>					
Segment assets	93,350	19,565	26,458	34,724	174,097
Unallocated assets					41,736
Total assets					<u>215,833</u>
Segment liabilities	9,627	4,412	2,000	7,462	23,501
Unallocated liabilities					26,783
Total liabilities					<u>50,284</u>

**4. Segmental information** *(Continued)*  
**(a) Business segments** *(Continued)*

Unaudited for the six months ended 30 September 2006					
	Fur <i>HK\$'000</i>	Leather <i>HK\$'000</i>	Fabric garments <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:					
Sales to external customers	<u>36,200</u>	<u>11,118</u>	<u>23,435</u>	<u>206</u>	<u>70,959</u>
Segment results	<u>6,882</u>	<u>2,016</u>	<u>4,810</u>	<u>(6,261)</u>	7,447
Bank interest income					542
Finance costs					<u>(593)</u>
Profit before tax					7,396
Tax					<u>(3)</u>
Profit for the period					<u>7,393</u>
Assets and liabilities:					
Segment assets	97,556	18,343	15,528	9,341	140,768
Unallocated assets					<u>29,476</u>
Total assets					<u>170,244</u>
Segment liabilities	9,680	5,676	3,058	7,037	25,451
Unallocated liabilities					<u>13,581</u>
Total liabilities					<u>39,032</u>



4. Segmental information (Continued)

(b) Geographical segments

	Unaudited for the six months ended 30 September 2007					
	Hong Kong	Mainland	Germany	Spain	Other	Consolidated
	China	countries				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>15,174</u>	<u>9,944</u>	<u>25,701</u>	<u>3,138</u>	<u>3,791</u>	<u>57,748</u>
Segment results	<u>1,026</u>	<u>1,155</u>	<u>5,331</u>	<u>548</u>	<u>385</u>	<u>8,445</u>
	Unaudited for the six months ended 30 September 2006					
	Hong Kong	Mainland	Germany	Spain	Other	Consolidated
	China	countries				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>21,856</u>	<u>15,118</u>	<u>24,606</u>	<u>4,423</u>	<u>4,956</u>	<u>70,959</u>
Segment results	<u>4,328</u>	<u>2,721</u>	<u>4,970</u>	<u>888</u>	<u>793</u>	<u>13,700</u>

5. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold (including inventory provision)	<b>35,916</b>	42,865
Depreciation	<b>807</b>	710
Auditors' remuneration	<b>150</b>	338
Minimum lease payments under operating leases		
in respect of land and buildings	<b>242</b>	190
Foreign exchange differences, net	<b>(461)</b>	184
Employee benefits expense		
(including directors' remuneration)	<b>8,385</b>	7,881
Bank interest income	<b>(508)</b>	(542)

## 6. Finance costs

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank overdrafts and bills payables	659	593
Interest on term loan	128	—
	<u>787</u>	<u>593</u>

## 7. Tax

No provision for Hong Kong profits tax has been made for the period as the Group has available tax losses brought forward from prior years to offset the assessable profits generated during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Current tax charge in Mainland China	<u>3</u>	<u>3</u>

## 8. Interim dividend

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interim dividend – HK Nil cent (2006: HK1.0 cent) per ordinary share	<u>—</u>	<u>3,170</u>

The Board do not recommend the payment of an interim dividend (2006: HK1.0 cent) per ordinary share for the six months ended 30 September 2007.

## 9. Earnings per share attributable to ordinary equity holders of the company

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the company of HK\$960,000 (2006: HK\$7,393,000) and on the weighted average number of ordinary shares 344,576,700 (six months ended 30 September 2006: 317,035,700) in issue during the period.

Diluted earnings per share amounts for the period ended 30 September 2007 and 2006 have not been disclosed as no diluting events existed during these periods.

## 10. Livestock

	<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
Livestock at fair value	<u>4,703</u>	<u>2,520</u>
	<b>Number of minks</b>	
Physical quantity of breeder minks	<u>41,230</u>	<u>10,088</u>

The Group's livestock comprises breeder minks owned by a subsidiary. The breeder minks are held to produce progeny minks which are raised for sale. The fair value was determined based on the Denmark auction average selling prices approximating to those at the period end.

	<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
Reconciliation of carrying amounts of mink livestock		
Carrying amount at 1 April 2007	<b>2,520</b>	–
Increases due to raising/purchases	<b>2,565</b>	3,061
Decrease due to sales	<b>(648)</b>	–
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	<u>266</u>	<u>(541)</u>
Carrying amount at 30 September 2007	<u><b>4,703</b></u>	<u>2,520</u>

## 11. Available-for-sale equity investments

	<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
Unlisted equity investments, at cost	<b>3,364</b>	3,364
Less: Provision for impairment	<b>(3,364)</b>	(3,364)
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>
	-	-

The unlisted equity investments of the Group are not stated at fair value, but at cost less any accumulated impairment losses because they do not have a quoted market price in an active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

## 12. Trade and bills receivables

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
Within 3 months	<b>25,990</b>	17,020
4 to 6 months	<b>579</b>	5,162
7 to 12 months	<b>4,381</b>	404
Over 1 year	<b>117</b>	141
	<u>          </u>	<u>          </u>
	<u><b>31,067</b></u>	<u>22,727</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The carrying amounts of trade and bills receivables approximate to their fair values.

### 13. Trade and bills payables

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
Within 3 months	11,502	8,397
4 to 6 months	846	1,916
7 to 12 months	394	2,372
Over 1 year	2,683	577
	<u>15,425</u>	<u>13,262</u>

The trade and bills payables are non-interest-bearing and are normally settled within 30-90 days. The carrying amounts of trade and bills payables approximate to their fair values.

### 14. Other payables and accruals

Other payables and accruals of the Group and the Company are non-interest-bearing, have no fixed terms of repayment and are expected to be settled within one to three months. The carrying amounts of other payables and accruals approximate to their fair values.

### 15. Share capital

	<b>30 September 2007 (Unaudited) HK\$'000</b>	31 March 2007 (Audited) HK\$'000
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
380,035,700 (2007: 317,035,700) ordinary shares of HK\$0.10 each	<u>38,004</u>	<u>31,704</u>

In June 2007, the Company entered into the Placement Agreement with Get Nice Investment Limited as placing agent, pursuant to which an aggregate of 63,000,000 new ordinary shares were placed by the placing agent on behalf of the Company, on a fully underwritten basis at the price of HK\$0.68 per placing share to not less than six independent investors (the "Placees"). Immediately after the completion of the aforesaid placing, the Company issued 63,000,000 new shares at HK\$0.68 per share to the Placees in July 2007. These issued new shares rank pari passu with other shares in issue in all respects.

## **16. Share options**

No share options were granted during the current period or the prior period and there were no share options outstanding at the balance sheet date.

## **17. Pledge of assets**

At the balance sheet date, the banking facilities of the Group were secured by the Group's bank deposits and certain leasehold land and buildings with carrying values of HK\$29,558,000 (as at 31 March 2007: HK\$29,514,000) and HK\$14,740,000 (as at 31 March 2007: HK\$29,116,000), respectively; and guarantees given by the Company.

The carrying amounts of the Group's borrowings approximate to their fair values.

## **18. Contingent liabilities**

At the balance sheet date, the contingent liabilities not provided for in the financial statements were as follows:

- (i) The Group had a contingent liability in respect to possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$2,048,000 (31 March 2007: HK\$1,995,000) as at 30 September 2007. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (ii) The Company had given guarantees to banks in connection with banking facilities granted to a subsidiary amounting to HK\$87,930,000 (31 March 2007: HK\$87,930,000), of which HK\$28,093,000 (31 March 2007: HK\$26,669,000) was utilised at the balance sheet date.
- (iii) The Company has not recognised any deferred income in respect of the guarantee as their fair values cannot be reliably measured and their transaction prices were HK\$ Nil (31 March 2007: HK\$ Nil).

## 19. Operating lease arrangements

The Group leased certain of its staff quarters and land for mink farm under operating lease arrangements with leases negotiated for original terms ranging from 1 to 20 years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at	
	30 September	31 March
	2007	2007
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within one year	32	261
In the second to fifth years, inclusive	90	86
After 5 years	313	312
	<u>435</u>	<u>659</u>

## 20. Commitments

At the balance sheet date, in addition to the operating lease arrangements detailed in note 19 above, the Group had the following commitments:

	As at	
	30 September	31 March
	2007	2007
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Capital expenditure commitments		
in respect of construction in progress:		
Authorised and contracted for	583	359
Expenditure commitments		
in respect of the Acquisition Agreement:		
Authorised but not contracted for	4,370	–
	<u>4,953</u>	<u>359</u>

## 21. Very substantial acquisition

- (a) On 18 September 2007, the Company has entered into a conditional Acquisition Agreement with, among others, the Elite Dragon Limited and High Chance Investments Limited (the “Vendors”). Under the Acquisition Agreement, the Company has agreed to acquire the entire issued share capital of Honour Max Trading Limited from the Vendors at the Acquisition Price in the sum of HK\$2,340 million. *(Please also refer to the Company’s announcement and circular dated 11 October 2007 and 21 December 2007 respectively for further details).*
  
- (b) On 18 September 2007, a subsidiary of the Group entered into the Master Supply Agreement with PT Aneka Nusantara Internasional, a company incorporated in Indonesia which will become a connected person of the Company as from the completion of the Acquisition Agreement mentioned above. Pursuant to the Master Supply Agreement, PT Aneka Nusantara Internasional has agreed to supply to the Group nickel ore extracted from the Mine for a term of 15 years from the Completion Date of the Acquisition Agreement, subject to the terms and conditions therein. *(Please also refer to the Company’s announcement and circular dated 11 October 2007 and 21 December 2007 respectively for further details).*

## 22. Post balance sheet event

- (a) On 1 November 2007, Peking Fur Factory (Hong Kong) Limited (“Peking Fur”), an indirect wholly-owned subsidiary of the Company, entered into three memoranda with O&E International Limited, a company wholly-owned by Mr. Char On Man, the chairman of the Company, and Ms. Danielle Char (daughter of Mr. Char On Man), whereby, subject to the terms and conditions set out therein, Peking Fur agreed to sell and O&E International Limited agreed to purchase workshops Nos. 01 and 02 on 5th Floor, Harbour Centre Tower 1, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong together with car parking space No. P39 on the basement floor, and car parking space No. L27 on the ground floor, of the said Harbour Centre Tower 1, being the existing office premises of the Group in Hong Kong, for a total consideration of HK\$16,497,000 (representing the then market price of the property) and that upon the completion of the sale and purchase, Peking Fur would enter into a lease with O&E International Limited, whereby O&E International would lease, and Peking Fur would take up the lease of, the above property for a term of 3 years at a monthly rent of HK\$112,800 (representing the then market rent of the above property). The disposal of the these properties are expected to generate a gain of approximately HK\$1,554,000 (before expenses) for the Group.



**22. Post balance sheet event (Continued)**

(a) *(Continued)*

As O&E International is wholly-owned by Mr. Char, the chairman of the Company, and Ms. Danielle Char (daughter of Mr. Char), thus being connected person of the Company, the memoranda is a connected transaction of the Company under the Listing Rules. This transaction is subject to Independent Shareholders' approval at the Special General Meeting ("SGM") and it was duly approved on the SGM on 12 December 2007. In addition, the lease will constitute continuing connected transactions of the Company under the Listing Rules. *(Please also refer to the Company's announcement, the circular and the results of SGM dated 5, 26 November 2007 and 12 December 2007 respectively for further details).*

- (b) On 1 November 2007, Peking Fur entered into the S&P Agreement with Ms. Ho, an Independent Third Party, whereby, subject to the terms and conditions set out therein, Peking Fur has conditionally agreed to sell, and Ms. Ho has conditionally agreed to purchase, the Sale Shares and the Sale Loan for the consideration of (i) HK\$90,000 and (ii) HK\$7,896,934 of Peking Leather Factory Limited respectively. Peking Leather Factory Limited owned as to 90% by Peking Fur. The disposal of the Sale Shares and the Sale Loan is expected to generate a loss of approximately HK\$740,000 (before expenses) for the Group. *(Please also refer to the Company's announcement and the circular dated 5 and 26 November 2007 respectively for further details).*

**23. Approval of unaudited interim financial statements**

The unaudited condensed consolidated interim financial statements of the Company were approved and authorised for issue by the board of directors on 20 December 2007.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Results**

Revenue for this period amounted to approximately HK\$57,748,000, representing a decrease of approximately 19% as compared to that of last period. Profit for the period attributable to ordinary equity holders of the company amounted to approximately HK\$960,000 representing a decrease of approximately 87% as compared with that of last period.

### **Business Review**

The decrease in revenue was mainly due to fur products which has decreased by approximately 33%, or approximately HK\$12,000,000, as compared with that of the last corresponding period. The leather garments revenue has also decreased by approximately 30% as compared with that of last corresponding period. Despite of the moderate increase in revenue of the fabric garments, the overall revenue of the Group was down by about 19% as compared with the last corresponding period. With our effort in controlling the material costs and production overheads, we were able to minimise the decrease in overall gross profit for the period. The overall profit for the period was much lower that of last corresponding period mainly due to the reduction in overall revenue, gross profit and the increases in selling and administrative expenses.

### **Outlook**

As mentioned in the 2007 Annual Report, the Group believes that fur and leather business will continue to face severe challenges. The Group will allocate more resources on its sub-contracting works as well as its fabric garment production in order to improve its overall gross profit margin. Apart from these, appropriate measures will be applied on its overall cost control and to improve its productivity. In order to improve its long term revenue, the Group therefore has entered into a conditional Acquisition Agreement to acquire Honour Max Trading Limited (“Very Substantial Acquisition”). This arrangement will enable the Group to diversify its revenue base as well as improving its overall results.

### **Employees and Remuneration Policy**

As at 30 September 2007, the Group employed around 500 (as at 30 September 2006: approximately 540) employees in both Hong Kong and the PRC. The Group's remuneration policies are based primarily on the prevailing market situation and labour laws and the performance of individual employee, which are subject to annual review.

### **Capital Expenditure**

During the period under review, other than the capital expenditure related to the mink farm operations, there is no other material capital expenditure for business development. Pursuant to the abovementioned Very Substantial Acquisition, a cash deposit of HK\$30 million was paid by the Group to the Vendors upon signing of the Acquisition Agreement. This deposit was included in other receivables, prepayments and deposits shown in the unaudited condensed balance sheet as at 30 September 2007. Saved as disclosed, there is no plan for any other material investments or capital assets to be acquired.

### **Liquidity and Financial Resources**

The Group continues to finance operations from internal cash flows and banking facilities providing by its bankers. The Group currently has aggregate composite banking facilities of approximately HK\$72,300,000. All outstanding bank borrowings were for purpose of trade-finance and working capital.

As at 30 September 2007, the Group's net current assets is approximately HK\$127,043,000 (as at 31 March 2007: HK\$87,116,000). Total cash and bank balances and pledged bank deposits increased from HK\$30,493,000 to HK\$41,736,000 whereas, secured bank borrowings also increased from HK\$21,776,000 to HK\$22,575,000. The net cash and bank balances increased by HK\$10,444,000 over the period. Inventories decreased from HK\$68,783,000 to HK\$62,190,000. Trade and bills receivables increased by approximately 37% to become HK\$31,067,000; whereas, trade and bills payables also increased by approximately 16% to become HK\$15,425,000, mainly due to seasonality of sales and purchases.

The Group's gearing ratio at the period-end is 30% (as at 31 March 2007: 38%), which was calculated based on the total liabilities of HK\$50,284,000 (as at 31 March 2007: HK\$46,236,000) and total equity of HK\$165,549,000 (as at 31 March 2007: HK\$122,765,000). With low gearing ratio and sound financial position, the management believes that the Group is well placed to avail itself to future expansion.

### **Financial Risk Management**

It is our policy not to engage in speculative activities.

The Group's major transactions are primarily denominated in Hong Kong dollars, United States dollars ("US\$") and Renminbi ("RMB"). Foreign exchange exposure of the Group is considered minimal as the exchange rate of RMB and US\$ against Hong Kong dollars were relatively stable during the period. No financial instrument have been used for hedging purposes.

Payment terms with customers are mainly on letter of credits, cash on delivery and on credit terms. In order to minimize the credit risk associated with trade debtors, the Group is very cautious in granting credits. Credit terms granted vary among individual customers.

### **DIRECTORS' INTERESTS IN CONTRACTS**

No director had a material interest, ether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the period.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

At 30 September 2007, the interests and short positions of the directors in the share capital of the Company or 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 as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### (1) Long positions in ordinary shares of the Company:

Name	Name of company	Capacity	Number and class of securities	Approximate percentage to the issued share capital of the company
Char On Man	The Company	Beneficial interest	57,065,000 ordinary Shares	15.02%
So Choi Hing, Stella	The Company	Beneficial interest	2,885,000 ordinary Shares	0.76%

**(2) Long positions in shares of associated corporations:**

*Peking Fur Factory (Hong Kong) Limited, the Company's subsidiary*

<b>Name of director</b>	<b>Capacity and nature of interest</b>	<b>Type of shares held</b>	<b>Number of shares held</b>	<b>Percentage of shareholding in respective class of shares</b>
Char On Man	Directly beneficially owned	Non-voting deferred	11,444	95.3%

Save as disclosed above, as at 30 September 2007, none of the directors and chief executive and their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

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 minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES**

As at the 30 September 2007, according to the register of interest kept by the Company under Section 336 of the SFO and so far as is known to the Directors and the chief executive of the Company, the following persons (other than a director or chief executive of the Company) have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

<b>Name of shareholder</b>	<b>Number of Shares</b> <i>(note 1)</i>	<b>Capacity</b>	<b>Approximate percentage of interest</b> <i>(note 2)</i>
Sy Stephen Chin Mong	1,026,000,000 (L)	Interest of a controlled corporation <i>(note 3)</i>	269.97%
Supardi David Israel	874,000,000 (L)	Interest of a controlled corporation <i>(note 4)</i>	229.98%
Golden Mount Limited	87,832,000 (L)	Beneficial owner <i>(note 5)</i>	23.11%
Chim Pui Chung	87,832,000 (L)	Interest of a controlled corporation <i>(note 5)</i>	23.11%

*Notes:*

1. The letter “L” represents the entity’s interests in the shares.
2. Based on the number of shares in the Company in issue as at 30 September 2007, i.e. 380,035,700.
3. These represent interests in (i) 79,806,600 Consideration Shares and (ii) HK\$567,716,040 as part of the Convertible Bonds (which upon full conversion of Tranche 1 Bonds will result in the allotment and issue of 946,193,400 Conversion Shares) and the full principal amount of HK\$1,199,516,040 of the Convertible Bonds (which upon conversion in full will result in the allotment and issue of 1,999,193,400 Conversion Shares), which have been agreed to be issued to the First Vendor for settlement of the Acquisition Price. The First Vendor is owned as 80% by Bel Trade Investment Holdings Ltd., which in turn is wholly owned by Mr. Stephen Chin Mong Sy.
4. These represent interests in (i) 67,983,400 Consideration Shares and (ii) HK\$483,609,960 as part of the Convertible Bonds (which upon full conversion of Tranche 1 Bonds will result in the allotment and issue of 806,016,600 Conversion Shares) and the full principal amount of HK\$1,021,809,960 of the Convertible Bonds (which upon conversion in full will result in the allotment and issue of 1,703,016,600 Conversion Shares), which have been agreed to be issued to the Second Vendor for settlement of the Acquisition Price. The Second Vendor is owned as to 70% by Mr. David Israel Supardi.
5. These Shares are owned by Golden Mount Limited which is solely owned by Mr. Chim Pui Chung.

Save as disclosed above, as at 30 September 2007, no person, other than the directors of the Company, whose interests are set out in the section headed “Directors’ interests and short positions in shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **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 period.



## **CORPORATE GOVERNANCE REPORT**

The Company has complied with all the Code Provisions set out in Appendix 14 Code on Corporate Governance Practices (the “Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the period ended 30 September 2007, except for the following deviations:

### **Code Provision A.2.1**

This code provision stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Char On Man currently assumes the roles of both the Chairman and the Chief Executive Officer of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. As such, it is beneficial to the business prospects and management of the Company.

### **Code Provision D.2**

This code provision stipulates a Board Committee should be formed with specific written terms of reference which deal clearly the committee’s authority and duties. In substance, all executive directors are members of the Board Committee and are assigned with specific roles and functions. Therefore, a Board Committee with specific written terms of reference which deal clearly with the committee’s authority and duties has not been formed.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a new code of conduct regarding securities transactions by Directors of the Group on terms no less exacting than the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors of the Company, the directors confirmed that they have complied with the required standard as set out in the Model Code throughout the period ended 30 September 2007.

## **AUDIT COMMITTEE**

The Company established an audit committee (the “Audit Committee”) in 1999 with reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised on 16 September 2004 and on 30 November 2005 in terms substantially the same as the provisions set out in the CG Code.

The principal duties of the Audit Committee include the review and supervision of the Group’s financial reporting system and internal control procedures, review of the Group’s financial information and review of the relationship with the auditors of the Company. The audit committee comprises the 3 independent non-executive directors of the Company. The Audit Committee periodically reviews with senior management of the Group and external auditors of the Company the accounting principles and practices adopted by the Group and has reviewed the Company’s unaudited interim report for the period ended 30 September 2007.

## **REMUNERATION COMMITTEE**

According to the CG Code, the Company established a remuneration committee (the “Remuneration Committee”) on 30 November 2005 with specific written terms of reference in accordance with the CG Code. The Remuneration Committee comprises 2 of the independent non-executive directors, namely, Mr. Ho Wai Chi, Paul and Mr. Chen Yeh Ming, Steve and an executive director, Mr. Char On Man (Chairman of the Remuneration Committee) of the Company.

The principal responsibilities of the Remuneration Committee include making recommendations to the board of directors of the Company on the Company’s policy and structure for all remuneration of directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing such policy, and reviewing the specific remuneration packages of all executive directors and senior management of the Company by reference to corporate goals and objectives resolved by the board of directors of the Company from time to time.

## **NOMINATION COMMITTEE**

The Company established a nomination committee (the “Nomination Committee”) on 30 November 2005 with specific written terms of reference. The Nomination Committee comprises 2 of the independent non-executive directors, namely, Mr. Kwok Chun Pong, Stephen and Mr. Chen Yeh Ming, Steve and an executive director, Mr. Char On Man (Chairman of the Nomination Committee) of the Company.

The principal responsibilities of the Nomination Committee include making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors, and reviewing the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

## **DIRECTORS OF THE COMPANY**

As at the date of this report, the executive directors of the Company are Mr. Char On Man, Ms. So Choi Hing, Stella, Mr. Li Wing Tak, Mr. Chim Kim Lun, Ricky, Mr. Cheng Kwok Hing, Andy and Mr. Leung Shu Yin, William and the independent non-executive directors of the Company are Mr. Ho Wai Chi, Paul, Mr. Chen Yeh Ming, Steve and Mr. Kwok Chun Pong, Stephen.

## **APPRECIATION**

On behalf of the Board, I wish to express my gratitude to our management team and staff members for their hard work, dedication and support throughout the period.

On behalf of the Board

## **CHAR ON MAN**

*Chairman and Managing Director*

Hong Kong, 20 December 2007