



**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 2011**

## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Chan King Hong Edwin

*(Chairman & Chief Executive Officer)*

Chan King Yuen Stanley *(Vice Chairman)*

Chan Wai Po Rebecca

#### Independent Non-executive Directors

Chau Cynthia Sin Ha *JP*

Fong Pui Sheung David *MH*

Or Kam Chung Janson *FCCA, CPA*

### COMPANY SECRETARY

Lau Wai Hung *FCCA, CPA*

### AUDIT COMMITTEE

Fong Pui Sheung David *MH (Chairman)*

Chau Cynthia Sin Ha *JP*

Or Kam Chung Janson *FCCA, CPA*

### REMUNERATION COMMITTEE

Or Kam Chung Janson *FCCA, CPA (Chairman)*

Fong Pui Sheung David *MH*

Chau Cynthia Sin Ha *JP*

### NOMINATION COMMITTEE

Chau Cynthia Sin Ha *JP (Chairlady)*

Fong Pui Sheung David *MH*

Or Kam Chung Janson *FCCA, CPA*

### REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3rd Floor, Victory Industrial Building

No. 151-157 Wo Yi Hop Road

Kwai Chung

New Territories

Hong Kong

### AUDITOR

BDO Limited

*Certified Public Accountants*

### LEGAL ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

### CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 609

Grand Cayman, KY1-1107

Cayman Islands

### HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

### PRINCIPAL BANKERS

Nanyang Commercial Bank Limited

Bank of Communications Co. Ltd.

Hong Kong Branch

Wing Hang Bank Limited

### COMPANY WEBSITE

[www.chancogroup.com](http://www.chancogroup.com)

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

### STOCK CODE

264

## FINANCIAL HIGHLIGHTS

For the six months ended  
30 September  
2011                      2010  
Unaudited                      Unaudited  
HK\$'000                      HK\$'000

### Operating results

Turnover	<b>84,346</b>	103,271
Gross profit	<b>23,858</b>	28,454
(Loss)/profit before income tax expense	<b>(1,934)</b>	2,463
(Loss)/profit for the period	<b>(2,428)</b>	1,403

### Business performance ratios

Gross profit margin	<b>28.3%</b>	27.6%
Net profit margin	<b>N/A</b>	1.4%
Return on shareholders' equity	<b>N/A</b>	0.5%
Current ratio	<b>9.42</b>	8.96
Quick ratio	<b>6.93</b>	6.80

### Share data

Shares in issue ('000)	<b>318,804</b>	318,804
Shares closing price (as at period end date)	<b>HK\$0.40</b>	HK\$0.61
Market capitalization (HK\$'000)	<b>127,522</b>	194,470
Basic (loss)/earnings per share	<b>(HK0.8 cent)</b>	HK0.4 cent
Interim dividend per share	<b>Nil</b>	Nil
Net asset value per share	<b>HK\$0.88</b>	HK\$0.85



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 2011 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	Notes	Six months ended	
		30 September 2011 Unaudited HK\$'000	2010 Unaudited HK\$'000
Turnover	4	<b>84,346</b>	103,271
Cost of sales		<b>(60,488)</b>	(74,817)
Gross profit		<b>23,858</b>	28,454
Other income and gains		<b>3,684</b>	650
Selling and distribution costs		<b>(14,041)</b>	(11,046)
Administrative and other operating expenses		<b>(15,435)</b>	(15,595)
(Loss)/profit before income tax expense	5	<b>(1,934)</b>	2,463
Income tax expense	6	<b>(494)</b>	(1,060)
(Loss)/profit for the period attributable to owners of the Company		<b>(2,428)</b>	1,403

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	Notes	Six months ended 30 September	
		2011 Unaudited HK\$'000	2010 Unaudited HK\$'000
<b>Other comprehensive income</b>			
Change in fair value of available-for-sale investments		(2,011)	(165)
Exchange differences arising on translation of financial statements of operations outside Hong Kong		864	416
Other comprehensive income for the period		(1,147)	251
<b>Total comprehensive income for the period attributable to owners of the Company</b>		<b>(3,575)</b>	<b>1,654</b>
(Loss)/earnings per share			
— Basic	8	(HK0.8 cent)	HK0.4 cent
— Diluted	8	(HK0.8 cent)	HK0.4 cent

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2011

		30 September 2011 Unaudited HK\$'000	31 March 2011 Audited HK\$'000
	Notes		
<b>Non-current assets</b>			
Property, plant and equipment		8,597	8,429
Available-for-sale investments	9	4,376	5,333
Held-to-maturity investment		1,524	—
Rental deposits		2,493	1,934
		<b>16,990</b>	15,696
<b>Current assets</b>			
Inventories		77,791	55,158
Trade and bills receivables	10	16,426	20,944
Other receivables, deposits and prepayments		5,764	3,666
Tax recoverable		960	370
Cash and cash equivalents		193,764	214,586
		<b>294,705</b>	294,724
<b>Current liabilities</b>			
Trade and bills payables	11	15,133	7,463
Other payables and accrued charges		15,618	15,835
Current tax liabilities		532	539
		<b>31,283</b>	23,837
<b>Net current assets</b>		<b>263,422</b>	270,887
<b>Total assets less current liabilities</b>		<b>280,412</b>	286,583
<b>Non-current liabilities</b>			
Deferred tax liabilities		77	123
<b>Total net assets</b>		<b>280,335</b>	286,460
<b>Capital and reserves</b>			
Share capital	12	3,188	3,188
Reserves		277,147	283,272
<b>Total equity</b>		<b>280,335</b>	286,460

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	Share capital Unaudited HK\$'000	Share premium Unaudited HK\$'000	Share option reserve Unaudited HK\$'000	Foreign exchange reserve Unaudited HK\$'000	Available- for-sale investment reserve Unaudited HK\$'000	Statutory and discretionary reserve Unaudited HK\$'000	Retained earnings Unaudited HK\$'000	Proposed dividends Unaudited HK\$'000	Total Unaudited HK\$'000
At 1 April 2010	3,188	32,608	4,904	2,776	244	888	223,274	4,463	272,345
Total comprehensive income for the period	—	—	—	416	(165)	—	1,403	—	1,654
2010 final dividend paid	—	—	—	—	—	—	—	(4,463)	(4,463)
At 30 September 2010	3,188	32,608	4,904	3,192	79	888	224,677	—	269,536
At 1 April 2011	3,188	32,608	4,904	4,271	417	888	237,634	2,550	286,460
Total comprehensive income for the period	—	—	—	864	(2,011)	—	(2,428)	—	(3,575)
2011 final dividend paid	—	—	—	—	—	—	—	(2,550)	(2,550)
At 30 September 2011	3,188	32,608	4,904	5,135	(1,594)	888	235,206	—	280,335

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

	Six months ended 30 September	
	2011 Unaudited HK\$'000	2010 Unaudited HK\$'000
Net cash (used in)/from operating activities	<b>(16,802)</b>	6,314
Net cash used in investing activities	<b>(2,046)</b>	(1,252)
Net cash used in financing activities	<b>(2,550)</b>	(4,463)
Net (decrease)/increase in cash and cash equivalents	<b>(21,398)</b>	599
Cash and cash equivalents at the beginning of the period	<b>214,586</b>	190,885
Effect of foreign exchange rate changes	<b>576</b>	308
Cash and cash equivalents at the end of the period, representing bank balances and cash	<b>193,764</b>	191,792



# NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

## 1. GENERAL

The Company was incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the interim report.

The unaudited condensed interim financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

## 2. BASIS OF PREPARATION

The unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

## 3. PRINCIPAL ACCOUNTING POLICIES

The condensed interim financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2011.

In the current interim period, the Group has applied, for the first time, the following accounting policy and accounting standards:

### (i) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the positive intention and ability to hold to maturity. They are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. At the end of each reporting period subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

- (ii) New and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC)-Interpretations 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Interpretations 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new and revised HKFRSs has had no significant effect on these condensed interim financial statements.

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

HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurements <sup>4</sup>
HKAS 1 (Amendments)	Presentation of Financial Statements <sup>3</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>4</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>4</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

### **3. PRINCIPAL ACCOUNTING POLICIES** (Continued)

(ii) (Continued)

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

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

### **4. TURNOVER AND SEGMENT INFORMATION**

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

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

#### 4. TURNOVER AND SEGMENT INFORMATION (Continued)

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

Manufacturing business	—	Manufacture and distribution of leather products
Retail business	—	Retail of fashion apparel, 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.

	Manufacturing business		Retail business		Total	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	2011	2010	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	64,132	88,450	20,214	14,821	84,346	103,271
Inter-segment revenue	1,241	387	—	—	1,241	387
Reportable segment revenue	65,373	88,837	20,214	14,821	85,587	103,658
Reportable segment result	(1,561)	4,140	(1,843)	(1,396)	(3,404)	2,744
Elimination of inter-segment profits					(51)	46
Dividend income from available-for-sale investments					131	116
Interest income					1,508	381
Unallocated other income and gains					388	40
Unallocated corporate expenses					(506)	(864)
(Loss)/profit before income tax expense					(1,934)	2,463
Income tax expense					(494)	(1,060)
(Loss)/profit for the period					(2,428)	1,403

#### 4. TURNOVER AND SEGMENT INFORMATION (Continued)

	Manufacturing business		Retail business		Total	
	30 September	31 March	30 September	31 March	30 September	31 March
	2011	2011	2011	2011	2011	2011
	Unaudited	Audited	Unaudited	Audited	Unaudited	Audited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	128,754	118,822	32,279	21,836	161,033	140,658
Available-for-sale investments					4,376	5,333
Held-to-maturity investment					1,524	—
Tax recoverable					960	370
Unallocated cash and cash equivalents					143,469	161,833
Other unallocated corporate assets					333	2,226
					<b>311,695</b>	<b>310,420</b>

#### 5. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended	
	30 September	
	2011	2010
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	60,488	74,817
Depreciation of property, plant and equipment	1,069	909
Operating lease rentals in respect of land and buildings	10,238	9,007
Write down of inventories	220	309
Staff costs (excluding directors' emoluments)	9,574	8,654
and crediting:		
Dividend income from available-for-sale investments	131	116
Interest income	1,508	381

## 6. INCOME TAX EXPENSE

	Six months ended	
	30 September	
	2011	2010
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
— Hong Kong profits tax	—	196
— PRC enterprise income tax	540	854
Deferred tax	(46)	10
	<b>494</b>	<b>1,060</b>

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit for the period (2010: 16.5%). The PRC enterprise income tax rate for the Company's subsidiary in the PRC is 25% (2010: 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 2011 (2010: Nil).

## 8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss for the period of HK\$2,428,000 (2010: profit of HK\$1,403,000) and weighted average number of 318,804,000 (2010: 318,804,000) ordinary shares in issue during the period.

For the six months ended 30 September 2011 and 2010, diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share for the respective periods as there is no dilutive effect on the outstanding share options.



## 9. AVAILABLE-FOR-SALE INVESTMENTS

	30 September 2011 Unaudited HK\$'000	31 March 2011 Audited HK\$'000
Equity securities listed in Hong Kong, at fair value	4,376	5,333

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

## 10. TRADE AND BILLS RECEIVABLES

	30 September 2011 Unaudited HK\$'000	31 March 2011 Audited HK\$'000
Trade and bills receivables	17,080	21,591
Less: impairment loss	(654)	(647)
	16,426	20,944

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 2011 Unaudited HK\$'000	31 March 2011 Audited HK\$'000
Current to 30 days	12,667	10,838
31–60 days	1,865	2,816
61–90 days	1,144	3,600
91–120 days	111	420
121–365 days	559	3,192
Over 365 days	80	78
	16,426	20,944

## 11. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	30 September 2011 Unaudited HK\$'000	31 March 2011 Audited HK\$'000
Current to 30 days	11,569	3,126
31–60 days	1,005	2,361
61–90 days	1,419	1,454
91–120 days	359	251
121–365 days	678	102
Over 365 days	103	169
	<b>15,133</b>	<b>7,463</b>

## 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 2011 and 31 March 2011.

## 14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 September 2011 Unaudited HK\$'000	2010 Unaudited HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	<b>300</b>	272

Mr. Chan Woon Man is a substantial shareholder of the Company and Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

#### 14. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 September	
	2011	2010
	Unaudited HK\$'000	Unaudited HK\$'000
Short-term benefits	6,485	6,633
Post employment benefits	60	60
	<b>6,545</b>	6,693

#### DIVIDEND

The Board would not recommend the payment of an interim dividend for the six months ended 30 September 2011 (30 September 2010: Nil).

### MANAGEMENT DISCUSSION AND ANALYSIS

#### FINANCIAL REVIEW

The Group's turnover for the six months ended 30 September 2011 was HK\$84,346,000 (2010: HK\$103,271,000). The decline in total turnover was mainly due to a decrease in sales revenue from manufacturing business segment during the reporting period. Gross profit was around HK\$23,858,000 (2010: HK\$28,454,000) while gross profit margin was around 28.3% (2010: 27.6%).

Other income and gains increased from HK\$650,000 to HK\$3,684,000 which was mainly attributed to an increase in net foreign exchange gain and increase in bank interest income during the reporting period.

Selling and distribution costs increased from HK\$11,046,000 to HK\$14,041,000. This was mainly due to the increase of staff cost and rental expenses in relation to the Group's retail business. Administrative and other operating expense was around HK\$15,435,000 for the reporting period (2010: HK\$15,595,000).

As a result, the Group reported a net loss of HK\$2,428,000 for the six months ended 30 September 2011 as compared to a net profit of HK\$1,403,000 for the six months ended 30 September 2010. Loss per share was HK0.8 cent (2010: earnings per share of HK0.4 cent).

## BUSINESS REVIEW

### Manufacturing Business

For the six months ended 30 September 2011, turnover of manufacturing business segment from external customers reduced by approximately 27.5% to HK\$64,132,000, accounting for approximately 76% of the Group's total turnover. The fall in turnover was mainly due to the weakness of two of its core markets, Europe and the U.S. and the continuing decrease of export sales to Japan.

Geographically, sales to the U.S. decreased from HK\$15,719,000 to HK\$6,623,000 and sales to Europe decreased from HK\$29,156,000 to HK\$22,756,000. Customers in both markets were more conservative in the reporting period. Export sales to Japan continued to reduce to approximately HK\$2,468,000 and this market became unimportant to the Group in this financial period. Sales in Hong Kong increased from HK\$7,395,000 to HK\$8,456,000. This was primarily due to increase in sales to apparel retailers in Hong Kong. Sales in the PRC market dropped slightly to HK\$7,678,000 compared with HK\$8,916,000 same period last year. Apart from the major markets, sales revenue from other countries including Australia, Canada, India, Korea, Singapore and Malaysia, etc. increased by approximately 15.9%, to HK\$16,151,000.

In terms of product mix, sales of belts decreased to HK\$53,630,000 (2010: HK\$80,788,000). Sales of leather goods and other accessories was approximately HK\$10,502,000 (2010: HK\$7,661,000). Gross profit was approximately HK\$12,061,000 (2010: HK\$19,811,000). Gross profit margin decreased from approximately 22.4% to approximately 18.8% which was mainly due to an increase in labor cost and increase in outsourcing production during the reporting period. Fixed overhead cost per unit was higher as a result of output volume reduced in the reporting period.

## Retail Business

Revenue from retail business increased from HK\$14,821,000 to HK\$20,214,000, an increase of approximately 36.4%. Despite the Group's retail sales were adversely affected by store renovation works implemented in July 2011, the comparable same store sales still increased around 9.2% against same period last year. The Group's in-house brand sales kept growing on the back of continuing market effort on the product promotion. Retail gross profit margin went down to approximately 56.2% compared with approximately 58.3% of same period last year. This was mainly due to the increase of sales of international footwear brand products with lower profit margin in the reporting period. The overall shop rental to turnover ratio decreased from approximately 42.5% to approximately 37.3% as a result of better sales performance in the reporting period. The staff cost was notably higher than same period last year as a result of an increase in staff salaries and sales commission and expansion of in-house design team. The first half of the current financial year was traditionally slow season for retail business and thus an operating loss of approximately HK\$1,843,000 was incurred. During the reporting period, one new store was opened in Tsing Yi. As at 30 September 2011, the Group operated six AREA 0264 stores in Hong Kong.

## PROSPECTS

Moving forward, the Group expects the business environment in the second half of the financial year 2012 to be challenging as debt crisis in the U.S. and Europe are likely to continue suppressing market demand. The adverse impact from the escalating production costs in the PRC and volatility in raw material prices will continue to affect the Group's profit margin. In response to these challenges in its business environment, the Group will strive to maintain tight cost control and optimize the production capacity.

Hong Kong retail outlook remain prosperous in the second half of financial year 2012 on the back of prevailing strength of inbound tourism. The Group's retail sales performance in October 2011 was very encouraging. Besides, the loss-making store in Causeway Bay has just been closed upon expiry of the lease in November 2011. Retail performance in the second half of the financial year is expected to be much better than same period of last year. Despite negative result reported in the first half of the financial year, the Group is confident that the retail business will remain profitable for the full financial year. The Group will continue to look for strategic location to expand its sales networks. One new store will be opened at a new shopping mall in Tseung Kwan O in the first quarter of 2012. The Group expects that retail business will grow faster and will become a key driving force for the Group's turnover growth in future.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September 2011 the Group's cash and bank deposits were approximately HK\$193,764,000, compared to approximately HK\$214,586,000 as at 31 March 2011.

As at 30 September 2011, 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\$294,705,000 as at 30 September 2011 (31 March 2011: HK\$294,724,000) and total current liabilities of approximately HK\$31,283,000 (31 March 2011: HK\$23,837,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 9 times as at 30 September 2011 (31 March 2011: 12 times).

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

As a result of the net loss incurred, change in fair value of available-for-sale investments and final dividend paid out in the reporting period, the Group recorded a decrease in shareholders' funds from approximately HK\$286,460,000 as at 31 March 2011 to approximately HK\$280,335,000 as at 30 September 2011.

## TREASURY POLICY

The Group generally finances its operation with internally generated resources. Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars, US dollars, Renminbi and Euro. Transactions of the Group are mainly denominated in Hong Kong dollars, US dollars, Renminbi and Euro. It is estimated that the Group's exposure to foreign exchange fluctuation in Renminbi and Euro against Hong Kong dollars would have insignificant effects on profit or loss and other components of equity of the Group. 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.

During the reporting period, the Group invested in government bond issued by the Ministry of Finance People's Republic of China amounting to RMB1,250,000 (equivalent to approximately HK\$1,524,000) for long term investment purpose.



## **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 2011.

## **HUMAN RESOURCES**

As at 30 September 2011, the Group had around 152 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 934 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 2011, 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 (Note 1(a))	
	Beneficial owner	6,348,000	
		<hr/>	
		54,075,352	16.96
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 (Note 2)	
	Beneficial owner	11,332,000	
		<hr/>	
		59,059,352	18.52
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 (Note 3)	12.30

(b) Share options

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

Notes:

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

Save as disclosed above, none of the directors, chief executives and their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 30 September 2011.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2011, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

### LONG POSITIONS

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

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Leopark Worldwide Inc.	Beneficial owner	47,727,352 (Note i)	14.97
New Paramount Profits Limited	Beneficial owner	47,727,352 (Note i)	14.97
Prevail Assets Limited	Beneficial owner	39,204,648 (Note i)	12.30
Smarty Worldwide Limited	Beneficial owner	39,204,648 (Note ii)	12.30
Chan Woon Man	Interest of a controlled corporation	39,204,648 (Note ii)	12.30
Li Shuk Han	Interest of spouse	54,075,352 (Note iii)	16.96
CIM Dividend Income Fund Limited	Investment manager	22,111,000	6.93
Yeoman Capital Management Pte Ltd	Investment manager	24,702,000 (Note iv)	7.75
Yeo Seng Chong	Interest of a controlled corporation	24,702,000	
	Interest of spouse	2,872,000	
		<hr/> 27,574,000 (Note v)	8.65

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Lim Mee Hwa	Interest of a controlled corporation	24,702,000	8.65
	Beneficial owner	<u>2,872,000</u>	
		27,574,000 (Note vi)	
Yeoman 3-Rights Value Asia Fund	Beneficial owner	22,000,000 (Note vii)	6.90

(b) Share Options

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

Notes:

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors' interests in shares and underlying shares" above.
- (ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man. In addition, an option to subscribe for 3,181,200 shares of the Company was granted to Mr. Chan Woon Man on 24 September 2003.
- (iii) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong, Edwin and 6,348,000 shares are held by Mr. Chan King Hong, Edwin. By virtue of the SFO, Ms. Li Shuk Han, who is the spouse of Mr. Chan King Hong Edwin, is taken to be interested in these long positions.
- (iv) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Yeoman Capital Management Pte Ltd, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, all of them are wholly owned by Yeoman Capital

Management Pte Ltd, an investment manager, hold 22,000,000 shares, 350,000 shares and 1,252,000 shares in the Company respectively. By virtue of the SFO, Yeoman Capital Management Pte Ltd, being the holding company of Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, is deemed to be interested in the same 23,602,000 shares in the Company. In addition, 1,100,000 shares of the Company were held directly by Yeoman Capital Management Pte Ltd.

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

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30 September 2011.



## 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 2011. Details of share options outstanding at 30 September 2011 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1 April 2011 and 30 Sept 2011	Exercisable period	Exercise price per share
<b>(a) Executive directors</b>				
Chan King Hong Edwin	24 Sept 2003	3,181,200	24 Sept 2003 — 23 Sept 2013	HK\$0.830
	22 July 2009	8,700,000	22 July 2009 — 21 July 2019	HK\$0.570
Chan King Yuen Stanley	24 Sept 2003	3,181,200	24 Sept 2003 — 23 Sept 2013	HK\$0.830
	22 July 2009	8,700,000	22 July 2009 — 21 July 2019	HK\$0.570
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	24 Sept 2003 — 23 Sept 2013	HK\$0.830
	22 July 2009	8,700,000	22 July 2009 — 21 July 2019	HK\$0.570
<b>(b) Employees, in aggregate</b>				
	26 May 2003	60,000	26 May 2003 — 25 May 2013	HK\$0.580
	24 Sept 2003	6,362,400	24 Sept 2003 — 23 Sept 2013	HK\$0.830
	22 July 2009	3,000,000	22 July 2009 — 21 July 2019	HK\$0.570
<b>(c) Others, in aggregate</b>				
	26 May 2003	3,000,000	26 May, 2003 — 25 May, 2013	HK\$0.580
Total		48,066,000		

## **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.

## **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 2011.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 September 2011, except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer. Due to the small size of the existing management team, both the roles of the chairman and chief executive officer of the Company are currently played by Mr. Chan King Hong, Edwin. Mr. Chan has considerable experience in manufacturing industry and is the person most knowledgeable about the business of the Group. The Board believes that the current structure will enable us to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of Group.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the six months ended 30 September 2011.

## **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 2011.

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

Hong Kong, 28 November 2011