The Premier

Designer & Manufacturer

Of Quality Leather Accessories

Annual Report

2012

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)

Tsim Sha Tsui / Mongkok / Kwun Tong / Shatin / Tsing Yi / Tseung Kwan O

Contents

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
Nos. 151-157 Wo Yi Hop Road
Kwai Chung
New Territories
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co. Ltd. Hong Kong Branch
Nanyang Commercial Bank Limited
Wing Hang Bank Limited

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

COMPANY WEBSITE

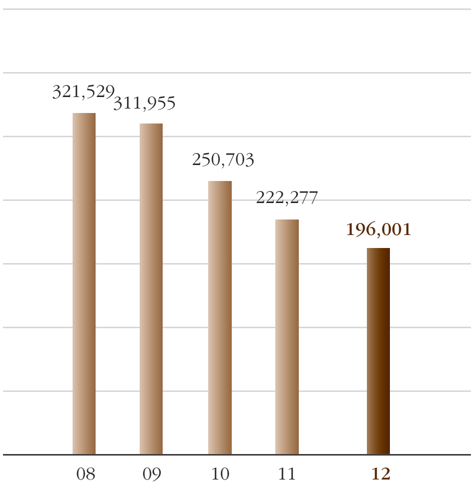
www.chancogroup.com
www.irasia.com/listco/hk/chanco/index.htm

STOCK CODE

264

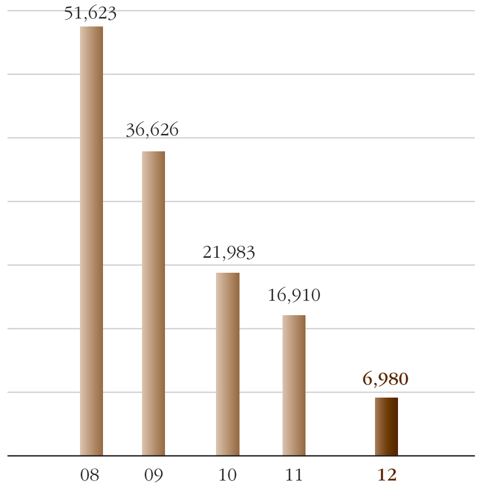
TURNOVER

(HK$'000)



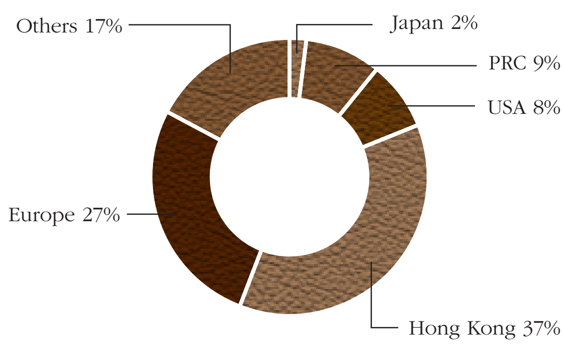
PROFIT FOR THE YEAR

(HK$'000)

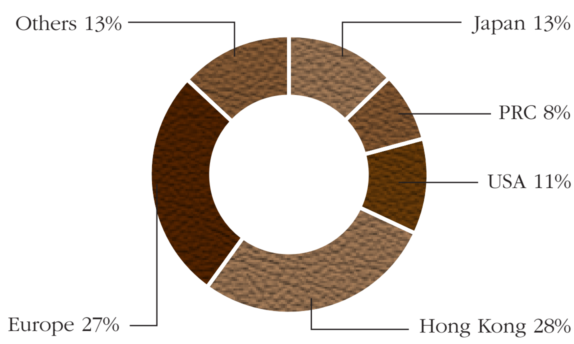


TURNOVER BY GEOGRAPHICAL SEGMENT

Financial Year 2012

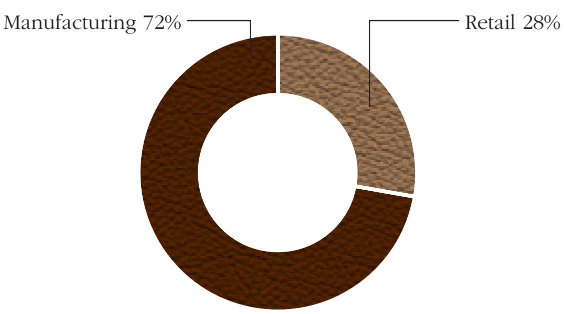


Financial Year 2011

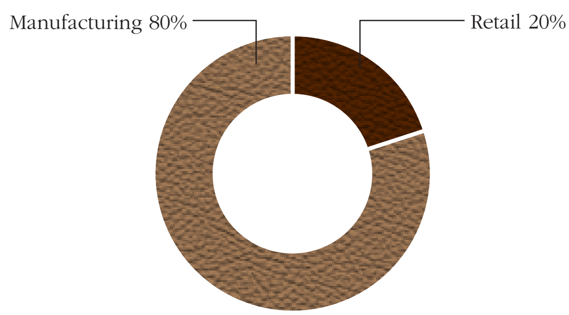


TURNOVER BY BUSINESS SEGMENT

Financial Year 2012



Financial Year 2011



	2012	2011	Change
	HK$'000	*HK$'000*	
Operating results			
Turnover	**196,001**	222,277	-11.8%
Gross profit	**60,742**	72,626	-16.4%
Profit before income tax expense	**8,473**	20,053	-57.7%
Profit for the year	**6,980**	16,910	-58.7%
Business performance ratios			
Gross profit margin	**31.0%**	32.7%	
Net profit margin	**3.6%**	7.6%	
Return on shareholders' equity	**2.4%**	5.9%	
Current ratio	**10.95**	12.36	
Quick ratio	**7.82**	10.05	
Share data (as at year end date)			
Shares in issue ('000)	**318,804**	318,804	
Shares closing price	**HK$0.38**	HK$0.55	
Market capitalization (HK$'000)	**121,146**	175,342	
Basic earnings per share	**HK2.19 cents**	HK5.30 cents	
Price earnings ratio	**17.35**	10.38	
Interim dividend per share	**Nil**	Nil	
Final dividend per share	**Nil**	HK0.8 cent	
Total dividend per share	**Nil**	HK0.8 cent	
Dividend payout ratio	**N/A**	15.1%	
Net asset value per share	**HK$0.91**	HK$0.90	
Price-to-book value ratio	**0.42**	0.61	

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the annual results of the Company and its subsidiaries (collectively refer to the "Group") for the year ended 31 March 2012.

Financial year 2011/2012 was a tough and challenging year for Chanco. In the past year, we saw an increasing uncertainty in the global economy caused by the sovereign debt crisis in Europe. The European debt troubles even threatened to derail the fragile global economic recovery. Unemployment remained high in the U.S. amid sluggish economic growth. The devastating earthquake and tsunami in Japan early last year also had a negative impact on the weakened global economy. Market conditions were weak and unstable throughout the year. Production cost in the PRC escalated sharply in the past year. Increased labor cost and appreciation of Renminbi put significant pressure on our manufacturing margin. In the face of these adversities, we had taken all necessary action including optimizing material cost and tight control on expenses to minimize the impact on our business.

Despite worsening global economy, Hong Kong retail market remained robust on the back of prevailing strength of inbound tourism and vibrant domestic demand. Our retail sales grew steadily riding on positive market sentiment. However, growing number of international casual fashion retailers came to grab a share of Hong Kong retail sales intensified competition in the market. We had to adjust our pricing strategy timely and swiftly to stay competitive in the market. Additional promotion and price markdown drove our profit margin decrease. Despite these challenges, we are pleased with the progress we have made against our long-term strategic plan, including enhancing our brand equity and growing our business steadily. As at 31 March 2012, we had a total of six retail stores in Hong Kong.

FINANCIAL PERFORMANCE

For the year ended 31 March 2012, the Group recorded a lower turnover of HK$196,001,000 compared to HK$222,277,000 for the year ended 31 March 2011, downed by around 12%. The decline in total turnover was primarily attributed to lower revenue from manufacturing business segment in the reporting year. Gross profit reduced from HK$72,626,000 to HK$60,742,000, a decrease of approximately 16%, which was mainly due to lower turnover and profit margin in manufacturing business segment. Gross profit margin decreased from 33% to around 31%.

Other income and gains increased from HK$2,118,000 to HK$6,314,000 which was attributable to the increase in bank interest income and the increase in foreign exchange gain mainly resulting from appreciation of Renminbi. Higher interest rate earned through conversion of cash in banks from US dollars to Renminbi during the year.

Selling and distribution expenses increased from HK$24,774,000 to HK$27,792,000. This was largely attributed to the increase of staff costs, promotion and advertising expenses and rental expenses in relation to retail business. Administrative and other operating expenses increased from HK$29,917,000 to HK$30,791,000. This was primarily due to the increase in salaries and related staff costs in the reporting year.

As a result, the Group's net profit for the year decreased by around 59% to HK$6,980,000. Basic earnings per share was HK2.2 cents compared to HK5.3 cents of last year.

BUSINESS REVIEW

By business segments, manufacturing business remained the Group's largest revenue contributor accounting for approximately 72% of its total turnover and the balance of 28% being contributions from retail business.

Manufacturing Business

For the year ended 31 March 2012, turnover of manufacturing business segment from external customers reduced from HK$178,847,000 to HK$141,503,000. The fall in turnover was mainly due to continued decrease of export sales to Japan and the weakness of its two core markets, Europe and the U.S.

Geographically, sales to Europe decreased from HK$60,245,000 to HK$53,395,000 and sales to the U.S. decreased from HK$24,029,000 to HK$16,638,000. The sovereign debt crisis in Europe continued suppressing market demand. Customers in these markets stayed conservative during the reporting year. Export sales to Japan for the year reduced to HK$3,782,000 compared with HK$28,544,000 of last year. Japan became an unimportant market to the Group. Sales in Hong Kong decreased from HK$19,215,000 to HK$17,427,000. Sales in the PRC market dropped slightly from HK$17,631,000 to HK$17,361,000. Apart from the major markets, sales to other countries including Australia, Korea, Malaysia, Singapore and India etc. increased by around 13% to HK$32,900,000. This was mainly attributed to the increase of sales to India and Malaysia.

In terms of product category, sales of belt products decreased to HK$123,688,000 (2011: HK$166,619,000). Sales of leather goods and other accessories were approximately HK$17,815,000 (2011: HK$12,228,000). Gross profit margin decreased from around 27% to around 22% which was mainly due to the increase in labor cost as a result of an increase of statutory minimum wages in the PRC and appreciation of Renminbi during the reporting year. Lower factory utilization also affected the gross margin. Fixed manufacturing cost per unit was higher as a result of output volume reduced.

Retail Business

Retail sales for the year increased around 25% to HK$54,498,000. This was primarily due to an increase of comparable same store sales as well as incremental sales related to new store. Hong Kong retail market remained prosperous during the reporting year, thanks to the prevailing strength of inbound tourism and strong domestic consumption on the back of steady economic growth and low unemployment. Our comparable same store sales increased around 20% compared with same period last year. Our in-house brand sales mainly Urban Stranger accounted for around 40% of our total retail sales compared with around 44% of last year. Profit margin went down from around 57% to around 52%. This was primarily due to additional promotions and price markdown, increase in proportion of sales of international footwear brands products with lower profit margin and net provision for slow moving inventories of around HK$498,000 in the reporting year. The overall shop rental to turnover ratio decreased from around 31% to around 25% as a result of better sales performance and closure of loss-making store at Causeway Bay in the second half of the financial year. Staff costs were notably higher than that of last year as a result of an increase in staff salaries, sales commission and bonus and expansion of in-house design team in the reporting year. As a consequence of lower profit margin and higher staff costs, the segmental profit for the year decreased slightly from HK$2,164,000 to HK$2,065,000. In the year under review, we closed one loss-making store upon expiry of tenancy and opened two new stores. As at 31 March 2012, the Group operated six AREA 0264 stores in Hong Kong.

Prospects

Looking ahead, the negative impacts from debt crisis will continue affect the global economy. Countries around the world may experience an economic slowdown for the rest of 2012 as the sovereign debt crisis in Europe remains unsolved. The US economic recovery remains fragile and volatile. Market demands continue to be unstable and business prospect remains tough in the near term. The escalating production cost will continue to affect our profit margin. In response to these challenges ahead, we will strive to tighten cost control and optimize the production capacity.

Hong Kong retail market remains positive on the back of inbound tourism and low unemployment. However, increasing external economic uncertainties and increasing volatility in stock market may adversely affect the local spending sentiment. The growth trend is expected to be slowing down in the near term. In the first two months of financial year 2012/13, our comparable same store sales dropped. Nonetheless, we are confident that the medium to long term prospect of retail business remains positive. We will stay cautious to look for strategic location to strengthen our sales network. We plan to open two new stores and expect to have around eight AREA 0264 stores in Hong Kong by the end of financial year 2012/13. We will also stay focus on enhancing our brand equity through innovative marketing promotion and strengthening product quality. To stay competitive in the market, we will renovate and upgrade our stores and make alternation to our merchandise lineup and brand mix. We will also manage our operating expense carefully and implement disciplined inventory management policy.

Dividend

The Board does not recommend payment of any dividend for the financial year ended 31 March 2012 at the forthcoming annual general meeting of the Company.

Appreciation

On behalf of the Board, I would like to express my heartfelt gratitude to the management team and all our staff for their hard work, commitment, dedication and contribution, and all of our shareholders, valuable customers and banks for their ongoing support.

Chan King Hong Edwin
Chairman

Hong Kong, 28 June 2012

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2012, the Group's cash and cash equivalents were approximately HK$180,597,000 (2011: HK$214,586,000).

As at 31 March 2012, 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.

Compared to 31 March 2011, the inventory level as at 31 March 2012 was notably higher. The increase in inventories was mainly due to an increase in inventory level of best-selling merchandises of international footwear brand and increase in inventory of leather.

The Group recorded total current assets of approximately HK$301,350,000 as at 31 March 2012 (2011: HK$294,724,000) and total current liabilities of approximately HK$27,518,000 (2011: HK$23,837,000). The current ratio of the Group, calculated by dividing the total currents assets by the total current liabilities, was approximately 11 times as at 31 March 2012 (2011: 12 times).

Supported by its strong financial position, the Group had not raised any bank loan during the year.

The Group recorded an increase in shareholders' funds from approximately HK$286,460,000 as at 31 March 2011 to approximately HK$291,020,000 as at 31 March 2012. The increase was mainly attributable to retained profits after deducting dividend paid out in the reporting year.

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 against HK$ at the end of reporting period. 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 year, the Group invested in government bond issued by the Ministry of Finance People's Republic of China amounting to approximately HK$1,524,000 (equivalent to RMB1,250,000) for long term investment purpose. The Group also placed to a bank a structured bank deposit amounting to approximately HK$5,536,000 (equivalent to RMB4,500,000) for short term investment purpose.

The Group recorded available-for-sale investments of approximately HK$5,349,000 as at 31 March 2012 (2011: HK$5,333,000). Additional investment in equity securities was offset by fair value adjustment on overall investment portfolio at 31 March 2012.

CHARGES ON ASSETS

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

MATERIAL ACQUISITIONS/DISPOSAL

The Group had no material acquisition/disposals for the year ended 31 March 2012.

EMPLOYEE INFORMATION

As at 31 March 2012, the Group had 133 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 960 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.

CONTINGENT LIABILITIES

As at 31 March 2012, the Group did not have any contingent liabilities.

EXECUTIVE DIRECTORS

Mr. CHAN King Hong Edwin, aged 54, is the chairman and chief executive officer of the Company who joined the Group in around 1980. Mr. Chan is responsible for the development of corporate strategies, overseas sales and marketing strategic planning and overall management of the Group. He has over 27 years of experience in the manufacturing and sales of leather goods, corporate management and strategic planning. Mr. Chan graduated from the University of Toronto in Canada with a bachelor's degree in arts in 1980. Mr. Edwin Chan is the brother of Mr. Stanley Chan, Ms. Rebecca Chan and Ms. Chan Wai Foon and the husband of Ms. Li Shuk Han.

Mr. CHAN King Yuen Stanley, aged 51, is the vice chairman of the Company who joined the Group in around 1980. Mr. Chan is responsible for the design and product development, local sales and marketing strategic planning and overall management of the Group. He has over 27 years of experience in the manufacturing and sales of leather goods, product development and sampling design training. Mr. Stanley Chan is the brother of Mr. Edwin Chan, Ms. Rebecca Chan and Ms. Chan Wai Foon.

Ms. CHAN Wai Po Rebecca, aged 48, is the production director of the Company who joined the Group in 1986. Ms. Chan is responsible for production planning and control, labour training and overall management of the Group's production facilities in Dongguan, the PRC. She has over 22 years of experience in the manufacturing of leather goods, production system design and quality assurance system management. She graduated from Tunghai University in Taiwan with a Bachelor's degree in Business Administration in 1986. Ms. Rebecca Chan is the sister of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Chan Wai Foon.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. CHAU Cynthia Sin Ha *JP*, aged 72, is an independent non-executive director of the Company. Ms. Chau has been appointed as a Non-official Justice of the Peace for Hong Kong since 17 July 1996. She holds a diploma in Arts from Chung Chi College in Hong Kong in 1961 and a master's degree of social welfare from the Regents of the University of California in the U.S. in 1967. Ms. Chau had served as the Welfare Superintendent of Po Leung Kuk for 26 years until her retirement in March 2001. As Welfare Superintendent, Ms. Chau was head of the Welfare Department and responsible for developing and improving the welfare services provided by Po Leung Kuk. Ms. Chau was appointed as the independent non-executive director of the Company in February 2003.

Mr. FONG Pui Sheung David, *MH* aged 69, is an independent non-executive director of the Company. Mr. Fong was granted a Badge of Honour by Hong Kong Government in January 1989 and a Medal of Honour by the Government of Hong Kong Special Administrative Region for his contribution to the society in July 2000. He holds a diploma in Chinese Literature from the Chinese University of Hong Kong in 1970. Mr. Fong is a school manager of Fong Shu Fook Tong Foundation Fong Shu Chuen Primary School. Mr. Fong had served as the principal of Tung Koon District Society Fong Shu Chuen School from 1970 to 2003. Mr. Fong had been actively participating in the Community works in Kowloon City and Ho Man Tin Area Committee since 1973 and was appointed as Appointed Member of Kowloon City District Board from 1985 to 1991. Mr. Fong was acted as Councilor of Urban Council from 1989 to 1991. From 1992 to 2003, Mr. Fong was appointed as member of Board of Control, Hong Kong Subsidized Schools Provident Fund and participated in administration over HK$30 billion Hong Kong Subsidized Schools Provident Fund. Mr. Fong was appointed as the independent non-executive director of the Company in February 2003.

Mr. OR Kam Chung, Janson, aged 42, is an independent non-executive director of the Company. Mr. Or is a practising Certified Public Accountant in Hong Kong. Mr. Or is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountant. Mr. Or obtained a Higher Diploma in Accountancy from the City University of Hong Kong in 1995. Mr. Or has over 16 years of experience in auditing, accounting, taxation and company secretary with public accounting firms. Mr. Or is the co-founder of a public accounting firm, KCPS & Partners Certified Public Accountants, and is now a practising partner of the firm. Mr. Or was appointed as the independent non-executive director of the Company in June 2004.

SENIOR MANAGEMENT

Ms. LI Shuk Han, aged 47, is the general manager of the Group. Ms. Li is responsible for the personnel and general management of the Group's operation in Hong Kong. She has over 23 years of experience in general administration including staff performance analysis and office system innovation. She is the wife of Mr. Edwin Chan. She joined the Group in 1984.

Mr. LAU Wai Hung, aged 36, is the financial controller and the company secretary of the Company. Mr. Lau is responsible for overseeing the financial and the company secretarial functions of the Company. Mr. Lau obtained a Bachelor's degree in Business Administration from the Chinese University of Hong Kong in 1997. Mr. Lau is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau has over 14 years of experience in auditing, finance, taxation and corporate development advisory. Prior to joining the Group, Mr. Lau worked for a consulting firm which provides business advisory services to clients. Mr. Lau joined the Group in July 2002.

Ms. CHAN Wai Foon, aged 56, is the accounting manager of the Group. Ms. Chan is responsible for the financial and management accounting of the Group. She holds a diploma in accounting from Centennial College in Canada in 1980. She has over 28 years of experience in accounting and finance. Prior to joining the Group, Ms. Chan had worked as an accountant of a system integration company. She is the sister of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan. She joined the Group in 1997.

Mr. CHO Sau Man, aged 48, is the deputy general manager of the Group's processing factory in Dongguan, the PRC. Mr. Cho is responsible for overseeing the overall factory administration and handling regulatory compliance in the PRC. Mr. Cho is also a director of Elite Leatherware Company Limited, a subsidiary of the Company. Mr. Cho has over 15 years of experience in factory administration. Prior to joining the Group, Mr. Cho had worked as deputy general manager of an electric motor company located in Shenzhen. He joined the Group in April 2007.

Mr. HUI Kwok Fai, aged 41, is the product development manager of the Group. Mr. Hui is responsible for product design and retail business operation of the Group. Mr. Hui has over 19 years of experience in product development and brand building. Prior to joining the Group, Mr. Hui had worked as product designer of Tough Jeans Ltd. and had successfully build up the distribution network for TOUGH bags and other accessories product to Japan, Singapore, Malaysia, Thailand, Germany, Italy, Spain and Australia. He joined the Group in October 2003.

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company believes that good corporate governance is importance to the success of the Company. The Company is committed to attaining good standard of corporate governance practices in order to enhance shareholders' value and safeguard the interests of shareholders.

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 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 March 2012 except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer.

DIRECTOR'S SECURITIES TRANSACTIONS

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 the Listing Rules during the year ended 31 March 2012.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic directions and financial performance. The management was delegated authority and responsibility by the Board for the day-to-day management of the Group. In addition, the Board has also delegated various responsibilities to Remuneration Committee, Audit Committee and Nomination Committee.

The Board currently consists of 3 executive directors and 3 independent non-executive directors. Their brief biographical details and the relationships among the members of the Board are set out in the "Biographical details of directors and senior management" on pages 10 to 12 of this Annual Report.

The Board holds four regular meetings a year to review the financial and operating performance of the Company. Apart from the regular Board meetings, the Board will meet on other occasion when required.

During the financial year ended 31 March 2012, 5 board meetings were held by the Company. The individual attendance record of each Director at the meetings of the Board during the year ended 31 March 2012 is as follows:

	Number of board meetings attended
Executive Directors	
Mr. Chan King Hong, Edwin *(Chairman and Chief Executive Officer)*	5/5
Mr. Chan King Yuen, Stanley	5/5
Mr. Chan Wai Po, Rebecca	5/5
Independent Non-executive Directors	
Mr. Fong Pui Sheung, David	5/5
Ms. Chau Cynthia Sin Ha	5/5
Mr. Or Kam Chung, Janson	5/5

All independent non-executive Directors of the Company are appointed for a specific term of two years and are also subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with Company's articles of associations.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provision stipulates that the roles of 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. The Board is of the view that Mr. Chan King Hong, Edwin 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 the Group.

OTHER COMMITTEES

There are three committees established under the Board, namely Audit Committee, Remuneration Committee and Nomination Committee.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Mr. Fong Pui Sheung David, Ms. Chau Cynthia Sin Ha, and Mr. Or Kam Chung Janson.

During the financial year ended 31 March 2012, 3 audit committee meetings were held by the Company. Individual attendance of each committee member at the meeting is as follows:

	Number of meeting attended
Independent Non-executive Directors	
Mr. Fong Pui Sheung, David *(Committee Chairman)*	3/3
Ms. Chau Cynthia Sin Ha	3/3
Mr. Or Kam Chung, Janson	3/3

The major roles and functions of the Audit Committee are as follow:

- to make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

- to review and discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;

- to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

- to monitor the integrity of the Company's financial statements and the annual report and accounts and half-year report and, if prepare for publication, quarterly reports and to review significant financial reporting judgments contained in them. In reviewing these reports and accounts of the Company before submission to the Board, the Committee shall focus particularly on:

    - any changes in financial reporting and accounting policies and practices;
    - major judgmental areas;
    - significant adjustments resulting from audit;
    - the going concern assumptions and any qualifications;
    - compliance with accounting standards; and
    - compliance with the Listing Rules, the Applicable Rules and legal requirements in relation to financial reporting.

- to liaise with the Board and senior management and meet at least twice a year, with external auditor, and to consider any significant or unusual items that are, or may need to be, reflected in the annual report and accounts and half-year report, and to give due consideration to any matters that have been raised by the staff responsible for the accounting and financial reporting function, compliance officer or auditors of the Company;

- to review the financial controls, internal control and risk management systems of the Company;

- to discuss the internal control system with management of the Company to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

- to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and the management's response to these findings;

- to review the group's financial and accounting policies and practices;

- to review the management letter of the external auditors, any material queries raised by the auditor to management of the Company about the accounting records, financial accounts or systems of control and the response of management of the Company;

- to ensure that the Board will provide a timely response to the issues raised in the management letter of the external auditor;

- to review arrangements for employees of the Company, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and

- to act as the key representative body for overseeing the Company's relations with external auditor.

During the year under review, the Audit Committee has reviewed the Group's management the principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the unaudited financial statements and results of the Group for the six months ended 30 September 2011 and audited financial statements and results of the Group for the year ended 31 March 2012, and adopted a revised term of reference.

AUDITOR'S REMUNERATION

For the financial year ended 31 March 2012, the fees paid/payable to the Group's auditor, BDO Limited, is set out as follows:–

Nature of services	Amount *HK$'000*
Audit Services	407
Non-audit services	73
Total:	480

REMUNERATION COMMITTEE

The Remuneration Committee comprises three independent non-executive directors Mr. Or Kam Chung Janson, Ms. Chau Cynthia Sin Ha, and Mr. Fong Pui Sheung David.

The Remuneration Committee meets at least once a year and the Committee will meet on other occasion when required.

During the financial year ended 31 March 2012, 2 remuneration committee meetings were held to determine the performance bonus for the year ended 31 March 2011 to the executive Directors, to review and determine the annual remuneration packages of the executive Directors and to adopt a revised term of reference. Individual attendance of each committee member at the meeting is as follows:

	Number of meetings attended
Independent Non-executive Directors	
Mr. Or Kam Chung, Janson *(Committee Chairman)*	2/2
Ms. Chau Cynthia Sin Ha	2/2
Mr. Fong Pui Sheung, David	2/2

The major roles and functions of the Remuneration Committee are as follow:

- to make recommendations to the board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

- to review and approve management's remuneration proposals with reference to the Board's corporate goals and objectives;

- to make recommendations to the Board on the remuneration packages of individual executive directors and senior management. The remuneration package should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

- to make recommendations to the Board on the remuneration of non-executive directors;

- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

- to review and approve the compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

- to ensure that no director or any of his associates is involved in deciding his own remuneration.

NOMINATION COMMITTEE

The Nomination Committee comprises three independent non-executive directors Ms. Chau Cynthia Sin Ha, Mr. Or Kam Chung Janson and Mr. Fong Pui Sheung David.

The Nomination Committee meets at least once a year and the Committee will meet on other occasion when required.

During the financial year ended 31 March 2012, no new director has been appointed by the Company but 1 nomination committee meeting was held to review and assess the renewal of the appointment of Mr. Or Kam Chung Janson as the independent non-executive Director and to adopt a revised term of reference. Individual attendance of each committee member at the meeting is as follows:

	Number of meeting attended
Independent Non-executive Directors	
Ms. Chau Cynthia Sin Ha *(Committee Chairlady)*	1/1
Mr. Fong Pui Sheung, David	1/1
Mr. Or Kam Chung, Janson	1/1

The major roles and functions of the Nomination Committee are as follow:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- to assess the independence of independent non-executive directors; and
- to make recommendations to the Board on the appointment and re-appointment of directors and succession planning for directors, in particular, the Chairman and the Chief Executive.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure that financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors have also ensured the timely publication of the financial statements of the Group.

The Directors' responsibilities in preparing financial statements and auditor's responsibilities are set out in the Independent Auditor's Report on pages 33 to 34 of this Annual Report.

INTERNAL CONTROL

The Board is responsible for maintaining an effective system of internal control to safeguard shareholders' investment and the Company's assets. The internal control system is designed to provide reasonable assurance on the effectiveness and efficiency of operations, to safeguard assets against unauthorized use or disposition and to maintain proper accounting records for producing reliable financial information.

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 March 2012. No material weaknesses were found.

CORPORATE COMMUNICATION

The Company communicates with its shareholders through publication of interim report and annual report in accordance with the Listing Rules. The Company welcomes shareholders to attend the general meetings and express their view. All directors are encouraged to attend the general meetings to have personal communication with shareholders. The external auditors are also required to be present to assist the directors in addressing any relevant queries by shareholders.

The directors (the “Directors”) are pleased to present their report together with the audited financial statements of Chanco International Group Limited (the “Company”) and its subsidiaries (collectively refer to the “Group”) for the year ended 31 March 2012.

PRINCIPAL ACTIVITIES AND SEGMENTAL INFORMATION

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 15 to the financial statements.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 77 of this Annual Report.

No interim dividend was paid during the year and the Directors do not recommend any payment of final dividend to shareholders for the year ended 31st March, 2012.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity on page 38 of this Annual Report, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of share capital of the Company are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2012, amounted to HK$82,511,000. Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the memorandum and articles of association of the Company and no distribution or dividend may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in ordinary course of business.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's memorandum and articles of association and there was no restriction against such rights under the laws of the Cayman Islands.

BANK LOANS AND OVERDRAFTS

The Group did not have bank loans and overdrafts at 31 March 2012.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 78 of this Annual Report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 10 to 12 of this Annual Report.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors
Mr. Chan King Hong Edwin
Mr. Chan King Yuen Stanley
Ms. Chan Wai Po Rebecca

Independent Non-executive Directors
Ms. Chau Cynthia Sin Ha
Mr. Fong Pui Sheung David
Mr. Or Kam Chung Janson

In accordance with Article 87 of the Company's Articles of Association, Mr. Chan King Yuen, Stanley and Ms. Chau Cynthia Sin Ha shall retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service agreements or letter of appointment with all the Directors for the provision of management services to the Group, details are as follow:

Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca entered into service contracts with the Company for an initial term of two years commencing from 1 March, 2003 and renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Ms. Chau Cynthia Siu Ha and Mr. Fong Pui Sheung David are independent non-executive Directors. They entered into a letter of appointment with the Company for an initial term of two years commencing from 1 March 2003. On 31 January 2011, their appointment were renewed by a new letter of appointment for another two year term expiring on 28 February 2013.

Mr. Or Kam Chung, Janson is independent non-executive Director. He entered into a letter of appointment with the Company for an initial term of two years commencing from 16 June 2004. On 21 March 2012, his appointment was renewed by a new letter of appointment for another two year term expiring on 15 June 2014.

Save as aforesaid, no Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the highest paid individuals of the Group are set out in note 10 to the financial statements.

EMOLUMENT POLICY

The emoluments of the Directors are determined by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

No Director or the management shareholders of the Company and their respective associates (as defined under the Listing Rules) had interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, during the year and up to the date of this report.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual written confirmation of independence pursuant to rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors as independent.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2012, the interests and short positions of the Directors and chief executive 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 of Hong Kong Limited (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	6,548,000	
		54,275,352	17.02
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 *(Note 2)*	
	Beneficial owner	11,332,000	
		59,059,352	18.53
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.

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 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 for Securities Transactions by Directors of Listed Issuers as at 31 March 2012.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2012, the following persons or companies (other than the Directors and chief executives) had interests or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO and were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group were as follow:

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	54,275,352 *(Note iii)*	17.02
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	
		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	
	Beneficial owner	2,872,000	
		27,574,000 *(Note vi)*	8.65
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 6,548,000 shares are held directly 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.

Save as disclosed above, as at 31 March 2012, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTIONS

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

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentive or rewards for their contributions to the Group.

The Share Option Scheme is available to, at the discretion of the Directors, any employee (whether full time or part time, including any executive directors) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds any equity interest; any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiary or any Invested Entity; any supplier of goods or services to any member of the Group or any Invested Entity; any customer of the Group or any Invested Entity; and any consultants, advisers, managers, officers or entities that provide research, development or other technological support to the Group or any Invested Entity.

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised at any time under the Share Option Scheme and any other share option scheme of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not exceed 10% of the shares of the Company in issue on 12 March 2003, the date of the Company being listed on the Main Board of the Stock Exchange (the "Scheme Mandate Limit"). The Scheme Mandate Limit was refreshed on 5 September 2006. Upon refreshing of the Scheme Mandate Limit, the Company may grant options up to a maximum of 31,850,000 shares, representing 10% of the shares in issue of the Company as at 5 September 2006.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company to each participants in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to shareholders' approval at general meeting of the Company with such participant and his associates abstaining from voting.

An option may be accepted by a participant at a nominal consideration of HK$1 within 28 days from the date of the offer of grant of the options. The subscription price for shares under the Share Option Scheme will be a price determined by the Directors but shall not be less than the highest of (i) the nominal value of shares; (ii) the closing price of one share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of option, which shall be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of acceptance of the offer of the grant of the options but shall end and in any event not later than ten years from the date on which the offer for grant of the option is made subject to the provisions of early termination thereof.

The following table discloses movement in the Company's share options during the year.

Name or category of participant		Date of grant	Outstanding as at 1 April 2011 and 31 March 2012	Exercisable period	Exercise price per share
(a)	**Executive directors**				
	Chan King Hong Edwin	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
		22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.57
	Chan King Yuen Stanley	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
		22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.57
	Chan Wai Po Rebecca	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
		22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.57
(b)	**Employees, in aggregate**	26 May 2003	60,000	26 May 2003 – 25 May 2013	0.58
		24 Sept 2003	6,362,400	24 Sept 2003 – 23 Sept 2013	0.83
		22 July 2009	3,000,000	22 July 2009 – 21 July 2019	0.57
(c)	**Others, in aggregate**	26 May 2003	3,000,000	26 May 2003 – 25 May 2013	0.58
	Total		48,066,000		

Note: All the options were immediately vested upon granted.

No share option of the Company was granted, exercised, cancelled or lapsed during the year.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares and underlying shares" and "Share option" above, at no time during the year 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	26%
– five largest suppliers combined	49%
Sales	
– the largest customer	10%
– five largest customers combined	36%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers stated above.

CONNECTED TRANSACTIONS

No significant connected transactions were entered into by the Group during the year ended 31 March 2012, which constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

CORPORATE GOVERNANCE

In the opinion of the directors of the Company, the Company has complied throughout the year ended 31 March 2012 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

DONATIONS

During the year, the Group made charitable donations amounting to HK$4,200.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the requirements as set out in the Listing Rules for the purposes of reviewing and supervising the financial reporting process and internal controls of the Group. The audit committee currently comprises Mr. Fong Pui Sheung David (Chairman), Ms. Chau Cynthia Sin Ha, and Mr. Or Kam Chung Janson. The audit committee has reviewed and discussed with the management and the external auditor the financial reporting matters including the annual results for the year ended 31 March 2012.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Chan King Hong Edwin
Chairman

Hong Kong, 28 June 2012

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TO THE SHAREHOLDERS OF CHANCO INTERNATIONAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Chanco International Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 77, which comprise the consolidated and company statements of financial position as at 31 March 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Wong Chi Wai
Practising Certificate Number P04945

Hong Kong, 28 June 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	7	**196,001**	222,277
Cost of sales		**(135,259)**	(149,651)
Gross profit		**60,742**	72,626
Other income and gains		**6,314**	2,118
Selling and distribution costs		**(27,792)**	(24,774)
Administrative and other operating expenses		**(30,791)**	(29,917)
Profit before income tax expense	8	**8,473**	20,053
Income tax expense	11	**(1,493)**	(3,143)
Profit for the year attributable to owners of the Company	12	**6,980**	16,910
Other comprehensive income			
Change in fair value of available-for-sale investments		**(1,060)**	173
Exchange differences arising on translation of financial statements of operations outside Hong Kong		**1,190**	1,495
Other comprehensive income for the year		**130**	1,668
Total comprehensive income for the year attributable to owners of the Company		**7,110**	18,578
Earnings per share	13		
– Basic		**HK2.19 cents**	HK5.30 cents
– Diluted		**HK2.19 cents**	HK5.30 cents

Consolidated Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	*14*	**7,973**	8,429
Available-for-sale investments	*16*	**5,349**	5,333
Held-to-maturity investment		**1,524**	–
Rental deposits		**2,403**	1,934
		17,249	15,696
Current assets			
Inventories	*17*	**86,097**	55,158
Trade and bills receivables	*18*	**25,034**	20,944
Other receivables, deposits and prepayments		**3,186**	3,666
Tax recoverable		**900**	370
Structured bank deposit	*19*	**5,536**	–
Cash and cash equivalents		**180,597**	214,586
		301,350	294,724
Current liabilities			
Trade payables	*21*	**11,131**	7,463
Other payables and accrued charges		**15,832**	15,835
Current tax liabilities		**555**	539
		27,518	23,837
Net current assets		**273,832**	270,887
Total assets less current liabilities		**291,081**	286,583
Non-current liabilities			
Deferred tax liabilities	*22*	**61**	123
Total net assets		**291,020**	286,460
Capital and reserves attributable to owners of the Company			
Share capital	*23*	**3,188**	3,188
Reserves		**287,832**	283,272
Total equity		**291,020**	286,460

On behalf of the Board

Chan King Hong Edwin
Executive Director

Chan King Yuen Stanley
Executive Director

Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Assets			
Non-current assets			
Investments in subsidiaries	15	**48,181**	48,181
Available-for-sale investments	16	**5,349**	5,333
Held-to-maturity investment		**1,524**	–
		55,054	53,514
Current assets			
Other receivables		**158**	131
Amounts due from subsidiaries	20	**26,829**	24,891
Cash and cash equivalents		**7,958**	11,825
		34,945	36,847
Liabilities			
Current liabilities			
Accrued charges and other payables		**39**	16
Net current assets		**34,906**	36,831
Total net assets		**89,960**	90,345
Capital and reserves attributable to owners of the Company			
Share capital	23	**3,188**	3,188
Reserves	25	**86,772**	87,157
Total equity		**89,960**	90,345

On behalf of the Board

Chan King Hong Edwin
Executive Director

Chan King Yuen Stanley
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

	Share capital	Share premium	Share option reserve	Foreign exchange reserve	Statutory and discretionary reserves	Available-for-sale investments reserve	Retained earnings	Proposed dividends	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (*Note*)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2010	3,188	32,608	4,904	2,776	888	244	223,274	4,463	272,345
Profit for the year	–	–	–	–	–	–	16,910	–	16,910
Other comprehensive income for the year	–	–	–	1,495	–	173	–	–	1,668
Total comprehensive income for the year	–	–	–	1,495	–	173	16,910	–	18,578
2010 final dividend paid	–	–	–	–	–	–	–	(4,463)	(4,463)
2011 proposed final dividend	–	–	–	–	–	–	(2,550)	2,550	–
	–	–	–	1,495	–	173	14,360	(1,913)	14,115
At 31 March 2011 and 1 April 2011	3,188	32,608	4,904	4,271	888	417	237,634	2,550	286,460
Profit for the year	–	–	–	–	–	–	6,980	–	6,980
Other comprehensive income for the year	–	–	–	1,190	–	(1,060)	–	–	130
Total comprehensive income for the year	–	–	–	1,190	–	(1,060)	6,980	–	7,110
2011 final dividend paid	–	–	–	–	–	–	–	(2,550)	(2,550)
	–	–	–	1,190	–	(1,060)	6,980	(2,550)	4,560
At 31 March 2012	3,188	32,608	4,904	5,461	888	(643)	244,614	–	291,020

Note:

The statutory and discretionary reserves are non-distributable and the transfer to these reserves are determined by the board of directors and in accordance with the relevant laws and regulations of the People's Republic of China (the "PRC"). These reserves can be used to offset accumulated losses, expand the scale of production and business and increase capital of a subsidiary in the PRC upon approval from the relevant authorities.

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	2012 HK$'000	2011 HK$'000
Cash flows from operating activities		
Profit before income tax expense	**8,473**	20,053
Adjustments for:		
Interest income	**(3,308)**	(1,574)
Dividend income from available-for-sale investments	**(194)**	(130)
Depreciation of property, plant and equipment	**2,061**	2,215
Loss on disposal of property, plant and equipment	**208**	36
Impairment loss on trade receivables	**11**	1
Write-down of inventories	**695**	1,445
Operating profit before working capital changes	**7,946**	22,046
(Increase)/decrease in rental deposits	**(469)**	348
(Increase)/decrease in inventories	**(31,492)**	12,423
Increase in trade and bills receivables	**(3,963)**	(1,171)
Decrease/(increase) in other receivables, deposits and prepayments	**488**	(1,059)
Increase/(decrease) in trade payables	**3,654**	(2,159)
(Decrease)/increase in other payables and accrued charges	**(47)**	853
Cash (used in)/generated from operations	**(23,883)**	31,281
Hong Kong Profits Tax paid	**(976)**	(1,396)
PRC Enterprise Income Tax paid	**(1,107)**	(1,834)
Net cash (used in)/from operating activities	**(25,966)**	28,051
Cash flows from investing activities		
Purchases of property, plant and equipment	**(1,816)**	(1,789)
Purchase of available-for-sale investments	**(1,054)**	(890)
Purchase of held-to-maturity investment	**(1,524)**	–
Purchase of structured bank deposit	**(5,475)**	–
Proceeds from disposal of property, plant and equipment	**12**	–
Interest received	**3,308**	1,574
Dividend received from available-for-sale investments	**172**	21
Net cash used in investing activities	**(6,377)**	(1,084)
Cash flows from financing activities		
Dividends paid	**(2,550)**	(4,463)
Net cash used in financing activities	**(2,550)**	(4,463)
Net (decrease)/increase in cash and cash equivalents	**(34,893)**	22,504
Cash and cash equivalents at beginning of year	**214,586**	190,885
Effect of exchange rate changes on cash and cash equivalents	**904**	1,197
Cash and cash equivalents at end of year	**180,597**	214,586

1. GENERAL

Chanco International Group Limited (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. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report. The Group, comprising the Company and its subsidiaries, is engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) *Adoption of new/revised HKFRSs – effective 1 April 2011*

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

The adoption of these new/revised standards and interpretations has no material impact on the Group's financial statements.

(b) *New/revised HKFRSs that have been issued but are not yet effective*

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosure – Offsetting Financial Assets and Financial Liabilities[3]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[5]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[2]
Amendments to HKAS 32	Presentation of Offsetting Financial Assets and Financial Liabilities[4]
HKFRS 9	Financial Instruments[5]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 12	Disclosures of Interests in Other Entities[3]
HKFRS 13	Fair Value Measurement[3]
HKAS 27 (2011)	Separate Financial Statements[3]
Annual Improvements Projects	Annual Improvements 2009-2011 Cycle[3]

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

(b) *New/revised HKFRSs that have been issued but are not yet effective (Continued)*

[1] Effective for annual periods beginning on or after 1 July 2011

[2] Effective for annual periods beginning on or after 1 July 2012

[3] Effective for annual periods beginning on or after 1 January 2013

[4] Effective for annual periods beginning on or after 1 January 2014

[5] Effective for annual periods beginning on or after 1 January 2015

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

3. BASIS OF PREPARATION

(a) *Statement of compliance*

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) *Basis of measurement*

The financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

(c) *Functional and presentation currency*

The financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

(b) *Subsidiaries*

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value using reducing balance method at the following principal annual rates:

Plant and machinery	–	30%
Furniture and fixtures	–	20%
Leasehold improvements	–	Annual rates as determined by shorter of expected useful lives and the unexpired period of the leases
Motor vehicles	–	30%

The annual rates, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(d) *Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) *Financial instruments*

(i) *Financial assets*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets, including rental deposits, trade and bills receivables, other receivables, deposits, structured bank deposit, cash and cash equivalents, and amounts due from subsidiaries, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers, and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Held-to-maturity investments

These assets 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. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) *Financial instruments* *(Continued)*

(i) *Financial assets* *(Continued)*

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available for sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

(ii) *Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

For loans and receivables or held-to-maturity investments

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

For available-for-sale equity investments, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

(iii) Financial liabilities

Financial liabilities at amortised cost, including trade payables, other payables and accrued charges, are initially measured at fair value, net of directly attributable costs incurred, and are subsequently measured at amortised cost, using effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments (Continued)

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(f) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

(g) Revenue recognition

Revenue comprise the fair value of the consideration received or receivable for the sales of goods and the use of the Group's assets yielding interest and dividend, net of rebate and discounts. Provided it is probable that the economic benefit will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follow:

Revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend income is recognised when the right to receive the dividend is established.

(h) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) *Income taxes* *(Continued)*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(i) *Foreign currency*

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operations concerned are reclassified to other comprehensive income and accumulated in equity as the foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to profit or loss as part of the profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) *Employee benefits*

(i) *Defined contribution retirement plans*

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(ii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iii) *Employee entitlements*

Employee entitlements to annual leave and statutory long service payments due on retirement or termination are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the end of reporting period. The estimated liability is calculated net of expected reduction from benefits available from the Mandatory Provident Fund in Hong Kong or other equivalent funds in the PRC.

Employee entitlements to sick leave and other non-accumulated short-term compensated absences are not recognised until the time of leave.

(k) *Share based payments*

Where share options are awarded to employees, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment and investments in subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the statement of financial position. Final dividends are recognised as a liability when they are approved by the shareholders.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(a) *Critical judgements in applying accounting policies*

Held-to-maturity investments

The Group classifies financial assets as held-to-maturity investments when it has a positive intention and ability to hold the investments to maturity. Directors exercise judgement based on the Group's treasury objective and financial risk management policy to determine whether the financial assets are to be classified as held-to-maturity.

Impairment of available-for-sale investments

The directors review available-for-sale investments at the end of each reporting period to assess whether they are impaired. The Group records impairment loss on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgement. In making this judgement, the directors evaluate, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

(b) *Key sources of estimation uncertainty*

The following are the key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year:

Write-down of inventories

The management of the Company estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each reporting period and makes allowance on obsolete and slow moving items to write down inventories to their net realisable values. Where the subsequent estimated net realisable value of inventories is less than the original estimate, a material write-down may arise.

Impairment loss on trade receivables

Impairment loss on trade receivables is made based on the evaluation of collectability and ageing analysis of accounts and on directors' judgement by reference to the estimation of the future cash flow discounted at an original effective interest rate to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. SEGMENT REPORTING

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

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

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

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

(a) Reportable segments

	Manufacturing business		**Retail business**		**Total**	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**141,503**	178,847	**54,498**	43,430	**196,001**	222,277
Inter-segment revenue	**3,079**	947	**13**	33	**3,092**	980
Reportable segment revenue	**144,582**	179,794	**54,511**	43,463	**199,093**	223,257
Reportable segment profit	**3,520**	17,079	**2,065**	2,164	**5,585**	19,243
Depreciation of property, plant and equipment	**776**	954	**905**	794	**1,681**	1,748
Reportable segment assets	**147,225**	118,822	**38,894**	21,836	**186,119**	140,658
Additions to property, plant and equipment	**37**	66	**1,696**	1,301	**1,733**	1,367
Reportable segment liabilities	**23,584**	21,866	**3,338**	1,416	**26,922**	23,282

6. SEGMENT REPORTING *(Continued)*

(b) *Reconciliation of reportable segment revenues, profit, assets and liabilities*

	2012	2011
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**199,093**	223,257
Elimination of inter-segment revenue	**(3,092)**	(980)
Consolidated revenue	**196,001**	222,277
Profit before income tax expense		
Reportable segment profit	**5,585**	19,243
Elimination of inter-segment (profits)/losses	**(97)**	138
Interest income	**3,308**	1,574
Dividend income from available-for-sale investments	**194**	130
Unallocated other income and gains	**516**	64
Unallocated corporate expenses	**(1,033)**	(1,096)
Consolidated profit before income tax expense	**8,473**	20,053
Depreciation of property, plant and equipment		
Reportable segment depreciation	**1,681**	1,748
Depreciation of unallocated property, plant and equipment	**380**	467
Consolidated depreciation of property, plant and equipment	**2,061**	2,215
Additions to property, plant and equipment		
Reportable segment additions	**1,733**	1,367
Unallocated additions to property, plant and equipment	**83**	422
Consolidated additions to property, plant and equipment	**1,816**	1,789
Assets		
Reportable segment assets	**186,119**	140,658
Available-for-sale investments	**5,349**	5,333
Held-to-maturity investment	**1,524**	–
Tax recoverable	**900**	370
Unallocated corporate cash and cash equivalents	**122,753**	161,833
Other unallocated corporate assets	**1,954**	2,226
Consolidated total assets	**318,599**	310,420
Liabilities		
Reportable segment liabilities	**26,922**	23,282
Current tax liabilities	**555**	539
Deferred tax liabilities	**61**	123
Unallocated corporate liabilities	**41**	16
Consolidated total liabilities	**27,579**	23,960

6. SEGMENT REPORTING *(Continued)*

(c) *Geographical information*

The following table provides an analysis of the Group's revenue from external customers and non-current assets other than financial instruments, i.e. property, plant and equipment.

	Revenue from external customers *(Note)*		**Property, plant and equipment**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**71,925**	62,645	**3,542**	3,267
Europe	**53,395**	60,245	**–**	–
Japan	**3,782**	28,544	**–**	–
The United States of America	**16,638**	24,029	**–**	–
PRC	**17,361**	17,631	**4,431**	5,162
Other countries	**32,900**	29,183	**–**	–
Total	**124,076**	159,632	**4,431**	5,162
	196,001	222,277	**7,973**	8,429

Note: Revenues are attributed to countries on the basis of the customer's location.

(d) *Information about major customers*

Revenue from major customers of the Group's manufacturing business segment, each of them account for 10% or more of the Group's revenue, are set out below:

	2012	2011
	HK$'000	*HK$'000*
Customer A	**–**	29,487
Customer B	**–**	22,998
Customer C	**19,983**	–

7. TURNOVER

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 year.

8. PROFIT BEFORE INCOME TAX EXPENSE

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

	2012	2011
	HK$'000	HK$'000
Auditor's remuneration	447	430
Cost of inventories recognised as expenses	135,259	149,651
Staff costs, excluding directors' emoluments *(note 9)*	20,623	18,856
Depreciation of property, plant and equipment	2,061	2,215
Loss on disposal of property, plant and equipment	208	36
Impairment loss on trade receivables	11	1
Write-down of inventories	695	1,445
Foreign exchange gain, net	(2,647)	(64)
Interest income	(3,308)	(1,574)
Dividend income from available-for-sale investments	(194)	(130)

9. STAFF COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	2012	2011
	HK$'000	HK$'000
Salaries and other benefits	19,768	18,066
Retirement benefits scheme contributions	855	790
	20,623	18,856

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	2012	2011
	HK$'000	HK$'000
Directors' fees	150	150
Other emoluments:		
Salaries and other benefits	6,138	5,658
Discretionary bonuses	1,600	2,000
Retirement benefits scheme contributions	60	60
	7,948	7,868

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) *Directors' emoluments* *(Continued)*

Details of directors' emoluments for the year ended 31 March 2012 are as follows:

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2012					
Executive directors:					
Chan King Hong Edwin	**–**	**2,088**	**640**	**24**	**2,752**
Chan King Yuen Stanley	**–**	**2,088**	**640**	**24**	**2,752**
Chan Wai Po Rebecca	**–**	**1,962**	**320**	**12**	**2,294**
Independent non-executive directors:					
Chau Cynthia Sin Ha	**50**	**–**	**–**	**–**	**50**
Fong Pui Sheung David	**50**	**–**	**–**	**–**	**50**
Or Kam Chung Janson	**50**	**–**	**–**	**–**	**50**
Total	**150**	**6,138**	**1,600**	**60**	**7,948**
2011					
Executive directors:					
Chan King Hong Edwin	–	1,926	800	24	2,750
Chan King Yuen Stanley	–	1,926	800	24	2,750
Chan Wai Po Rebecca	–	1,806	400	12	2,218
Independent non-executive directors:					
Chau Cynthia Sin Ha	50	–	–	–	50
Fong Pui Sheung David	50	–	–	–	50
Or Kam Chung Janson	50	–	–	–	50
Total	150	5,658	2,000	60	7,868

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) *Directors' emoluments* *(Continued)*

No directors waived any emoluments during the years ended 31 March 2012 and 2011.

The discretionary bonuses are determined by reference to the financial performance of the Group and the performance of the individual director for each financial year.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year include three (2011: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2011: two) individuals are as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries and other benefits	**1,766**	1,725
Discretionary bonuses	**77**	77
Retirement benefits scheme contributions	**24**	24
	1,867	1,826

The emoluments of each of the remaining individuals were below HK$1,000,000 for the years ended 31 March 2012 and 2011.

During the years ended 31 March 2012 and 2011, no emolument was paid to the directors or any of the five highest paid individuals as an inducement to join or upon joining by the Group or as compensation for loss of office.

11. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2012	2011
	HK$'000	HK$'000
Current tax – Hong Kong Profits Tax		
– tax for the year	349	1,568
– overprovision in respect of prior years	(71)	(1)
	278	1,567
Current tax – PRC Enterprise Income Tax		
– tax for the year	1,277	1,533
– underprovision in respect of prior years	–	69
	1,277	1,602
Deferred tax *(note 22)*		
– current year	(62)	(26)
Income tax expense	1,493	3,143

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the year.

The PRC Enterprise Income Tax rate for the Company's subsidiary in the PRC is 25% (2011: 25%).

11. INCOME TAX EXPENSE *(Continued)*

The income tax expense for the year can be reconciled to the profit before income tax expense per the consolidated statement of comprehensive income as follows:

	2012	2011
	HK$'000	*HK$'000*
Profit before income tax expense	**8,473**	20,053
Tax calculated at Hong Kong Profits Tax rate of 16.5% (2011: 16.5%)	**1,398**	3,309
Tax effect of expenses not deductible for tax purpose	**10,739**	12,721
Tax effect of income not taxable for tax purpose	**(11,178)**	(13,546)
(Over)/under provision in respect of prior years	**(71)**	68
Effect of different tax rate of a subsidiary operating in other jurisdiction	**434**	480
Tax effect of deductible temporary difference not recognised	**(28)**	39
Tax effect of tax losses not recognised	**178**	–
Utilisation of tax losses previously not recognised	**–**	(43)
Others	**21**	115
Income tax expense	**1,493**	3,143

12. PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group's profit for the year attributable to owners of the Company includes an amount of approximately HK$225,000 (2011: HK$6,098,000) which has been dealt with in the financial statements of the Company.

13. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit for the year attributable to owners of the Company of approximately HK$6,980,000 (2011: HK$16,910,000) and weighted average number of 318,804,000 (2011: 318,804,000) ordinary shares in issue during the year.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices of those options are higher than the average market price for shares for both years ended 31 March 2012 and 2011.

14. PROPERTY, PLANT AND EQUIPMENT

The Group	Plant and machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1 April 2011	**9,032**	**5,446**	**11,969**	**1,834**	**28,281**
Additions	**–**	**321**	**1,495**	**–**	**1,816**
Disposals	**(24)**	**(55)**	**(735)**	**–**	**(814)**
Exchange realignment	**66**	**4**	**–**	**11**	**81**
At 31 March 2012	**9,074**	**5,716**	**12,729**	**1,845**	**29,364**
Accumulated depreciation					
At 1 April 2011	**8,252**	**3,931**	**6,449**	**1,220**	**19,852**
Depreciation	**235**	**353**	**1,289**	**184**	**2,061**
Eliminated on disposals	**(24)**	**(19)**	**(551)**	**–**	**(594)**
Exchange realignment	**61**	**2**	**–**	**9**	**72**
At 31 March 2012	**8,524**	**4,267**	**7,187**	**1,413**	**21,391**
Net book value					
At 31 March 2012	**550**	**1,449**	**5,542**	**432**	**7,973**
Cost					
At 1 April 2010	8,930	4,986	11,169	1,819	26,904
Additions	11	513	1,265	–	1,789
Disposals	–	(58)	(465)	–	(523)
Exchange realignment	91	5	–	15	111
At 31 March 2011	9,032	5,446	11,969	1,834	28,281
Accumulated depreciation					
At 1 April 2010	7,838	3,600	5,643	947	18,028
Depreciation	332	362	1,259	262	2,215
Eliminated on disposals	–	(34)	(453)	–	(487)
Exchange realignment	82	3	–	11	96
At 31 March 2011	8,252	3,931	6,449	1,220	19,852
Net book value					
At 31 March 2011	780	1,515	5,520	614	8,429

15. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2012	2011
	HK$'000	*HK$'000*
Unlisted shares, at cost	**48,181**	48,181

Details of the Company's subsidiaries at 31 March 2012 are as follows:

Name	Place of incorporation or establishment/ operations	Issued share capital/paid-up registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Chanco International Holding Limited	British Virgin Islands/ Hong Kong	Ordinary shares US$1,000	100%		Investment holding
Sun Ray Manufactory, Limited	Hong Kong	Non-voting deferred shares HK$6 Ordinary shares HK$2		100%	Manufacturing and trading of leather products
Elite Leatherware Company Limited	Hong Kong	Ordinary shares HK$10,000		100%	Trading of leather products
Talent Union Development Limited	British Virgin Islands/ Hong Kong	Ordinary shares US$8		100%	Investment holding
Dongguan Ngai Luen Leather Goods Company Limited *(Note)*	PRC	Registered capital HK$2,000,000		100%	Manufacturing and trading of leather products
Amid Success Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary shares US$1		100%	Investment holding
Urban Stranger Company Limited	Hong Kong	Ordinary shares HK$1		100%	Retail of fashion apparel, footwear and leather accessories

Note: The subsidiary is a wholly foreign-owned enterprise in the PRC.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

16. AVAILABLE-FOR-SALE INVESTMENTS

	The Group and the Company	
	2012	2011
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value	**5,349**	5,333

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

17. INVENTORIES

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Raw materials	**48,180**	38,232
Work in progress	**5,578**	3,971
Finished goods	**32,339**	12,955
	86,097	55,158

18. TRADE AND BILLS RECEIVABLES

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Trade and bills receivables	**25,632**	21,591
Less: impairment loss	**(598)**	(647)
	25,034	20,944

18. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Less than 30 days	**16,504**	10,838
31 to 60 days	**2,788**	2,816
61 to 90 days	**2,560**	3,600
91 to 120 days	**760**	420
121 to 365 days	**2,334**	3,192
More than 365 days	**88**	78
	25,034	20,944

The ageing of trade and bills receivables which are past due but not impaired is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Less than 30 days past due	**4,904**	4,869
31 – 60 days past due	**2,093**	5,716
61 – 90 days past due	**862**	1,631
91 – 120 days past due	**823**	149
121 – 365 days past due	**1,533**	83
Over 365 days past due	**–**	78
	10,215	12,526

Receivables that were neither past due nor impaired related to customers for whom there was no recent history of default. Receivables that were past due but not impaired related to customers that have good creditworthiness or good track record with the Group. Based on past experience, the management considered no impairment is necessary as there has not been a significant change in credit quality of these balances, which are still considered fully recoverable.

18. TRADE AND BILLS RECEIVABLES *(Continued)*

The movement in the impairment loss on trade and bills receivables during the year is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
At beginning of the year	**647**	646
Impairment loss recognised	**11**	3
Reversal of impairment loss previously recognised	**–**	(2)
Bad debts written off	**(60)**	–
At end of the year	**598**	647

The Group recognised impairment loss on individual assessment based on the accounting policy stated in note 4(e)(ii).

19. STRUCTURED BANK DEPOSIT

As at 31 March 2012, the Group has placed to a bank a structured bank deposit for a term of 91 days. Pursuant to the relevant underlying agreement, the structured bank deposit matures on 9 April 2012 and carries interest at a variable rate from 0% to 5% per annum with reference to the performance of the underlying investments during the investment period, and its principal sum is denominated in Renminbi ("RMB") and guaranteed by the bank. In addition, the bank has a call option to early terminate the structured bank deposit by repaying the principal sum and the interest, if any, up to the date of termination. The fair value of these embedded derivatives as at 31 March 2012 is insignificant.

20. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

21. TRADE PAYABLES

The ageing analysis of trade payables at the end of reporting period is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Less than 30 days	**7,234**	3,126
31 to 60 days	**2,745**	2,361
61 to 90 days	**181**	1,454
91 to 120 days	**377**	251
121 to 365 days	**497**	102
More than 365 days	**97**	169
	11,131	7,463

22. DEFERRED TAX LIABILITIES

The following are the deferred tax liabilities recognised by the Group and movements thereof:

	Accelerated tax depreciation
	HK$'000
At 1 April 2010	149
Credit to consolidated statement of comprehensive income for the year *(note 11)*	(26)
At 31 March 2011 and 1 April 2011	123
Credit to consolidated statement of comprehensive income for the year *(note 11)*	(62)
At 31 March 2012	61

At 31 March 2012, the Group had deductible temporary difference of approximately HK$1,156,000 (2011: HK$1,540,000) and unused tax losses of HK$1,078,000 (2011: Nil). The deductible temporary difference and unused tax losses can be carried forward indefinitely. No deferred tax asset has been recognised in relation to such deductible temporary difference and unused tax losses as it is not probable that taxable profit will be available against which the deductible temporary difference and unused tax losses can be utilised.

22. DEFERRED TAX LIABILITIES *(Continued)*

No deferred tax liability has been recognised on temporary difference of approximately HK$17,850,000 (2011: HK$13,732,000) relating to the undistributed earnings of the subsidiary in the PRC because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not reverse in the foreseeable future.

At 31 March 2012, the Group and the Company did not have other material unrecognised deferred tax assets and liabilities (2011: Nil).

23. SHARE CAPITAL

(a) *Authorised and issued share capital*

	The Company	
	Number of shares	**Amount**
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 April 2010, 31 March 2011, 1 April 2011 and 31 March 2012	2,000,000,000	20,000
Issued and fully paid:		
At 1 April 2010, 31 March 2011, 1 April 2011 and 31 March 2012	318,804,000	3,188

(b) *Capital management policy*

The Group regards the share capital and reserves attributable to owners of the Company as its capital which amounts to HK$291,020,000 (2011: HK$286,460,000) as shown in the consolidated statement of financial position as at 31 March 2012. The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may raise bank borrowings and adjust the amount of dividends paid to shareholders.

No changes were made in the objectives or policies during the year.

24. SHARE OPTIONS

Under the share option scheme (the "Share Option Scheme") approved by the shareholders on 18 February 2003, the directors of the Company may, at its discretion, invite non-executive directors, employees, invested entities, suppliers of goods or services, customers, consultants and advisors of the Group or any entity in which any member of the Group holds any equity interest to take up options to subscribe for shares in the Company representing up to a maximum of 30 per cent of the issued share capital of the Company from time to time.

The subscription price for the shares in relation to options to be granted under the Share Option Scheme shall be determined by the board and shall be at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares on the date of grant (the "Offer Date"); and (iii) the average closing price of the shares for the five business days immediately preceding the Offer Date. The options are exercisable within 10 years from the Offer Date.

The following table discloses particulars of the Company's share options outstanding as at 31 March 2011 and 2012.

Name or category of Participant		Date of grant	Number of options outstanding as at 31 March 2011 and 2012	Exercisable period	Exercise price per share
					HK$
(a)	**Executive directors**				
	Chan King Hong Edwin	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
		22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.57
	Chan King Yuen Stanley	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
		22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.57
	Chan Wai Po Rebecca	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	0.83
		22 July 2009	8,700,000	22 July 2009 – 21 July 2019	0.57
			35,643,600		
(b)	**Employees, in aggregate**	26 May 2003	60,000	26 May 2003 – 25 May 2013	0.58
		24 Sept 2003	6,362,400	24 Sept 2003 – 23 Sept 2013	0.83
		22 July 2009	3,000,000	22 July 2009 – 21 July 2019	0.57
			9,422,400		
(c)	**Others, in aggregate**	26 May 2003	3,000,000	26 May 2003 – 25 May 2013	0.58
Total			48,066,000		
Weighted average exercise price			HK$0.657		

24. SHARE OPTIONS *(Continued)*

The weighted average remaining contractual life of the options outstanding at 31 March 2012 is 4.99 years (2011: 5.99 years).

Note:

The Group has taken the advantage of the transitional provisions of HKFRS 2 in respect of the above equity-settled awards for the share options granted and immediately vested before 1 January 2005. As a result the HKFRS 2 has not been applied.

No options have been granted, lapsed or exercised during the years ended 31 March 2012 and 31 March 2011.

25. RESERVES

The Company	Share premium	Share option reserve	Available-for-sale investments reserve	(Accumulated losses)/ retained earnings	Proposed dividends	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2010	80,779	4,904	244	(5,041)	4,463	85,349
Profit for the year	–	–	–	6,098	–	6,098
Change in fair value of available-for-sale investments	–	–	173	–	–	173
2010 final dividend paid	–	–	–	–	(4,463)	(4,463)
2011 proposed final dividend	–	–	–	(2,550)	2,550	–
At 31 March 2011 and 1 April 2011	**80,779**	**4,904**	**417**	**(1,493)**	**2,550**	**87,157**
Profit for the year	**–**	**–**	**–**	**3,225**	**–**	**3,225**
Change in fair value of available-for-sale investments	**–**	**–**	**(1,060)**	**–**	**–**	**(1,060)**
2011 final dividend paid	**–**	**–**	**–**	**–**	**(2,550)**	**(2,550)**
At 31 March 2012	**80,779**	**4,904**	**(643)**	**1,732**	**–**	**86,772**

25. RESERVES *(Continued)*

The following describes the nature and purpose of each reserve within owners' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Share option reserve	Cumulative expenses recognised on the granting of share options to participant over the vesting period.
Available-for-sale investments reserve	Fair value changes arising on recognising financial assets classified as available-for-sale at fair value.
(Accumulated losses)/ retained earnings	Cumulative net gains and losses recognised in profit or loss.

26. DIVIDENDS

	2012	2011
	HK$'000	*HK$'000*
Proposed final dividend of HK$ Nil (2011: HK$0.008) per ordinary share	–	2,550

No dividend was paid or proposed during the year end 31 March 2012, nor has any dividend been proposed since the end of reporting period (2011: proposed final dividend of HK$2,550,000).

For the year ended 31 March 2011, the amount of proposed final dividend is based on 318,804,000 shares in issue as at 29 June 2011. The proposed dividends were not reflected as a dividend payable in the financial statements, but were reflected as an appropriation of retained earnings for the year ended 31 March 2011.

27. CONTINGENT LIABILITIES

At 31 March 2012, the Company issued a guarantee to banks in respect of general facilities granted to its subsidiaries to the extent of HK$15,000,000 (2011: HK$15,000,000) and the facilities have not been utilised by the subsidiaries (2011: nil). The Company has not recognised any deferred income in respect of the guarantee as its fair value cannot be reliably measured and its transaction price was nil.

27. CONTINGENT LIABILITIES *(Continued)*

In addition, the Company issued guarantees to landlords in respect of the lease agreements entered into by a subsidiary for certain retail outlets. At 31 March 2012, there were no rental payables by the subsidiary under these lease agreements (2011: nil) and the non-cancellable future minimum lease payment under these lease agreements was approximately HK$8,942,000 (2011: HK$16,502,000).

28. OPERATING LEASES

Operating lease payments represent rental payable by the Group for its offices, retail outlets and production plants. Leases are negotiated and rentals are fixed for an average term of one to three years (2011: one to five years), and the leases for certain retail outlets include contingent rents, which are determined by applying pre-determined percentages to sales less the basic rentals of the respective leases.

The lease payments recognised as expenses during the year are as follows:

	2012	2011
	HK$'000	*HK$'000*
Minimum lease payments	**17,678**	17,739
Contingent rents	**925**	440
	18,603	18,179

The total future minimum lease payments are due as follows:

	2012	2011
	HK$'000	*HK$'000*
Not later than one year	**9,968**	13,765
Later than one year and not later than five years	**4,901**	6,425
	14,869	20,190

The above lease commitments only include commitments for basic rentals, and do not include commitments for contingent rents, if any, as it is not possible to determine in advance the amount of such additional rentals.

29. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2012	2011
	HK$'000	*HK$'000*
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	**600**	572

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 year was as follows:

	2012	2011
	HK$'000	*HK$'000*
Short-term benefits	**11,820**	11,657
Post employment benefits	**120**	120
	11,940	11,777

30. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

31. FINANCIAL RISK MANAGEMENT

Exposure to currency, interest rate, credit and liquidity risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its available-for-sale investments.

These risks are limited by the Group's financial management policies and practices described below.

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, mainly denominated in United States Dollars ("USD"), RMB and Euro, which expose the Group to currency risk. Certain financial assets and liabilities of the Group are also denominated in 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 carrying amounts of the Group's financial instruments denominated in RMB and Euro at the end of reporting period are as follows:

	Liabilities		**Assets**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**14,525**	12,557	**110,509**	35,219
Euro	**1**	–	**6,534**	10,217

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.

31. FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The following table indicates the approximate change in the Group's profit for the year and retained earnings in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

	2012		2011	
	Appreciation/ (depreciation) of foreign exchange rates against HK$	**Increase/ (decrease) in profit for the year and retained earnings**	Appreciation/ (depreciation) of foreign exchange rates against HK$	Increase/ (decrease) in profit for the year and retained earnings
	%	***HK$'000***	%	*HK$'000*
RMB	**4%**	**3,887**	4%	948
	(4%)	**(3,887)**	(4%)	(948)
Euro	**9%**	**545**	9%	865
	(9%)	**(545)**	(9%)	(865)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period and had been applied to each of the group entities; exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. The analysis is performed on the same basis for the year ended 31 March 2011.

31. FINANCIAL RISK MANAGEMENT *(Continued)*

(ii) Interest rate risk

The Group's exposure to cash flow interest rate risk is mainly attributable to its interest-bearing bank deposits. The interest rate of bank deposits is subject to changes as determined by banks. The Group currently does not have an interest rate hedging policy and will consider to enter into interest rate hedging should the need arise.

At 31 March 2012, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have increased/decreased the profit for the year and retained earnings by approximately HK$292,000 (2011: HK$430,000).

(iii) Credit risk

The Group has policies in place to determine credit limit, credit approval and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts from customers. In this regard, the directors of the Company consider that the Group does not expose to significant credit risk.

The credit risk for bank deposits, held-to-maturity investment and structured bank deposit is limited because the counterparties are banks with high credit-ratings.

(iv) Liquidity risk

Internally generated cash flows are the general sources of funds to finance the operations of the Group. The Group's liquidity risk management includes making available standby banking facilities and maintaining adequate cash and cash equivalents for its operations. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Group's financial liabilities mature in less than one year and their contractual undiscounted payments approximate their carrying amount included in the statement of financial position.

(v) Equity price risk

The Group is exposed to equity price changes arising from equity instruments classified as available-for-sale investments. All of these investments are listed on the Stock Exchange of Hong Kong Limited. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

It is estimated that an increase or decrease of 15% (2011: 20%) in the prices of the respective equity instruments, with all other variables held constant, would have insignificant effect on the profit or other components of equity of the Group for the years ended 31 March 2012 and 2011.

31. FINANCIAL RISK MANAGEMENT *(Continued)*

(vi) Fair values

(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).

	The Group and the Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
2012				
Available-for-sale investments – Listed	**5,349**	**–**	**–**	**5,349**

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2011				
Available-for-sale investments – Listed	5,333	–	–	5,333

31. FINANCIAL RISK MANAGEMENT *(Continued)*

(vi) Fair values (Continued)

(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 value of the Group's financial assets and financial liabilities approximate their carrying amounts as at the end of each reporting period.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 June 2012.

Five Year Financial Summary

31 March 2012

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out as follows:

	2012	2011	2010	2009	2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Profit for the year	**6,980**	16,910	21,983	36,626	51,623
Assets and liabilities					
Total assets	**318,599**	310,420	297,809	272,391	257,104
Total liabilities	**(27,579)**	(23,960)	(25,464)	(25,382)	(34,042)
Total equity	**291,020**	286,460	272,345	247,009	223,062