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INTERIM REPORT  
**2012**

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**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)

## **CORPORATE INFORMATION**

### **DIRECTORS**

#### **Executive Directors**

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

#### **Independent Non-executive Directors**

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

### **COMPANY SECRETARY**

Lau Wai Hung *FCCA, CPA*

### **AUDIT COMMITTEE**

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

### **REMUNERATION COMMITTEE**

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

### **NOMINATION COMMITTEE**

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

### **REGISTERED OFFICE**

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

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

3rd Floor, Victory Industrial Building  
No. 151-157 Wo Yi Hop Road  
Kwai Chung  
New Territories  
Hong Kong

### **AUDITOR**

BDO Limited  
*Certified Public Accountants*

### **LEGAL ADVISER ON THE CAYMAN ISLANDS LAW**

Conyers Dill & Pearman

### **CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 609  
Grand Cayman, KY1-1107  
Cayman Islands

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

Computershare Hong Kong Investor  
Services Limited  
46th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### **PRINCIPAL BANKERS**

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

### **COMPANY WEBSITE**

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

### **STOCK CODE**

264

## FINANCIAL HIGHLIGHTS

	For the six months ended 30 September	
	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
<b>Operating results</b>		
Turnover	<b>92,133</b>	84,346
Gross profit	<b>21,587</b>	23,858
Loss before income tax expense	<b>(4,317)</b>	(1,934)
Loss for the period	<b>(4,944)</b>	(2,428)
<b>Business performance ratios</b>		
Gross profit margin	<b>23.4%</b>	28.3%
Net profit margin	<b>N/A</b>	N/A
Return on shareholders' equity	<b>N/A</b>	N/A
Current ratio	<b>12.42</b>	9.42
Quick ratio	<b>8.82</b>	6.93
<b>Share data</b>		
Shares in issue ('000)	<b>318,804</b>	318,804
Shares closing price (as at period end date)	<b>HK\$0.385</b>	HK\$0.400
Market capitalization (HK\$'000)	<b>122,740</b>	127,522
Loss per share	<b>(HK1.6 cent)</b>	(HK0.8 cent)
Interim dividend per share	<b>HK0.33 cent</b>	Nil
Net asset value per share	<b>HK\$0.90</b>	HK\$0.88

The Board of Directors (the “Directors”) of Chanco International Group Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2012 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

		<b>Six months ended 30 September</b>	
	<i>Notes</i>	<b>2012 Unaudited HK\$'000</b>	2011 Unaudited HK\$'000
Turnover	4	<b>92,133</b>	84,346
Cost of sales		<b>(70,546)</b>	(60,488)
Gross profit		<b>21,587</b>	23,858
Other income and gains		<b>2,311</b>	3,684
Selling and distribution costs		<b>(12,278)</b>	(14,041)
Administrative and other operating expenses		<b>(15,937)</b>	(15,435)
Loss before income tax expense	5	<b>(4,317)</b>	(1,934)
Income tax expense	6	<b>(627)</b>	(494)
Loss for the period attributable to owners of the Company		<b>(4,944)</b>	(2,428)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

		Six months ended 30 September	
	Notes	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
<b>Other comprehensive income</b>			
Change in fair value of available-for-sale investments		–	(2,011)
Exchange differences arising on translation of financial statements of operations outside Hong Kong		<b>(143)</b>	864
Other comprehensive income for the period		<b>(143)</b>	(1,147)
<b>Total comprehensive income for the period attributable to owners of the Company</b>		<b>(5,087)</b>	(3,575)
Loss per share			
– Basic	8	<b>(HK1.6 cent)</b>	(HK0.8 cent)
– Diluted	8	<b>(HK1.6 cent)</b>	(HK0.8 cent)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2012

	Notes	30 September 2012 Unaudited HK\$'000	31 March 2012 Audited HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		7,670	7,973
Available-for-sale investments	9	5,349	5,349
Held-to-maturity investment		–	1,524
Rental deposits		2,742	2,403
		<b>15,761</b>	17,249
<b>Current assets</b>			
Inventories		85,153	86,097
Trade and bills receivables	10	22,985	25,034
Other receivables, deposits and prepayments		5,787	3,186
Tax recoverable		1,035	900
Held-to-maturity investment		1,524	–
Structured bank deposit	11	4,902	5,536
Cash and cash equivalents		172,502	180,597
		<b>293,888</b>	301,350
<b>Current liabilities</b>			
Trade payables	12	7,745	11,131
Other payables and accrued charges		15,360	15,832
Current tax liabilities		550	555
		<b>23,655</b>	27,518
<b>Net current assets</b>		<b>270,233</b>	273,832
<b>Total assets less current liabilities</b>		<b>285,994</b>	291,081
<b>Non-current liabilities</b>			
Deferred tax liabilities		61	61
<b>Total Net Assets</b>		<b>285,933</b>	291,020
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	13	3,188	3,188
Reserves		282,745	287,832
<b>Total Equity</b>		<b>285,933</b>	291,020

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

	Share capital	Share premium	Share option reserve	Foreign exchange reserve	Available- for-sale investments reserve	Statutory discretionary reserve	Retained earnings	Proposed dividends	Total
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2011	3,188	32,608	4,904	4,271	417	888	237,634	2,550	286,460
Total comprehensive income for the period	-	-	-	864	(2,011)	-	(2,428)	-	(3,575)
2011 final dividend paid	-	-	-	-	-	-	-	(2,550)	(2,550)
At 30 September 2011	3,188	32,608	4,904	5,135	(1,594)	888	235,206	-	280,335
At 1 April 2012	3,188	32,608	4,904	5,461	(643)	888	244,614	-	291,020
Total comprehensive income for the period	-	-	-	(143)	-	-	(4,944)	-	(5,087)
2013 interim dividend (Note 7)	-	-	-	-	-	-	(1,052)	1,052	-
At 30 September 2012	3,188	32,608	4,904	5,318	(643)	888	238,618	1,052	285,933

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

	Six months ended 30 September	
	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
Net cash used in operating activities	<b>(9,238)</b>	(16,802)
Net cash from/(used in) investing activities	<b>1,232</b>	(2,046)
Net cash used in financing activities	<b>–</b>	(2,550)
Net decrease in cash and cash equivalents	<b>(8,006)</b>	(21,398)
Cash and cash equivalents at the beginning of the period	<b>180,597</b>	214,586
Effect of foreign exchange rate changes on cash and cash equivalents	<b>(89)</b>	576
Cash and cash equivalents at the end of the period	<b>172,502</b>	193,764

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

### 1. General

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

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

### 2. Basis of preparation

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

### 3. Principal accounting policies

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

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2012.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 April 2012.

HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfer of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

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

### 3. Principal accounting policies (Continued)

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

Amendments to HKFRS 7	Disclosure – Offsetting Financial Assets Financial Liabilities <sup>2</sup>
Amendments to HKAS 1 (Revised)	Presentation of Items in Other Comprehensive Income <sup>1</sup>
Amendments to HKAS 32	Presentation – Offsetting Financial Assets Financial Liabilities <sup>3</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurements <sup>2</sup>
HKAS 27 (2011)	Separate Financial Statements <sup>2</sup>
Annual Improvements Projects	Annual Improvements 2009-2011 Cycle <sup>2</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>4</sup> 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.

#### 4. Turnover and segment information

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

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

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

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

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

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

	Manufacturing business		Retail business		Total	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	70,864	64,132	21,269	20,214	92,133	84,346
Inter-segment revenue	1,524	1,241	-	-	1,524	1,241
Reportable segment revenue	72,388	65,373	21,269	20,214	93,657	85,587
Reportable segment result	(5,212)	(1,561)	(580)	(1,843)	(5,792)	(3,404)
Elimination of inter-segment profits					(29)	(51)
Dividend income from available-for-sale investments					146	131
Interest income					1,966	1,508
Unallocated other income and gains					-	388
Unallocated corporate expenses					(608)	(506)
Loss before income tax expense					(4,317)	(1,934)
Income tax expense					(627)	(494)
Loss for the period					(4,944)	(2,428)

#### 4. Turnover and segment information (Continued)

	Manufacturing business		Retail business		Total	
	30 September 2012 Unaudited HK\$'000	31 March 2012 Audited HK\$'000	30 September 2012 Unaudited HK\$'000	31 March 2012 Audited HK\$'000	30 September 2012 Unaudited HK\$'000	31 March 2012 Audited HK\$'000
	Reportable segment assets	159,295	147,225	49,469	38,894	208,764
Available-for-sales investments					5,349	5,349
Held-to-maturity investment					1,524	1,524
Tax recoverable					1,035	900
Unallocated cash and cash equivalents					91,223	122,753
Other unallocated corporate assets					1,754	1,954
					<b>309,649</b>	<b>318,599</b>

#### 5. Loss before income tax expense

Loss before income tax expense is arrived at after charging:

	Six months ended 30 September	
	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
Cost of inventories sold	70,546	60,488
Depreciation of property, plant and equipment	958	1,069
Operating lease rentals in respect of land and buildings	8,248	10,238
Write down of inventories	192	220
Staff costs (excluding directors' emoluments)	8,816	9,574
Foreign exchange loss, net	775	–
and crediting:		
Dividend income from available-for-sale investments	146	131
Interest income	1,966	1,508
Foreign exchange gain, net	–	1,909

## 6. Income tax expense

	Six months ended 30 September	
	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
Current taxation:		
– Hong Kong profits tax	39	–
– PRC enterprise income tax	588	540
Deferred tax	–	(46)
	<b>627</b>	494

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the period. The PRC enterprise income tax rate for the Company's subsidiary in the PRC is 25% (2011: 25%).

## 7. Interim dividend

	Six months ended 30 September	
	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
Interim dividend of HK0.33 cent (2011: Nil) per ordinary share	<b>1,052</b>	–

At a board meeting held on 28 November 2012, the directors declared an interim dividend of HK0.33 cent per share, aggregating a total of approximately HK\$1,052,000 for the six months ended 30 September 2012. This dividend declared after the end of the reporting period is not reflected as a dividend payable in these condensed financial statements, but is reflected as an appropriation of retained earnings.

The amount of declared interim dividend is based on 318,804,000 shares in issue at 28 November 2012.

## 8. Loss per share

The calculation of basic loss per share is based on the Group's loss for the period of HK\$4,944,000 (2011: loss of HK\$2,428,000) and weighted average number of 318,804,000 (2011: 318,804,000) ordinary shares in issue during the period.

For the six months ended 30 September 2012 and 2011, diluted loss per share is equal to the basic loss per share for the respective periods as there is no dilutive effect on the outstanding share options.

## 9. Available-for-sale investments

	<b>30 September 2012 Unaudited HK\$'000</b>	31 March 2012 Audited HK\$'000
Equity securities listed in Hong Kong, at fair value	<b>5,349</b>	5,349

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

## 10. Trade and bills receivables

	<b>30 September 2012 Unaudited HK\$'000</b>	31 March 2012 Audited HK\$'000
Trade and bills receivables	<b>23,687</b>	25,632
Less: impairment loss	<b>(702)</b>	(598)
	<b>22,985</b>	25,034

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

	<b>30 September 2012 Unaudited HK\$'000</b>	31 March 2012 Audited HK\$'000
Less than 30 days	<b>11,235</b>	16,504
31-60 days	<b>7,656</b>	2,788
61-90 days	<b>2,519</b>	2,560
91-120 days	<b>270</b>	760
121-365 days	<b>1,297</b>	2,334
More than 365 days	<b>8</b>	88
	<b>22,985</b>	25,034

## 11. Structured bank deposit

As at 30 September 2012, the Group has placed to a bank a structured bank deposit for a term of 120 days. Pursuant to the relevant underlying agreement, the structured bank deposit matures on 13 November 2012 and carries interest at highest rate of around 4.4% per annum with reference to the performance of the underlying investments during the investment period and its principal sum is denominated in RMB. In addition, the bank has 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 the embedded derivative as at 30 September 2012 is insignificant.

As at 31 March 2012, the Group had placed to a bank a structured bank deposit for a term of 91 days. Pursuant to the relevant underlying agreement, the structured bank deposit matured on 9 April 2012 and carried 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 was denominated in RMB and guaranteed by the bank. In addition, the bank had 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 the embedded derivative as at 31 March 2012 was insignificant.

## 12. Trade payables

Details of the ageing analysis are as follows:

	<b>30 September 2012 Unaudited HK\$'000</b>	31 March 2012 Audited HK\$'000
Less than 30 days	<b>4,035</b>	7,234
31-60 days	<b>1,105</b>	2,745
61-90 days	<b>1,464</b>	181
91-120 days	<b>568</b>	377
121-365 days	<b>316</b>	497
More than 365 days	<b>257</b>	97
	<b>7,745</b>	11,131

### 13. Share capital

There was no movement in the share capital of the Company during the period.

### 14. Contingent liabilities

The Group had no material contingent liabilities as at 30 September 2012 and 31 March 2012.

### 15. Related party transactions

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

	Six months ended 30 September	
	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	300	300

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

### (b) Compensation of key management personnel

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

	Six months ended 30 September	
	2012 Unaudited HK\$'000	2011 Unaudited HK\$'000
Short-term benefits	5,626	6,485
Post employment benefits	70	60
	5,696	6,545

## **INTERIM DIVIDEND**

The Directors has resolved to declare an interim dividend of HK0.33 cent per ordinary share for the six months ended 30 September 2012. The interim dividend will be paid on or about 11 January 2013 to members, whose names appear on the register of members of the Company at the close of business on 7 January 2013.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

For the six months ended 30 September 2012, the Group recorded a higher turnover of HK\$92,133,000 as compared to HK\$84,346,000 for the corresponding period last year. The increase in turnover was mainly due to overall improvement of sales revenue from both manufacturing and retail business segments in the reporting period. Despite turnover growth, the Group's gross profit decreased from HK\$23,858,000 to HK\$21,587,000 as a result of the decline in gross profit margin of both manufacturing and retail businesses. Gross profit margin decreased from 28.3% to 23.4%.

Other income and gains decreased from HK\$3,684,000 to HK\$2,311,000 which was mainly attributed to net foreign exchange loss incurred in the reporting period as compared to net foreign exchange gain of around HK\$1,909,000 recorded in the same period last year.

Selling and distribution costs decreased from HK\$14,041,000 to HK\$12,278,000 which was mainly attributable to the decrease in rental expenses in relation to the Group's retail business. The decrease in rental expenses was due to saving of high rental from the discontinued store. In addition, the Group had well managed to reduce the rental expenses through optimizing its sales network. Administrative and other operating expense amounted to around HK\$15,937,000 as compared to HK\$15,435,000 in the same period last year.

As a result of the above, the Group recorded a net loss of HK\$4,944,000 for the six months ended 30 September 2012 as compared to net loss of HK\$2,428,000 recorded in the same period last year.

## BUSINESS REVIEW

### Manufacturing Business

For the six months ended 30 September 2012, turnover of manufacturing business segment from external customers increased by around 10.5% to HK\$70,864,000, accounting for approximately 76.9% of the Group's consolidated total turnover. The increase in turnover was mainly due to the increase of sales to two of its core markets, the U.S. and Europe.

Geographically, sales to Europe increased from HK\$22,756,000 to HK\$26,117,000 and sales to the U.S. increased from HK\$6,623,000 to HK\$11,829,000. Both markets recorded a remarkable increase in orders from customers in the first half of the financial year as compared to the relatively sluggish demand in same period last year. Nevertheless, market demands remained unstable and volatile during the reporting period. Sales in Hong Kong amounted to around HK\$8,578,000 as compared with HK\$8,456,000 of same period last year. Sales in the PRC market increased from HK\$7,678,000 to HK\$8,205,000. Apart from the major markets, sales to other countries including Japan, Australia, Canada, India, Korea, Singapore and Malaysia, etc. was around HK\$16,135,000 as compared with HK\$18,619,000.

In terms of product category, sales of belts increased to HK\$63,010,000 (2011: HK\$53,630,000) but sales of leather goods and other accessories decreased to approximately HK\$7,854,000 (2011: HK\$10,502,000). Despite increase in turnover, gross profit margin decreased from around 18.8% to around 14.9%. Decline in gross profit margin was mainly due to an increase in raw material cost including cowhide leather and hardware accessories.

As a result of the decline in gross profit margin and net foreign exchange loss incurred in the reporting period as compared to net foreign exchange gain recorded in the corresponding period last year, the operating loss of manufacturing business increased from HK\$1,561,000 to HK\$5,212,000.

## **Retail Business**

Retail sales for the six months ended 30 September 2012 increased slightly from HK\$20,214,000 to HK\$21,269,000. The ongoing global economic uncertainty and the slowdown in the Mainland China are affecting the retail market in Hong Kong. The pace of sales growth of retail market was decelerating, especially in the first quarter the financial year. Despite the slowdown of market, our comparable same store sales increased around 8.9% against same period last year. The Group's in-house brand sales mainly "Urban Stranger" accounted for around 43.2% of total retail sales as compared to around 49.5% of same period last year. Sales of international footwear brands products grew sharply as a result of special discount offered in the reporting period.

Gross profit margin went down to approximately 51.4% (2011: 56.2%), which was mainly due to the increase in proportion of sales of international footwear brand products with lower profit margin and additional promotion and special discount offered in the reporting period.

The overall shop rental to turnover ratio decreased by 10.6 percentage points to approximately 26.7% (2011: 37.3%). This was mainly due to saving of high rental from the discontinued store. The Group had also reduced the rental expenses through optimizing its sales network and operating stores at cost effective locations.

The staff cost was a bit higher than same period last year as a result of an increase in number of staff, staff salaries and sales commission and bonus in the reporting period.

Despite fall in gross profit margin, the Group had well managed to reduce the operating loss from HK\$1,843,000 to HK\$580,000. During the reporting period, the Group opened one new store at the shopping mall in Causeway Bay. As at 30 September 2012, the Group operated seven AREA 0264 stores in Hong Kong.

## **PROSPECT**

Moving forward, the European debt issue is likely to affect the global economy for the rest of 2012 and even the first half of 2013. The global market demand will remain weak and unstable. In view of uncertain market conditions, the Group will continue to pursue cautious and prudent business strategies.

In addition, the Group's processing factory in Dongguan is undergoing to upgrade and transform into a wholly foreign-owned enterprise with legal person status as encouraged by the local government in Dongguan. During the process of transformation, production in the processing factory will not be interrupted. The transformation of processing factory is expected to be completed before the end of 2013.

Hong Kong retail outlook remain positive despite the slowdown of retail sales growth and tourist spending. The Group will continue to seek opportunity to expand its presence in the market cautiously. Due to persistent high rental in prime street location, the Group will choose to open shop in the shopping mall which is more cost effective. In October 2012, the Group opened another new store at the shopping mall in Tuen Mun. To maintain a refreshing of store image, the Group will continue to renovate and upgrade its stores after renewal of tenancy. The Group's sales performance in October 2012 has been encouraging and is in line with management's expectation. The Group is confident that the retail business will remain profitable for the full financial year 2013.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 September 2012 the Group's cash and bank deposits were approximately HK\$172,502,000, compared to approximately HK\$180,597,000 as at 31 March 2012.

As at 30 September 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.

The Group recorded total current assets of approximately HK\$293,888,000 as at 30 September 2012 (31 March 2012: HK\$301,350,000) and total current liabilities of approximately HK\$23,655,000 (31 March 2012: HK\$27,518,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 12 times as at 30 September 2012 (31 March 2012: 11 times).

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

## **TREASURY POLICY**

The Group generally finances its operation with internally generated resources. Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars (“HK\$”), US dollars (“USD”), Renminbi (“RMB”) and Euro. Transactions of the Group are mainly denominated in HK\$, USD, RMB and Euro. As HK\$ is pegged to USD, the Group does not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD. The Group has significant exposure to foreign exchange fluctuation in RMB 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 period, the Group placed to a bank a structured bank deposit amounting to approximately HK\$4,902,000 (equivalent to RMB4,000,000) for short term investment purpose.

## **CHARGES ON ASSETS**

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

## **MATERIAL ACQUISITIONS/DISPOSALS**

The Group had no material acquisitions/disposals for the six months ended 30 September 2012.

## **HUMAN RESOURCES**

As at 30 September 2012, the Group had around 127 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 759 workers. The Group remunerated its employees mainly based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2012, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### LONG POSITIONS

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

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Chan King Hong Edwin	Interest of a controlled corporation	47,727,352 <i>(Note 1(a))</i>	
	Beneficial owner	6,548,000	
		<hr/> 54,275,352	17.02
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 <i>(Note 2)</i>	
	Beneficial owner	12,356,000	
		<hr/> 60,083,352	18.85
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 <i>(Note 3)</i>	12.30

## (b) Share options

Name	Capacity	Number of options held	Number of underlying shares
Chan King Hong Edwin	Beneficial owner	11,881,200 <i>(Note 4)</i>	11,881,200
	Interest of spouse	4,681,200 <i>(Note 1(b))</i>	4,681,200
Chan King Yuen Stanley	Beneficial owner	11,881,200 <i>(Note 4)</i>	11,881,200
Chan Wai Po Rebecca	Beneficial owner	11,881,200 <i>(Note 4)</i>	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 as at 30 September 2012.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2012, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO and were directly or indirectly interested in 5% or more of the Company's issued share capital were as follows:

### LONG POSITIONS

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

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital</b>
Leopark Worldwide Inc.	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
New Paramount Profits Limited	Beneficial owner	47,727,352 <i>(Note i)</i>	14.97
Prevail Assets Limited	Beneficial owner	39,204,648 <i>(Note i)</i>	12.30
Smarty Worldwide Limited	Beneficial owner	39,204,648 <i>(Note ii)</i>	12.30
Chan Woon Man	Interest of a controlled corporation	39,204,648 <i>(Note ii)</i>	12.30
Li Shuk Han	Interest of spouse	54,275,352 <i>(Note iii)</i>	17.02
CIM Dividend Income Fund Limited	Investment manager	22,111,000	6.93
Yeoman Capital Management Pte Ltd	Investment manager	24,702,000 <i>(Note iv)</i>	7.75

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

#### **(b) Share Options**

<b>Name</b>	<b>Capacity</b>	<b>Number of options held</b>	<b>Number of underlying shares</b>
Li Shuk Han	Beneficial owner and interest of spouse	16,562,400 <i>(Note viii)</i>	16,562,400
Chan Woon Man	Beneficial owner	3,181,200 <i>(Note ii)</i>	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 by Mr. Chan King Hong, Edwin. By virtue of the SFO, Ms. Li Shuk Han, who is the spouse of Mr. Chan King Hong Edwin, is taken to be interested in these long positions.

- (iv) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Yeoman Capital Management Pte Ltd, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, all of them are wholly owned by Yeoman Capital Management Pte Ltd, an investment manager, hold 22,000,000 shares, 350,000 shares and 1,252,000 shares in the Company respectively. By virtue of the SFO, Yeoman Capital Management Pte Ltd, being the holding company of Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, is deemed to be interested in the same 23,602,000 shares in the Company. In addition, 1,100,000 shares of the Company were held directly by Yeoman Capital Management Pte Ltd.
- (v) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Yeo Seng Chong, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, all of them are wholly owned by Yeoman Capital Management Pte Ltd, hold 22,000,000 shares, 350,000 shares and 1,252,000 shares in the Company respectively. In addition, 1,100,000 shares of the Company were held directly by Yeoman Capital Management Pte Ltd. 35% of the equity interests of Yeoman Capital Management Pte Ltd is held by Yeo Seng Chong. By virtue of the SFO, Yeo Seng Chong is deemed to be interested in the same 24,702,000 shares in the Company held by Yeoman Capital Management Pte Ltd, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2. In addition, 2,872,000 shares of the Company were held by Lim Mee Hwa, the spouse of Yeo Seng Chong. By virtue of the SFO, Yeo Seng Chong, being the spouse of Lim Mee Hwa, is also deemed to be interested in the same 2,872,000 shares of the Company held by Lim Mee Hwa.
- (vi) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Lim Mee Hwa, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2, all of them are wholly owned by Yeoman Capital Management Pte Ltd, hold 22,000,000 shares, 350,000 shares and 1,252,000 shares in the Company respectively. In addition, 1,100,000 shares of the Company were held directly by Yeoman Capital Management Pte Ltd. 35% of the equity interests of Yeoman Capital Management Pte Ltd is held by Lim Mee Hwa. By virtue of the SFO, Lim Mee Hwa is deemed to be interested in the same 24,702,000 shares in the Company held by Yeoman Capital Management Pte Ltd, Yeoman 3-Rights Value Asia Fund, BMT Yeoman Client 1 and BMT Yeoman Client 2. In addition, 2,872,000 shares of the Company were held directly by Lim Mee Hwa.
- (vii) As at the date of filing the substantial shareholder notice on 5 November 2009 filed by Yeoman Capital Management Pte Ltd, the holding company of Yeoman 3-Rights Value Asia Fund, Yeoman 3-Rights Value Asia Fund hold 22,000,000 shares in the Company.
- (viii) Being an option to subscribe for 3,181,200 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 3,181,200 shares of the Company granted to Ms. Li Shuk Han on 24 September 2003 and an option to subscribe for 8,700,000 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 1,500,000 shares of the Company granted to Ms. Li Shuk Han on 22 July 2009.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 30 September 2012.

## SHARE OPTIONS

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

There were no movements in share options during the six months ended 30 September 2012. Details of share options outstanding at 30 September 2012 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1 April 2012 and 30 Sept 2012	Exercisable period	Exercise price per share
<b>(a) Executive directors</b>				
Chan King Hong Edwin	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	HK\$0.830
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	HK\$0.570
Chan King Yuen Stanley	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	HK\$0.830
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	HK\$0.570
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	24 Sept 2003 – 23 Sept 2013	HK\$0.830
	22 July 2009	8,700,000	22 July 2009 – 21 July 2019	HK\$0.570
<b>(b) Employees, in aggregate</b>				
	26 May 2003	60,000	26 May 2003 – 25 May 2013	HK\$0.580
	24 Sept 2003	6,362,400	24 Sept 2003 – 23 Sept 2013	HK\$0.830
	22 July 2009	3,000,000	22 July 2009 – 21 July 2019	HK\$0.570
<b>(c) Others, in aggregate</b>				
	26 May 2003	3,000,000	26 May 2003 – 25 May 2013	HK\$0.580
Total		48,066,000		

## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the heading "Directors' interests in shares and underlying shares" and "Share options" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## **CHANGES IN INFORMATION OF DIRECTORS**

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

The remuneration package of Mr. Chan King Hong, Edwin, Mr. Chan King Yuen, Stanley and Ms. Chan Wai Po, Rebecca has been adjusted to HK\$192,000, HK\$192,000 and HK\$180,000 per month respectively with reference to their contributions and achievement to the Group and the inflation rate of the year with effect from 1 October 2012.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 September 2012.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 September 2012, except for the deviations from CG Code provisions A1.8 and A2.1. Under the CG Code provision A1.8, the Company should arrange appropriate insurance cover in respect of legal action against its directors. The Board decided that it was not necessary to arrange insurance cover to the Directors because Directors had always been prudent in making business decision for the Company and so the legal risk to the Directors was quite low. Under the CG Code provision A2.1, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Due to the small size of the existing management team, both the roles of the chairman and chief executive officer of the Company are currently played by Mr. Chan King Hong, Edwin. Mr. Chan has considerable experience in manufacturing industry and is the person most knowledgeable about the business of the Group. The Board believes that the current structure will enable us to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of Group.

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

The Company has adopted the Model Code for Securities Transactions by Directors (“Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 September 2012.

## **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors, Mr. Fong Pui Sheung David (Chairman), Ms. Chau Cynthia Sin Ha, and Mr. Or Kam Chung Janson. The Audit Committee has reviewed with Group’s management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited interim financial statements and the results of the Group for the six months ended 30 September 2012.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 3 January 2013 to Monday, 7 January 2013, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrar, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 2 January 2013.

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

Hong Kong, 28 November 2012