The Premier Designer & Manufacturer of

Quality Leather Accessories

Annual Report 2014

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)

Contents

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
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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

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

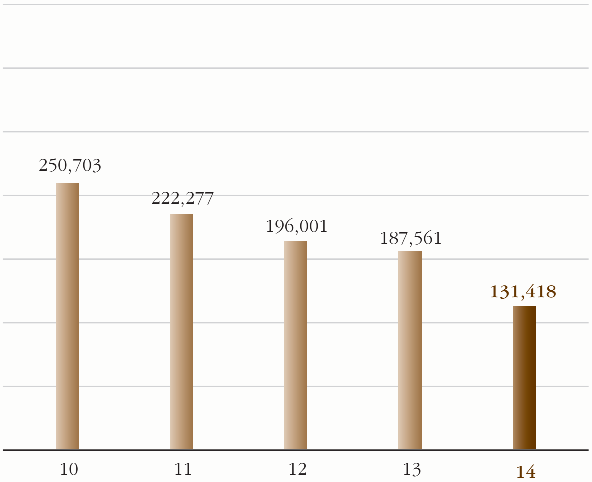
STOCK CODE

264

Financial Highlights

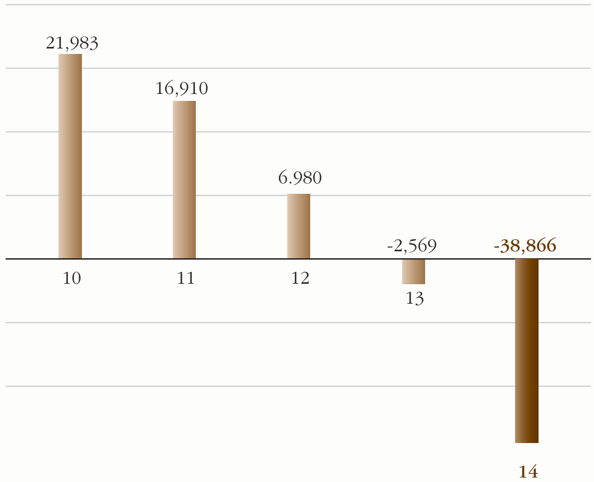
TURNOVER

(HK$'000)



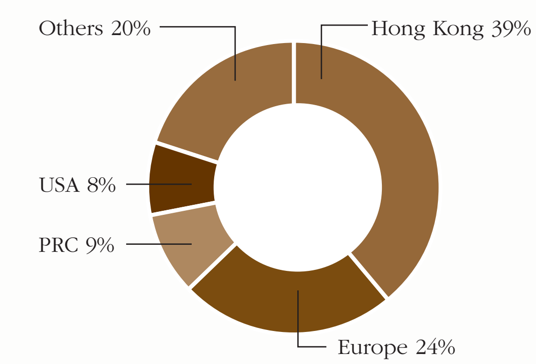
NET PROFIT/(LOSS)

(HK$'000)

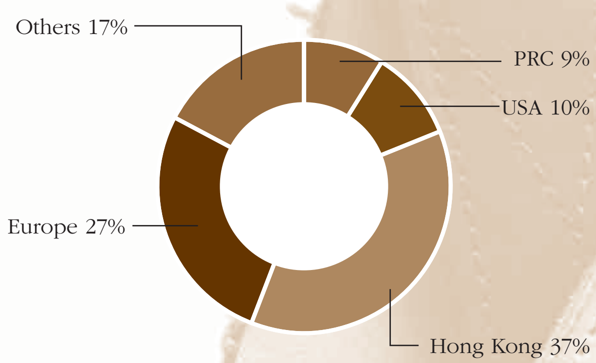


TURNOVER BY GEOGRAPHICAL SEGMENT

Financial Year 2014

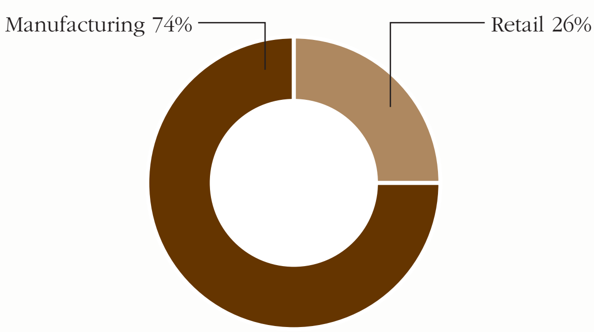


Financial Year 2013

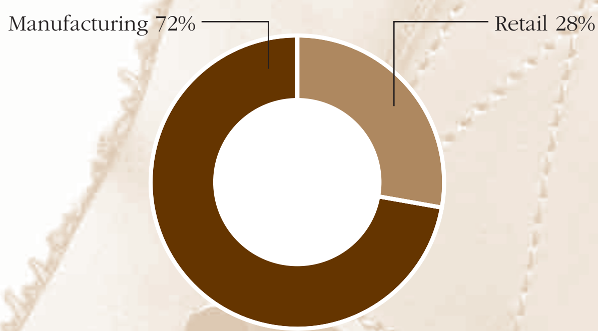


TURNOVER BY BUSINESS SEGMENT

Financial Year 2014



Financial Year 2013



Financial Highlights

	2014	2013
	HK$'000	*HK$'000*
Operating results		
Turnover	**131,418**	187,561
Gross profit	**12,208**	51,356
Loss before income tax expense	**(38,489)**	(1,226)
Loss for the year	**(38,866)**	(2,569)
Business performance ratios		
Gross profit margin	**9.3%**	27.4%
Net profit margin	**N/A**	N/A
Return on shareholders' equity	**N/A**	N/A
Current ratio	**11.42**	13.83
Quick ratio	**8.43**	10.18
Share data (as at year end date)		
Shares in issue ('000)	**318,804**	318,804
Shares closing price	**HK$0.59**	HK$0.37
Market capitalization (HK$'000)	**188,094**	117,957
Basic loss per share	**(HK12.19 cents)**	(HK0.81 cents)
Interim dividend per share	**Nil**	HK0.33 cents
Final dividend per share	**Nil**	Nil
Total dividend per share	**Nil**	HK0.33 cents
Net asset value per share	**HK$0.79**	HK$0.90
Price-to-book value ratio	**0.75**	0.41

Chairman's Statement

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 2014.

The financial year ended 31 March 2014 marked another challenging year for Chanco, with continued weak market sentiment and rising operating cost in the PRC. The U.S economy grew at a slow rate in 2013. Europe still struggled for fully rebound from the financial crisis and gradually climbed out from recession. China, the second largest economy, grew at its slowest pace in 14 years in 2013. Global manufacturing activities remained stagnant in the past year. Sluggish market demand made it difficult for the Group to secure new orders. Wages in China kept rising and further pushing up the Group's production cost. Over the past year, the Group was struggling against the headwinds in the tough operating environment.

The Group retail business faced another difficult year, with slowdown of the retail market and intensified market competition. Under keen market competition and lower customer spending, the Group's retail performance in reporting year was disappointing. Rental cost remained a huge burden for retailers in Hong Kong. In response to the fast-changing market, the Group constantly adjusted its brand mix and product mix and introduced more creative design and premium quality products to the market. In face of these difficulties, the Group had endeavored to minimize the loss of retail business in the financial year 2013/14.

FINANCIAL PERFORMANCE

The Group recorded lower turnover of approximately HK$131,418,000, down around 30% from approximately HK$187,561,000 for the financial year ended 31 March 2013. Revenue from both manufacturing and retail business segments declined in the reporting year. Due to lower turnover, gross profit was approximately HK$12,208,000, down 76% from approximately HK$51,356,000 in the financial year 2012/13. Gross profit margin decreased from around 27% to around 9%. This was mainly due to gross loss incurred from the Group's manufacturing business.

Other income and gains increased from approximately HK$4,923,000 to approximately HK$6,978,000 which was mainly due to the increase in bank interest income, the gain on disposal of available-for-sales investments in the financial year 2013/14 and increase in net foreign exchange gain in the reporting year.

Selling and distribution costs decreased from approximately HK$27,374,000 to approximately HK$24,081,000. This was mainly due to the decrease in rental expenses from closure of store and decrease in depreciation expenses in relation to the Group's retail business. Selling and distribution expenses in relation to manufacturing business also decreased in tandem with lower sales reported in the financial year 2013/14. Administrative and other operating expenses decreased from approximately HK$30,131,000 to approximately HK$28,839,000. The decrease was mainly due to the reduction of staff cost through downsizing and reversal of previous years overprovision of long service payment.

Chairman's Statement

As at 31 March 2014, the Group's manufacturing business has been experiencing recurring losses due to decline in demand from overseas markets, and the Group's retail business has sustained loss for the year due to increase in competition and diminishing brand popularity of certain international brand products. Management considered there were impairment indicators and hence conducted impairment assessment on the Group's property, plant and equipment. Accordingly, impairment loss of approximately HK$4,755,000 had been recognised.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK$38,866,000 for the year ended 31 March 2014 (2013: approximately HK$2,569,000). Loss per share for the year ended 31 March 2014 was HK12.19 cents (2013: 0.81 cents).

BUSINESS REVIEW

During the year under review, the two business segments – manufacturing and retailing accounted for 74% and 26% of the Group total turnover respectively.

Manufacturing Business

For the year ended 31 March 2014, turnover of manufacturing business segment from external customers decreased around 27% from approximately HK$134,773,000 to approximately HK$97,906,000. This was mainly due to decline in demand from overseas market.

Geographically, sales to Europe decreased from approximately HK$49,328,000 to approximately HK$31,901,000. Sales to the U.S. decreased from approximately HK$19,252,000 to approximately HK$10,100,000. Sales in Hong Kong increased from approximately HK$16,956,000 to approximately HK$18,093,000. Sales in the PRC market decreased from approximately HK$17,142,000 to approximately HK$11,267,000. Apart from the major markets, sales to other countries including Australia, Japan, Canada, India, Korea, Singapore and Malaysia, etc. decreased from approximately HK$32,095,000 to approximately HK$26,545,000. This was mainly due to the decrease in sales to Australia, Malaysia, Singapore and other Asian countries.

In terms of product category, sales of belts decreased to approximately HK$85,573,000 (2013: approximately HK$122,312,000) and sales of leather goods and other accessories stayed at approximately HK$12,333,000 (2013: approximately HK$12,461,000). In the reporting year, the manufacturing segment incurred gross loss and gross loss margin was around 5% as compared to gross profit margin of around 18% in the financial year 2012/13. Against the backdrop of a challenging operating environment, the manufacturing segment reported a loss of approximately HK$35,362,000 as compared to approximately HK$5,462,000 in the financial year 2012/13. The increase in loss was mainly attributable to significant decline in demand from overseas market, low utilization of production capacity, rising labor cost, increase in rental expenses of the production plant in Dongguan, write-down of inventories of approximately HK$7,505,000 and provision for impairment loss on property, plant and equipment of approximately HK$2,798,000.

Chairman's Statement

The Group has incorporated a subsidiary company known as 東莞思捷皮具有限公司 ("Dongguan Sze Cheik"), a wholly foreign owned enterprise with limited liability in June 2013. The objective of establishing Dongguan Sze Cheik is to upgrade and transform the Group's processing factory in Dongguan into wholly foreign owned enterprise with legal person status as encouraged by the local government in the PRC. Dongguan Sze Cheik will be responsible for the production of leatherware products export from the PRC to the Group's customers in Hong Kong and overseas. Dongguan Sze Cheik had not yet commenced business before 31 March 2014 on the ground of the delay in completion of various procedures. Despite the delay, the Group's manufacturing business had not been interrupted. Up to the date of this report, Dongguan Sze Cheik is ready to commence business. The Group will gradually transfer the production activities from processing factory to Dongguan Sze Cheik until the end of 2014.

Retail Business

The Group's revenue from its retail business decreased around 36% from approximately HK$52,788,000 to approximately HK$33,512,000. Hong Kong retail sales growth decelerated in the past year on the ground of weaker tourist spending and softening of domestic consumption. Market competition intensified as numerous fashion retailers offer earlier and greater sales discount in low season period. In the reporting year, sales of international footwear brand products dropped significantly as compared to last year. It was mainly due to sharp decline in demand and diminishing brand popularity in the market. The Group's in-house brand sales increased mildly on the ground that the Group altered its product mix by focusing on selling more fashion bags with high quality and creative design in the second half of the financial year 2013/14. The Group's in-house brand sales mainly "Urban Stranger" accounted for around 68% of total retail sales as compared to around 40% of last year. Despite increase in sales of in-house brand products, the comparable same store sales decreased around 32% against last year. Sales performance in traditional peak season period (Christmas and Lunar New Year) was disappointing. In view of slowdown of retail sales and continuing loss, the Group had made net provision for slow moving inventories of approximately HK$2,713,000 and provision for impairment loss on property, plant and equipment of approximately HK$1,002,000. Gross profit margin stayed at around 51% (2013: 51%).

The overall shop rental to turnover ratio increased by 11 percentage points to approximately 35% (2013: 24%). This was mainly due to the lower sales and increase in rental after renewal of tenancy in the reporting year. The staff cost reduced as a result of the decrease in number of sales staff in the reporting year.

As a consequence of the above, the retail business segment incurred a loss of approximately HK$7,368,000 as compared to profit of approximately HK$580,000 last year. During the reporting year, the Group closed one underperforming store upon expiry of the tenancy. As at 31 March 2014, the Group operated six AREA 0264 stores in Hong Kong.

Chairman's Statement

PROSPECTS

The global economic outlook for 2014 continues to remain uncertain. Manufacturing business continues to be rather sluggish in the near term. The immediate task of the Group is to achieve a turnaround in its profitability. Despite the challenge ahead, the Group will continue to seek new business opportunities and endeavor to streamline the manufacturing process in order to improve operational efficiencies.

Retail business operating environment remains challenging in the view of slowdown of retail sales growth and increasing market competition. Sales performance in the first two months of the financial year 2014/15 is below the management expectation. The Group will continue to rationalize and optimize its store location. The Group will open one new store in July and close underperforming stores upon expiry of tenancy. Despite these challenge ahead, the Group will continue its efforts to monitor the greater and fast-changing market closely and make proactive refinements on the business strategy. The Group will also continue to optimize the product mix in its stores and focus on marketing in-house brand products with creative design and premium quality.

DIVIDEND

In view of the losses incurred during the year, the Board does not recommend any payment of dividend for the financial year ended 31 March 2014.

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, 27 June 2014

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2014 the Group's cash and bank deposits were approximately HK$169,965,000 as compared to approximately HK$198,058,000 as at 31 March 2013.

As at 31 March 2014, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK$15,000,000 which were secured by corporate guarantees provided by the Company.

The Group recorded a decrease of total current assets from approximately HK$282,910,000 as at 31 March 2013 to approximately HK$263,534,000 as at 31 March 2014 and an increase of total current liabilities from approximately HK$20,454,000 as at 31 March 2013 to approximately HK$23,079,000 31 March 2014. The decrease of total current asset was mainly due to the decrease in cash and bank deposits as a result of operating loss incurred and provision for impairment loss on inventories in the reporting year. The increase of total current liability was mainly due to the increase in trade payables as a result of increase of purchase of raw material just before the year end. 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 2014 (31 March 2013: 14 times).

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

The Group recorded a decrease in shareholders' funds from approximately HK$288,437,000 as at 31 March 2013 to approximately HK$250,356,000 as at 31 March 2014. The decrease was mainly attributable to operating loss incurred 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 and Euro against HK$ at the end of reporting period. Foreign exchange forward contract can be used to eliminate the currency risk exposure. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CHARGES ON ASSETS

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

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals for the year ended 31 March 2014.

HUMAN RESOURCES

As at 31 March 2014, the Group had around 114 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 533 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

At 31 March 2014, the Company issued a guarantee to banks in respect of general facilities granted to its subsidiaries to the extent of HK$15,000,000 (2013: HK$15,000,000) and the facilities have not been utilised by the subsidiaries (2013: 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.

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 2014, there were no rental payables by the subsidiary under these lease agreements (2013: Nil) and the non-cancellable future minimum lease payment under these lease agreements was approximately HK$6,258,000 (2013: HK$8,652,000).

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. CHAN King Hong Edwin, aged 56, 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 29 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 53, 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 29 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 50, 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 24 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.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. CHAU Cynthia Sin Ha *JP*, aged 74, 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 71, 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 44, 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 18 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.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Ms. LI Shuk Han, aged 49, 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 25 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 38, 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 16 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 58, 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 30 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 50, 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 17 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 43, 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 21 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 Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company believes that good corporate governance is important 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's corporate governance practices are based on the principles and code provisions (the "Code Provisions") set out in the Corporate Governance Code (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").

The Company has complied with the Code Provisions as set out in the CG Code during the year ended 31 March 2014 except for the deviations from the Code Provisions A.1.8 and A.2.1 in respect of the arrangement of insurance cover of legal action against directors and the separation of roles of the chairman and chief executive officer respectively.

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 (the "Model Code") 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 2014.

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 11 to 13 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 2014, 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 2014 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	4/5
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.

DIRECTORS' INSURANCE COVER OF LEGAL ACTION

Under the Code Provision A.1.8, 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.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors, including independent non-executive Directors, should keep abreast of their collective responsibilities as Directors and of the business and activities of the Group. Each newly appointed Director would receive a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he is sufficiently aware of his responsibilities under the Listing Rules and other relevant regulatory requirements. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and update all Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirement to ensure compliance and to enhance their awareness of good corporate governance practices.

During the year ended 31 March 2014, the Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group in the following manner:

Name of Directors	Attended Seminars or Briefing/ Read Materials
Executive Directors	
Mr. Chan King Hong, Edwin	✓
Mr. Chan King Yuen, Stanley	✓
Ms. Chan Wai Po, Rebecca	✓
Independent Non-executive Directors	
Mr. Fong Pui Sheung, David	✓
Ms. Chau Cynthia Sin Ha	✓
Mr. Or Kam Chung, Janson	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code Provision A.2.1 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. The term of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

During the financial year ended 31 March 2014, 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:

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    - 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 2013 and audited financial statements and results of the Group for the year ended 31 March 2014.

AUDITOR'S REMUNERATION

For the financial year ended 31 March 2014, the fees paid/payable to the Group's auditor, BDO Limited, is set out as follows:–

Nature of services	**Amount** *HK$'000*
Audit Services	418
Non-audit services	79
Total:	497

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 term of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

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

The Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual executive Directors and senior management.

During the financial year ended 31 March 2014, 1 remuneration committee meeting was held to determine the performance bonus for the year ended 31 March 2013 to the executive Directors, to review and determine the annual remuneration packages of the executive Directors. 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)*	1/1
Ms. Chau Cynthia Sin Ha	1/1
Mr. Fong Pui Sheung, David	1/1

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. On 30 September 2013, the Board adopted a set of the revised terms of reference of the Nomination Committee in line with the newly Listing Rules requirement in relation to board diversity effective from 1 September 2013. The revised term of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the websites of the Company and the Stock Exchange.

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 2014, no new director has been appointed by the Company but 1 nomination committee meeting was held to adopt its own 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)*	0/1
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.

BOARD DIVERSITY POLICY

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The Company has adopted a board diversity policy (the "Board Diversity Policy") on 30 September 2013 setting out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. A summary of Board Diversity Policy, together with the measureable objectives set for implementing this policy, and the progress made towards achieving those objectives are disclosed as below.

Summary of the Board Diversity Policy

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

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Measurable Objectives

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to gender, age, experience, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

Monitoring and Reporting

The Nomination Committee will disclose the composition of the Board annually in the Corporate Governance Report and monitor the implementation of the Board Diversity Policy. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure the effectiveness of this policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the Board comprises six Directors. Three of them are independent non-executive directors, thereby promoting critical review and control of the management process. The Board is also characterized by significant diversity, whether considered in terms of age, experience, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

CORPORATE GOVERNANCE FUNCTION

All members of the Board are responsible for performing the corporate governance functions. The terms of reference of corporate governance functions was adopted by the Board at the Board meeting held on 21 March 2012 and is in compliance with paragraph D.3.1 of the CG Code. During the year ended 31 March 2014, the Board has discussed the corporate governance matters including a review of the corporate governance report for the year ended 31 March 2014.

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 37 to 38 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 2014. No material weaknesses were found.

CORPORATE COMMUNICATION

The Company endeavors to maintain good investor relationship with shareholders and potential investors by way of annual general meeting, publication of interim and annual reports on the websites of the Company and the Stock Exchange, and timely press releases on the Company's website. A Shareholder's Communication Policy was adopted by the Board on 21 March 2012 aiming at providing the shareholders and potential investors with ready and timely access to balanced and understandable information of the Company.

Shareholders are encouraged to attend the annual general meetings for which a notice would be served properly. The Chairman and/or Directors are available to answer questions on the Group's business at the meetings. At general meetings, separate resolutions are proposed on each substantial and separate issue such as the election of individual Directors and re-appointment of auditor.

During the year under review, the annual general meeting held on 21 August 2013, the whole Board of Directors and auditor of the Company have attended the meeting to answer questions of the Shareholders.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's head office and principal place of business in Hong Kong at 3rd Floor, Victory Industrial Building, Nos. 151-157 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong.

SHAREHOLDERS' RIGHT

Procedures for Shareholders to Convene an Extraordinary General Meeting

Extraordinary general meeting may be convened by the Board on requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to article 58 of the articles of association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the Company's head office and principal place of business in Hong Kong at 3rd Floor, Victory Industrial Building, Nos. 151-157 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals at general meeting of the Company by sending the same to the Company at the head office of the Company in Hong Kong.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to the article of association of the Company, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such extraordinary general meeting, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for putting forward Proposals at a General Meeting

A shareholder shall make a written requisition to the Board or the company secretary at the Company's head office and principal place of business at 3rd Floor, Victory Industrial Building, Nos. 151-157 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/ business and its supporting documents.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the Company Secretary at the Company's head office and principal place of business at 3rd Floor, Victory Industrial Building, Nos. 151-157 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong or send email to info@chancogroup.com.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

COMPANY SECRETARY

The company secretary, Mr. Lau Wai Hung, was appointed in July 2002. He is responsible to the Board for ensuring that Board procedures are followed and that the Board is fully briefed on all legislative, regulatory and corporate governance developments and has regarded to them when making decisions. The company secretary is also responsible for advising the Board on the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordnance and other applicable laws, rules and regulations. During the year ended 31 March 2014, Mr. Lau undertook not less than 15 hours of professional training to update his skills and knowledge.

CONSTITUTIONAL DOCUMENTS

During the year under review, there was no change in the Company's constitutional documents.

Report of the Directors

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 2014.

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 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 83 of this Annual Report.

The Directors do not recommend any payment of final dividend to shareholders for the year ended 31 March 2014.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements and in the consolidated statement of changes in equity on page 42 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 22 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2014, amounted to HK$82,321,000. 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 2014.

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 84 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 11 to 13 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, Ms. Chan Wai Po Rebecca and Mr. Or Kam Chung Janson 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 28 January 2013, their appointment were renewed by a new letter of appointment for another two year term expiring on 28 February 2015.

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 7 May 2014, his appointment was renewed by a new letter of appointment for another two year term expiring on 15 June 2016.

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 recommended by the Remuneration Committee for the Board approval, 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 2014, 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	7,484,000	
		55,211,352	17.32
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 *(Note 2)*	
	Beneficial owner	23,908,000	
		71,635,352	22.47
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	8,700,000 *(Note 4)*	8,700,000
	Interest of spouse	1,500,000 *(Note 1(b))*	1,500,000
Chan King Yuen Stanley	Beneficial owner	8,700,000 *(Note 4)*	8,700,000
Chan Wai Po Rebecca	Beneficial owner	8,700,000 *(Note 4)*	8,700,000

Notes:

1(a). 47,727,352 shares are held by Leopark Worldwide Inc., a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Hong Edwin.

1(b). An option to subscribe for 1,500,000 shares of the Company was granted to Ms. Li Shuk Han on 22 July 2009, who is the spouse of Mr. Chan King Hong Edwin. By virtue of the SFO, Mr. Chan King Hong Edwin is taken to be interested in these 1,500,000 long positions held by Ms. Li Shuk Han.

2. 47,727,352 shares are held by New Paramount Profits Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Yuen Stanley.

3. 39,204,648 shares are held by Prevail Assets Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Ms. Chan Wai Po Rebecca.

4. On 22 July 2009, each of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca was granted an option to subscribe for 8,700,000 shares of the Company.

Save as disclosed above, none of the Directors, chief executives and their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations 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 2014.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2014, 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	55,211,352 *(Note iii)*	17.32

(b) Share Options

Name	Capacity	Number of options held	Number of underlying shares
Li Shuk Han	Beneficial owner and interest of spouse	10,200,000 *(Note iv)*	10,200,000

Notes:

(i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors' interests in shares and underlying shares" above.

(ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man.

(iii) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong, Edwin and 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) Being an option to subscribe for 8,700,000 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 1,500,000 shares of the Company granted to Ms. Li Shuk Han on 22 July 2009.

Save as disclosed above, as at 31 March 2014, 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.

Report of the Directors

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	Exercisable period	Exercise price per share HK$	Number of share options: Held at 1 April 2013	Lapsed during the year	Held at 31 March 2014
(a) Executive directors						
Chan King Hong Edwin	24 Sept 2003	24 Sept 2003 – 23 Sept 2013	0.83	3,181,200	(3,181,200)	–
	22 July 2009	22 July 2009 – 21 July 2019	0.57	8,700,000	–	8,700,000
Chan King Yuen Stanley	24 Sept 2003	24 Sept 2003 – 23 Sept 2013	0.83	3,181,200	(3,181,200)	–
	22 July 2009	22 July 2009 – 21 July 2019	0.57	8,700,000	–	8,700,000
Chan Wai Po Rebecca	24 Sept 2003	24 Sept 2003 – 23 Sept 2013	0.83	3,181,200	(3,181,200)	–
	22 July 2009	22 July 2009 – 21 July 2019	0.57	8,700,000	–	8,700,000
(b) Employees, in aggregate	26 May 2003	26 May 2003 – 25 May 2013	0.58	60,000	(60,000)	–
	24 Sept 2003	24 Sept 2003 – 23 Sept 2013	0.83	6,362,400	(6,362,400)	–
	22 July 2009	22 July 2009 – 21 July 2019	0.57	3,000,000	–	3,000,000
(c) Others, in aggregate	26 May 2003	26 May 2003 – 25 May 2013	0.58	3,000,000	(3,000,000)	–
Total				**48,066,000**	**(18,966,000)**	**29,100,000**

Note: All the options were immediately vested upon granted.

There were 18,966,000 share options lapsed and no share option of the Company was granted, exercised or cancelled 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	21%
– five largest suppliers combined	52%
Sales	
– the largest customer	11%
– five largest customers combined	35%

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 2014, 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 2014 with the most of Corporate Governance Code as set out in Appendix 14 of the Listing Rules. Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this annual report.

DONATIONS

During the year, the Group made charitable donations amounting to HK$2,000.

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 2014.

Report of the Directors

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, 27 June 2014

Independent Auditor's Report

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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 39 to 83, which comprise the consolidated and company statements of financial position as at 31 March 2014, 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.

Independent Auditor's Report

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 2014 and of the Group's loss 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, 27 June 2014

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Turnover	7	**131,418**	187,561
Cost of sales		**(119,210)**	(136,205)
Gross profit		**12,208**	51,356
Other income and gains		**6,978**	4,923
Selling and distribution costs		**(24,081)**	(27,374)
Administrative and other operating expenses		**(28,839)**	(30,131)
Impairment loss on property, plant and equipment	14	**(4,755)**	–
Loss before income tax expense	8	**(38,489)**	(1,226)
Income tax expense	11	**(377)**	(1,343)
Loss for the year attributable to owners of the Company	12	**(38,866)**	(2,569)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale investments		**(26)**	719
Exchange differences arising on translation of financial statements of operations outside Hong Kong		**644**	319
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments		**(463)**	–
Reclassification from equity to profit or loss on impairment of available-for-sale investments		**630**	–
Other comprehensive income for the year		**785**	1,038
Total comprehensive income for the year attributable to owners of the Company		**(38,081)**	(1,531)
Loss per share	13		
– Basic		**(HK12.19 cents)**	(HK0.81 cents)
– Diluted		**(HK12.19 cents)**	(HK0.81 cents)

Consolidated Statement of Financial Position

As at 31 March 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Property, plant and equipment	14	**1,862**	7,456
Available-for-sale investments	16	**6,985**	6,068
Bank deposit with original maturity of over one year		**–**	9,294
Rental deposits		**1,115**	3,224
		9,962	26,042
Current assets			
Inventories	17	**69,025**	74,638
Trade and bills receivables	18	**17,528**	12,460
Other receivables, deposits and prepayments		**6,884**	5,401
Tax recoverable		**132**	123
Held-to-maturity investment		**–**	1,524
Bank deposit with original maturity of over one year		**9,434**	–
Cash and cash equivalents		**160,531**	188,764
		263,534	282,910
Current liabilities			
Trade payables	20	**8,474**	5,712
Other payables and accrued charges		**14,304**	14,071
Current tax liabilities		**301**	671
		23,079	20,454
Net current assets		**240,455**	262,456
Total assets less current liabilities		**250,417**	288,498
Non-current liabilities			
Deferred tax liabilities	21	**61**	61
Total net assets		**250,356**	288,437
Capital and reserves attributable to owners of the Company			
Share capital	22	**3,188**	3,188
Reserves		**247,168**	285,249
Total equity		**250,356**	288,437

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 2014

	Notes	2014 HK$'000	2013 HK$'000
Non-current assets			
Investments in subsidiaries	15	**48,181**	48,181
Available-for-sale investments	16	**6,985**	6,068
		55,166	54,249
Current assets			
Held-to-maturity investment		**–**	1,524
Other receivables		**179**	158
Amounts due from subsidiaries	19	**22,407**	26,741
Cash and cash equivalents		**28,717**	8,254
		51,303	36,677
Current liabilities			
Accrued charges and other payables		**42**	32
Amount due to a subsidiary	19	**15,797**	–
		15,839	32
Net current assets		**35,464**	36,645
Total net assets		**90,630**	90,894
Capital and reserves attributable to owners of the Company			
Share capital	22	**3,188**	3,188
Reserves	24	**87,442**	87,706
Total equity		**90,630**	90,894

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 2014

	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Foreign exchange reserve HK$'000	Statutory and discretionary reserves HK$'000 (Note)	Available-for-sale investments reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April 2012	3,188	32,608	4,904	5,461	888	(643)	244,614	291,020
Loss for the year	–	–	–	–	–	–	(2,569)	(2,569)
Change in fair value of available-for-sale investments	–	–	–	–	–	719	–	719
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	319	–	–	–	319
Total comprehensive income for the year	–	–	–	319	–	719	(2,569)	(1,531)
2013 interim dividend paid *(Note 25)*	–	–	–	–	–	–	(1,052)	(1,052)
	–	–	–	319	–	719	(3,621)	(2,583)
At 31 March 2013 and 1 April 2013	3,188	32,608	4,904	5,780	888	76	240,993	288,437
Loss for the year	–	–	–	–	–	–	(38,866)	(38,866)
Change in fair value of available-for-sale investments	–	–	–	–	–	(26)	–	(26)
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	–	644	–	–	–	644
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments	–	–	–	–	–	(463)	–	(463)
Reclassification from equity to profit or loss on impairment of available-for-sale investments	–	–	–	–	–	630	–	630
Total comprehensive income for the year	–	–	–	644	–	141	(38,866)	(38,081)
At 31 March 2014	3,188	32,608	4,904	6,424	888	217	202,127	250,356

Note:

The statutory and discretionary reserves are non-distributable and the transfers 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 2014

	2014 HK$'000	2013 HK$'000
Cash flows from operating activities		
Loss before income tax expense	**(38,489)**	(1,226)
Adjustments for:		
Interest income	**(5,029)**	(4,365)
Dividend income from available-for-sale investments	**(221)**	(195)
Gain on disposal of available-for-sale investments	**(463)**	–
Impairment loss on property, plant and equipment	**4,755**	–
Depreciation of property, plant and equipment	**2,719**	2,428
Loss on disposal of property, plant and equipment	**94**	103
Impairment loss on available-for-sale investments	**630**	–
Impairment loss on trade receivables	**17**	126
Write-down of inventories	**10,218**	398
Operating loss before working capital changes	**(25,769)**	(2,731)
Decrease/(increase) in rental deposits	**2,109**	(821)
(Increase)/decrease in inventories	**(4,546)**	11,089
(Increase)/decrease in trade and bills receivables	**(5,047)**	12,469
Increase in other receivables, deposits and prepayments	**(1,470)**	(2,208)
Increase/(decrease) in trade payables	**2,756**	(5,422)
Increase/(decrease) in other payables and accrued charges	**214**	(1,770)
Cash (used in)/generated from operations	**(31,753)**	10,606
Hong Kong Profits Tax refunded	**17**	693
PRC Enterprise Income Tax paid	**(784)**	(1,148)
Net cash (used in)/generated from operating activities	**(32,520)**	10,151
Cash flows from investing activities		
Purchases of property, plant and equipment	**(1,967)**	(2,011)
Purchase of available-for-sale investments	**(2,847)**	–
Proceeds from disposal of available-for-sale investments	**1,904**	–
Proceeds from redemption of held-to-maturity investment	**1,524**	–
Decrease in structured bank deposit	**–**	5,536
Increase in bank deposit with original maturity of over one year	**–**	(9,225)
Interest received	**5,029**	4,365
Dividend received from available-for-sale investments	**221**	195
Net cash generated from/(used in) investing activities	**3,864**	(1,140)
Cash flows from financing activities		
Dividends paid	**–**	(1,052)
Net cash used in financing activities	**–**	(1,052)
Net (decrease)/increase in cash and cash equivalents	**(28,656)**	7,959
Cash and cash equivalents at beginning of year	**188,764**	180,597
Effect of exchange rate changes on cash and cash equivalents	**423**	208
Cash and cash equivalents at end of year	**160,531**	188,764

Notes to the Financial Statements

31 March 2014

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 – first effective on 1 April 2013

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (2011)	Employee Benefits

Except as explained below, the adoption of these new/revised HKFRSs has no material impact on the Group's financial statements.

HKFRSs (Amendments) – Annual Improvements 2010-2012 Cycle

The Basis of Conclusions for HKFRS 13 "Fair Value Measurement" was amended to clarify that short-term receivables and payables with no stated interest rate can be measured at their invoice amounts without discounting, if the effect of discounting is immaterial. This is consistent with the Group's existing accounting policy.

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 and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

The Group has adopted the amendments retrospectively for the financial year ended 31 March 2014. Items of other comprehensive income that may and may not be reclassified to profit and loss in the future have been presented separately in the consolidated statement of comprehensive income. The comparative information has been restated to comply with the amendments. As the amendments affect presentation only, there are no effects on the Group's financial position or performance.

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

(a) *Adoption of new/revised HKFRSs – first effective on 1 April 2013* *(Continued)*

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them.

The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The accounting requirements in HKAS 27 (2008) on other consolidation related matters are carried forward unchanged. The Group has changed its accounting policy in determining whether it has control of an investee and therefore is required to consolidate that interest (Note 4(b)).

The adoption of HKFRS 10 does not have any material impact on the Group's financial position or performance.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosure requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 12 disclosures are provided in Note 15. As the new standard affects only disclosure, there is no effect on the Group's financial position and performance.

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

(a) Adoption of new/revised HKFRSs – first effective on 1 April 2013 (Continued)

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 is applied prospectively.

HKFRS 13 did not materially affect any fair value measurements of the Group's assets and liabilities and therefore has no effect on the Group's financial position and performance.

(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 HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures[1]
HKFRS 9	Financial Instruments[5]
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2014

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

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

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

5 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

31 March 2014

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

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

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

HKAS 16 and HKAS 38 establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to HKAS 36 – Recoverable Amount Disclosures

The amendments limit the requirements to disclose the recoverable amount of an asset or cash generating unit ("CGU") to those periods in which an impairment loss has been recognised or reversed, and expand the disclosures where the recoverable amount of impaired assets or CGUs has been determined based on fair value less costs of disposal.

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 these pronouncements. The directors of the Company so far concluded that the adoption of these pronouncements will have no material impact on the Group's financial statements.

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. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

(b) *Subsidiaries*

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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.

(c) *Property, plant and equipment*

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

31 March 2014

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) *Property, plant and equipment* *(Continued)*

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	–	10% – 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.

Notes to the Financial Statements

31 March 2014

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.

Loans and receivables

These assets, including bank deposit with original maturity of over one year, rental deposits, trade and bills receivables, other receivables, deposits, 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.

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; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) *Financial instruments (Continued)*

(ii) *Impairment loss on financial assets (Continued)*

For loans and receivables

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.

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, and amount due to a subsidiary, 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.

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4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Financial instruments (Continued)

(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.

(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 follows:

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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 appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and 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 foreign exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) *Foreign currency (Continued)*

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.

(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 on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(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.

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4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Share-based payments (Continued)

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.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 and vested after 1 January 2005.

The Group has taken the advantage of the transitional provisions of HKFRS 2 in respect of those equity-settled awards for the share options granted and immediately vested before 1 January 2005. As a result, no share-based expenses have been recognised in the financial statements.

(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 of disposal 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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 of the Company 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.

(a) *Critical judgements in applying accounting policies*

Impairment of available-for-sale investments

Management 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, management 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 are as follows:

Impairment of property, plant and equipment

Impairment loss for property, plant and equipment are recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of the assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its value in use ("VIU") and fair value less costs of disposal ("FVLCOD").

VIU

The VIU calculations primarily use cash flow projections based on financial budgets approved by management covering a period of 2 to 5 years. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Details of the key assumptions and estimates in the VIU calculations are set out in Note 14.

Judgement is required to determine key assumptions and estimates adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment review.

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

(b) Key sources of estimation uncertainty *(Continued)*

Impairment of property, plant and equipment *(Continued)*

FVLCOD

Management estimate the amount obtainable from the sales of the assets or the cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal, as appropriate.

Further details of key assumptions and estimates used by management on the fair value measurement for the purpose of impairment assessment of the Group's property, plant and equipment are set out in Note 14. If future events do not correspond to such assumptions and estimates, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations and financial position.

Write-down of inventories

Management estimate 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 management's 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.

6. SEGMENT REPORTING *(Continued)*

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

Manufacturing business – Manufacture and distribution of leather products

Retail business – Retail of fashion apparel, footwear and leather accessories

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

(a) Reportable segments

	Manufacturing business		Retail business		Total	
	2014	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**97,906**	134,773	**33,512**	52,788	**131,418**	187,561
Inter-segment revenue	**3,799**	2,684	**–**	3	**3,799**	2,687
Reportable segment revenue	**101,705**	137,457	**33,512**	52,791	**135,217**	190,248
Reportable segment (loss)/profit	**(35,362)**	(5,462)	**(7,368)**	580	**(42,730)**	(4,882)
Depreciation of property, plant and equipment	**1,627**	772	**712**	1,359	**2,339**	2,131
Impairment loss on property, plant and equipment	**2,798**	–	**1,002**	–	**3,800**	–
Write-down of inventories	**7,505**	101	**2,713**	297	**10,218**	398
Reportable segment assets	**142,240**	157,236	**15,826**	27,848	**158,066**	185,084
Additions to property, plant and equipment	**1,443**	506	**91**	1,499	**1,534**	2,005
Reportable segment liabilities	**21,855**	18,434	**880**	1,317	**22,735**	19,751

6. SEGMENT REPORTING *(Continued)*

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

	2014 HK$'000	2013 HK$'000
Revenue		
Reportable segment revenue	**135,217**	190,248
Elimination of inter-segment revenue	**(3,799)**	(2,687)
Consolidated revenue	**131,418**	187,561
Loss before income tax expense		
Reportable segment loss	**(42,730)**	(4,882)
Elimination of inter-segment losses	**245**	106
Interest income	**5,029**	4,365
Dividend income from available-for-sale investments	**221**	195
Gain on disposal of available-for-sale investments	**463**	–
Impairment loss on available-for-sale investments	**(630)**	–
Unallocated other income and gains	**–**	39
Unallocated corporate expenses	**(1,087)**	(1,049)
Consolidated loss before income tax expense	**(38,489)**	(1,226)
Depreciation of property, plant and equipment		
Reportable segment depreciation	**2,339**	2,131
Depreciation of unallocated property, plant and equipment	**380**	297
Consolidated depreciation of property, plant and equipment	**2,719**	2,428
Impairment loss on property, plant and equipment		
Reportable segment impairment loss on property, plant and equipment	**3,800**	–
Impairment loss on unallocated property, plant and equipment	**955**	–
Consolidated impairment loss on property, plant and equipment	**4,755**	–
Additions to property, plant and equipment		
Reportable segment additions	**1,534**	2,005
Unallocated additions to property, plant and equipment	**433**	6
Consolidated additions to property, plant and equipment	**1,967**	2,011
Assets		
Reportable segment assets	**158,066**	185,084
Available-for-sale investments	**6,985**	6,068
Held-to-maturity investment	**–**	1,524
Tax recoverable	**132**	123
Unallocated corporate cash and cash equivalents	**107,489**	114,457
Other unallocated corporate assets	**824**	1,696
Consolidated total assets	**273,496**	308,952
Liabilities		
Reportable segment liabilities	**22,735**	19,751
Current tax liabilities	**301**	671
Deferred tax liabilities	**61**	61
Unallocated corporate liabilities	**43**	32
Consolidated total liabilities	**23,140**	20,515

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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**	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**51,605**	69,744	**716**	3,323
Europe	**31,901**	49,328	**–**	–
The PRC	**11,267**	17,142	**1,146**	4,133
The United States of America	**10,100**	19,252	**–**	–
Other countries	**26,545**	32,095	**–**	–
Total	**79,813**	117,817	**1,146**	4,133
	131,418	187,561	**1,862**	7,456

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

(d) *Information about major customers*

Revenue from one customer of the Group's manufacturing business segment amounted to approximately HK$14,699,000 (2013: HK$21,507,000) which represents 10% or more of the Group's revenue for the year.

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. LOSS BEFORE INCOME TAX EXPENSE

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

	2014	2013
	HK$'000	HK$'000
Auditor's remuneration	418	444
Cost of inventories recognised as expenses	119,210	136,205
Staff costs, excluding directors' emoluments *(note 9)*	17,956	20,564
Depreciation of property, plant and equipment	2,719	2,428
Loss on disposal of property, plant and equipment	94	103
Impairment loss on property, plant and equipment	4,755	–
Impairment loss on trade receivables	17	126
Write-down of inventories	10,218	398
Impairment loss on available-for-sale investments	630	–
Foreign exchange gain, net	(1,044)	(109)
Interest income	(5,029)	(4,365)
Dividend income from available-for-sale investments	(221)	(195)
Gain on disposal of available-for-sale investments	(463)	–

9. STAFF COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	2014	2013
	HK$'000	HK$'000
Salaries and other benefits	17,155	19,695
Retirement benefits scheme contributions	801	869
	17,956	20,564

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	2014	2013
	HK$'000	HK$'000
Directors' fees	150	150
Other emoluments:		
Salaries and other benefits	7,032	6,558
Discretionary bonuses	–	500
Retirement benefits scheme contributions	75	73
	7,257	7,281

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

(a) *Directors' emoluments (Continued)*

Details of directors' emoluments for the year ended 31 March 2014 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*
2014					
Executive directors:					
Chan King Hong Edwin	**–**	**2,394**	**–**	**30**	**2,424**
Chan King Yuen Stanley	**–**	**2,394**	**–**	**30**	**2,424**
Chan Wai Po Rebecca	**–**	**2,244**	**–**	**15**	**2,259**
Independent non-executive directors:					
Chau Cynthia Sin Ha	**50**	**–**	**–**	**–**	**50**
Fong Pui Sheung David	**50**	**–**	**–**	**–**	**50**
Or Kam Chung Janson	**50**	**–**	**–**	**–**	**50**
Total	**150**	**7,032**	**–**	**75**	**7,257**
2013					
Executive directors:					
Chan King Hong Edwin	–	2,232	200	29	2,461
Chan King Yuen Stanley	–	2,232	200	29	2,461
Chan Wai Po Rebecca	–	2,094	100	15	2,209
Independent non-executive directors:					
Chau Cynthia Sin Ha	50	–	–	–	50
Fong Pui Sheung David	50	–	–	–	50
Or Kam Chung Janson	50	–	–	–	50
Total	150	6,558	500	73	7,281

No directors waived any emoluments during the years ended 31 March 2014 and 2013.

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 (2013: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2013: two) individuals are as follows:

	2014	2013
	HK$'000	*HK$'000*
Salaries and other benefits	**1,820**	1,800
Discretionary bonuses	**48**	72
Retirement benefits scheme contributions	**30**	29
	1,898	1,901

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

(b) *Five highest paid individuals* *(Continued)*

The emoluments of each of the remaining individuals were below HK$1,000,000 for the years ended 31 March 2014 and 2013.

During the years ended 31 March 2014 and 2013, 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.

(C) The emoluments paid or payable to members of senior management (including directors) were within the following bands:

	2014 No. of individuals	2013 No. of individuals
Nil to HK$1,000,000	**8**	8
HK$2,000,001 to HK$2,500,000	**3**	3

11. INCOME TAX EXPENSE

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

	2014 ***HK$'000***	2013 *HK$'000*
Current tax – Hong Kong Profits Tax		
– tax for the year	**–**	196
– overprovision in respect of prior years	**(25)**	(98)
	(25)	98
Current tax – PRC Enterprise Income Tax		
– tax for the year	**688**	1,245
– overprovision in respect of prior years	**(286)**	–
	402	1,245
Income tax expense	**377**	1,343

No provision for Hong Kong Profits Tax has been made for the year ended 31 March 2014 as the Group has sustained estimated tax losses for the year. Provision for Hong Kong Profits Tax for the year ended 31 March 2013 was calculated at 16.5% on the estimated assessable profits for that year.

The PRC Enterprise Income Tax rate for the Company's subsidiary in the PRC is 25% (2013: 25%).

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11. INCOME TAX EXPENSE *(Continued)*

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

	2014 *HK$'000*	2013 *HK$'000*
Loss before income tax expense	**(38,489)**	(1,226)
Tax credit calculated at Hong Kong Profits Tax rate of 16.5% (2013: 16.5%)	**(6,351)**	(202)
Tax effect of expenses not deductible for tax purpose	**10,602**	11,104
Tax effect of income not taxable for tax purpose	**(8,516)**	(10,653)
Overprovision in respect of prior years	**(311)**	(98)
Effect of different tax rates of subsidiaries operating in other jurisdiction	**235**	423
Tax effect of tax losses not recognised	**3,932**	697
Tax effect of other deductible temporary difference not recognised	**790**	77
Others	**(4)**	(5)
Income tax expense	**377**	1,343

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

The Group's loss for the year attributable to owners of the Company includes an amount of loss of approximately HK$405,000 (2013: HK$233,000) which has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the Group's loss for the year of approximately HK$38,866,000 (2013: HK$2,569,000) attributable to owners of the Company and the weighted average number of 318,804,000 (2013: 318,804,000) ordinary shares in issue during the year.

The computation of diluted loss 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 2014 and 2013.

Notes to the Financial Statements

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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 2013	**9,506**	**6,033**	**13,474**	**1,847**	**30,860**
Additions	**113**	**99**	**961**	**794**	**1,967**
Disposals	**–**	**(2)**	**(371)**	**–**	**(373)**
Exchange realignment	**38**	**2**	**–**	**5**	**45**
At 31 March 2014	**9,657**	**6,132**	**14,064**	**2,646**	**32,499**
Accumulated depreciation and impairment					
At 1 April 2013	**8,829**	**4,572**	**8,459**	**1,544**	**23,404**
Depreciation	**239**	**310**	**1,950**	**220**	**2,719**
Impairment losses	**202**	**1,015**	**3,538**	**–**	**4,755**
Eliminated on disposals	**–**	**(1)**	**(278)**	**–**	**(279)**
Exchange realignment	**32**	**1**	**–**	**5**	**38**
At 31 March 2014	**9,302**	**5,897**	**13,669**	**1,769**	**30,637**
Net book value					
At 31 March 2014	**355**	**235**	**395**	**877**	**1,862**
Cost					
At 1 April 2012	9,074	5,716	12,729	1,845	29,364
Additions	413	394	1,204	–	2,011
Disposals	–	(78)	(459)	–	(537)
Exchange realignment	19	1	–	2	22
At 31 March 2013	9,506	6,033	13,474	1,847	30,860
Accumulated depreciation					
At 1 April 2012	8,524	4,267	7,187	1,413	21,391
Depreciation	289	365	1,645	129	2,428
Eliminated on disposals	–	(61)	(373)	–	(434)
Exchange realignment	16	1	–	2	19
At 31 March 2013	8,829	4,572	8,459	1,544	23,404
Net book value					
At 31 March 2013	677	1,461	5,015	303	7,456

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As at 31 March 2014, the Group's manufacturing business has been experiencing recurring losses due to decline in demand from overseas markets, and the Group's retail business has sustained loss for the year due to increase in competition and diminishing brand popularity of certain international brand products. Management considered there were impairment indicators and hence conducted impairment assessment on the Group's property, plant and equipment.

For the purpose of the impairment assessment, the subject assets (plant and machinery, furniture and fixtures, leasehold improvements and motor vehicles) are grouped into two CGUs, namely manufacturing business CGU and retail business CGU. Management considered that the VIUs of the CGUs should not be materially different from their respective FVLCODs if the subject assets within the respective CGUs are collectively used by market participants as the existing use of these assets represent their highest and best use based on management's estimate and their considerable experience in the businesses.

The VIUs of the CGUs are determined by management based on cash flow projections from the latest financial budgets formally approved by management covering a period of 2 to 5 years. No cash flows have been projected beyond the budget periods. The key assumptions and estimates for the VIU calculations are as follows:

	Manufacturing business CGU	**Retail business CGU**
Discount rate	9.7%	9.7%
Growth rates within the budget periods	5% to 16%	5% to 18%

Management estimated the discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the respective CGUs. The growth rates within the budget periods are estimated by management having taken into consideration of the past performance of the CGUs, industry growth forecasts, and future business plan of the Group.

The recoverable amounts of the CGUs determined from the above VIU calculations indicated that the carrying amounts of the two CGUs should be fully impaired. Management therefore estimated the FVLCODs of the individual assets.

For motor vehicles with carrying amount of approximately HK$877,000 as at 31 March 2014, the FVLCOD is estimated by management by reference to asking prices of comparable second-hand motor vehicles adjusted for differences in conditions. The FVLCODs of the motor vehicles are higher than their carrying amounts and therefore no impairment loss on motor vehicles was recognised as at 31 March 2014.

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

For plant and machinery, furniture and fixtures and leasehold improvements, management considered their FVLCODs to be their scrap values. The carrying amounts and FVLCODs of plant and equipment, furniture and fixtures and leasehold improvements together with the corresponding impairment losses recognised are set out below:

	Manufacturing business CGU			Retail business CGU		
	Carrying amounts	**FVLCOD**	**Impairment loss**	**Carrying amounts**	**FVLCOD**	**Impairment loss**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Plant and machinery	557	355	202	–	–	–
Furniture and fixtures	805	190	615	445	45	400
Leasehold improvements	3,264	328	2,936	669	67	602
	4,626	873	3,753	1,114	112	1,002

Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are:

Level 1: Quoted prices in active markets for identical items (unadjusted);
Level 2: Observable direct or indirect inputs other than Level 1 inputs;
Level 3: Unobservable inputs (i.e. not derived from market date).

The above FVLCODs of the Group's property, plant and equipment are classified as a Level 3 Measurement.

As such, impairment losses of approximately HK$202,000, HK$1,015,000 and HK$3,538,000 against the plant and machinery, furniture and fixtures and leasehold improvements, respectively, have been recognised in the consolidated statement of comprehensive income for the year ended 31 March 2014.

Management estimated that an increase/decrease in the scrape values of the plant and equipment, furniture and fixtures and leasehold improvements by 5%, which represents management's assessment of a reasonably possible change, would have insignificant impact on the loss for the year and equity as at 31 March 2014.

As at 31 March 2013, management assessed that there were no indicators of impairment for assets grouped under the retail business CGU that would require the estimation of the recoverable amount of those assets. For assets grouped under the manufacturing business CGU, the recoverable amount of the CGU was determined based on VIU calculation which was higher than the carrying amount, and accordingly no impairment loss was recognised.

15. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2014	2013
	HK$'000	*HK$'000*
Unlisted shares, at cost	**48,181**	48,181

Details of the Company's subsidiaries at 31 March 2014 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 (i))*	The PRC	Paid up registered capital HK$2,720,000 *(Note (iii))*		100%	Manufacturing and trading of leather products
Dongguan Sze Cheik Leather Goods Company Limited *(Note (i) and (ii))*	The PRC	Paid up registered capital HK$1,665,866 *(Note (ii))*		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

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Note:

(i) These subsidiaries are wholly foreign-owned enterprises established in the PRC.

(ii) Dongguan Sze Cheik Leather Goods Company Limited is newly established during the year. As at 31 March 2014, its entire registered capital amounted to HK$5,000,000. In accordance with the relevant laws and regulations of the PRC, the remaining unpaid capital contribution of approximately HK$3,334,000 is required to be paid up on or before 6 June 2015.

(iii) As at 31 March 2014, the entire registered capital of Dongguan Ngai Luen Leather Goods Company Limited amounted to HK$5,600,000 (2013: HK$2,000,000). In accordance with the relevant laws and regulations of the PRC, the remaining unpaid capital contribution of HK$2,880,000 is required to be paid up on or before 1 March 2016.

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	
	2014	2013
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value	**6,985**	6,068

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

17. INVENTORIES

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Raw materials	**54,968**	51,602
Work in progress	**3,630**	2,826
Finished goods	**10,427**	20,210
	69,025	74,638

18. TRADE AND BILLS RECEIVABLES

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Trade and bills receivables	**18,266**	13,184
Less: impairment loss	**(738)**	(724)
	17,528	12,460

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	
	2014	2013
	HK$'000	*HK$'000*
Less than 30 days	**9,817**	6,743
31 to 60 days	**784**	1,474
61 to 90 days	**4,092**	2,120
91 to 120 days	**1,507**	595
121 to 365 days	**1,328**	1,430
More than 365 days	**–**	98
	17,528	12,460

As at 31 March 2014, trade and bills receivables of approximately HK$8,732,000 (2013: HK$5,996,000) are neither past due nor impaired. Trade and bills receivables that are neither past due nor impaired related to customers for whom there is no recent history of default.

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18. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Less than 30 days past due	**4,171**	2,274
31 – 60 days past due	**2,111**	2,141
61 – 90 days past due	**1,448**	609
91 – 120 days past due	**197**	158
121 – 365 days past due	**869**	1,282
	8,796	6,464

Trade and bills receivables that are past due but not impaired related to customers that have good creditworthiness or good track record with the Group. Based on past experience, 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.

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

	The Group	
	2014	2013
	HK$'000	*HK$'000*
At beginning of the year	**724**	598
Impairment loss recognised	**17**	126
Bad debts written off	**(3)**	–
At end of the year	**738**	724

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

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19. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

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

20. TRADE PAYABLES

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

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Less than 30 days	**5,149**	2,342
31 to 60 days	**1,943**	1,382
61 to 90 days	**892**	1,065
91 to 120 days	**322**	8
121 to 365 days	**154**	634
More than 365 days	**14**	281
	8,474	5,712

21. DEFERRED TAX LIABILITIES

Deferred tax liabilities recognised by the Group and movements thereof are as follows:

	The Group
	Accelerated tax depreciation
	HK$'000
At 1 April 2012, 31 March 2013, 1 April 2013 and 31 March 2014	61

At 31 March 2014, the Group had other deductible temporary difference of approximately HK$6,175,000 (2013: HK$1,503,000) and unused tax losses of approximately HK$29,079,000 (2013: HK$5,300,000). The deductible temporary difference and unused tax losses can be carried forward indefinitely. Deferred tax assets have not been recognised in relation to such deductible temporary difference and unused tax losses due to unpredictability of future profit streams.

No deferred tax liability has been recognised on temporary difference in relation to the undistributed earnings of approximately HK$24,088,000 (2013: HK$21,523,000) of a 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 2014, the Group and the Company did not have other material unrecognised deferred tax assets and liabilities (2013: Nil).

22. 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 2012, 31 March 2013, 1 April 2013 and 31 March 2014	2,000,000,000	20,000
Issued and fully paid:		
At 1 April 2012, 31 March 2013, 1 April 2013 and 31 March 2014	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 approximately HK$250,356,000 (2013: HK$288,437,000) as shown in the consolidated statement of financial position as at 31 March 2014. 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.

23. 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.

23. SHARE OPTIONS *(Continued)*

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 movements in the Company's share options during the year ended 31 March 2014.

Name or category of Participant	Date of grant	Number of options outstanding as at 1 April 2013	Lapsed during the year	Number of options outstanding as at 31 March 2014	Exercisable period	Exercise price per share *HK$*
(a) Executive directors						
Chan King Hong Edwin	24 Sept 2003	3,181,200	(3,181,200)	–	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	8,700,000	–	8,700,000	22 July 2009 – 21 July 2019	0.570
Chan King Yuen Stanley	24 Sept 2003	3,181,200	(3,181,200)	–	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	8,700,000	–	8,700,000	22 July 2009 – 21 July 2019	0.570
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	(3,181,200)	–	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	8,700,000	–	8,700,000	22 July 2009 – 21 July 2019	0.570
		35,643,600	(9,543,600)	26,100,000		
(b) Employees, in aggregate	26 May 2003	60,000	(60,000)	–	26 May 2003 – 25 May 2013	0.580
	24 Sept 2003	6,362,400	(6,362,400)	–	24 Sept 2003 – 23 Sept 2013	0.830
	22 July 2009	3,000,000	–	3,000,000	22 July 2009 – 21 July 2019	0.570
		9,422,400	(6,422,400)	3,000,000		
(c) Others, in aggregate	26 May 2003	3,000,000	(3,000,000)	–	26 May 2003 – 25 May 2013	0.580
Total		48,066,000	(18,966,000)	29,100,000		
Weighted average exercise price		HK$0.657	HK$0.790	HK$0.570		

No options have been granted, lapsed or exercised during the year ended 31 March 2013.

The weighted average remaining contractual life of the options outstanding at 31 March 2014 is 5.31 years (2013: 3.99 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.

Notes to the Financial Statements

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24. RESERVES

The Company	**Share premium**	**Share option reserve**	**Available-for-sale investments reserve**	**Retained earnings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2012	80,779	4,904	(643)	1,732	86,772
Profit for the year	–	–	–	1,267	1,267
Change in fair value of available-for-sale investments	–	–	719	–	719
2013 interim dividend paid *(Note 25)*	–	–	–	(1,052)	(1,052)
At 31 March 2013 and 1 April 2014	**80,779**	**4,904**	**76**	**1,947**	**87,706**
Loss for the year	**–**	**–**	**–**	**(405)**	**(405)**
Change in fair value of available-for-sale investments	**–**	**–**	**(26)**	**–**	**(26)**
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments	**–**	**–**	**(463)**	**–**	**(463)**
Reclassification from equity to profit or loss on impairment of available-for-sale investments	**–**	**–**	**630**	**–**	**630**
At 31 March 2014	**80,779**	**4,904**	**217**	**1,542**	**87,442**

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 investments at fair value.
Retained earnings	Cumulative net gains and losses recognised in profit or loss.

25. DIVIDENDS

	The Group and the Company	
	2014	2013
	HK$'000	*HK$'000*
Interim dividend of HK$Nil (2013: HK$0.33) per ordinary share	**–**	1,052

The directors do not propose any final dividend for both years ended 31 March 2014 and 2013.

26. CONTINGENT LIABILITIES

At 31 March 2014, the Company issued a guarantee to banks in respect of general facilities granted to its subsidiaries to the extent of HK$15,000,000 (2013: HK$15,000,000) and the facilities have not been utilised by the subsidiaries (2013: 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.

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 2014, there were no rental payables by the subsidiary under these lease agreements (2013: Nil) and the non-cancellable future minimum lease payment under these lease agreements was approximately HK$6,258,000 (2013: HK$8,652,000).

27. 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 (2013: one to three 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:

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Minimum lease payments	**17,690**	16,804
Contingent rents	**53**	415
	17,743	17,219

Notes to the Financial Statements

31 March 2014

27. OPERATING LEASES *(Continued)*

The total future minimum lease payments are due as follows:

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Not later than one year	**10,116**	12,243
Later than one year and not later than five years	**930**	6,212
	11,046	18,455

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

28. 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:

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	**600**	600

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:

	The Group	
	2014	2013
	HK$'000	*HK$'000*
Short-term benefits	**11,067**	11,221
Post employment benefits	**150**	145
	11,217	11,366

31 March 2014

29. 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.

30. 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"), Renminbi ("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	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**11,994**	11,350	**107,171**	22,795
Euro	**1**	1	**46**	2,492

The Group currently does not have a foreign currency hedging policy. However, management monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Financial Statements

31 March 2014

30. FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

The following table indicates the approximate change in the Group's loss 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.

	2014		2013	
	Appreciation/ (depreciation) of foreign exchange rates against HK$	**Increase/ (decrease) in loss for the year and (decrease)/ increase in retained earnings**	Appreciation/ (depreciation) of foreign exchange rates against HK$	Increase/ (decrease) in loss for the year and (decrease)/ increase in retained earnings
	%	***HK$'000***	%	*HK$'000*
RMB	**4%**	**(3,847)**	4%	(495)
	(4%)	**3,847**	(4%)	495
Euro	**9%**	**(4)**	9%	(223)
	(9%)	**4**	(9%)	223

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 2013.

30. 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 2014, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have decreased/increased the loss for the year and increased/decreased the retained earnings by approximately HK$347,000 (2013: HK$400,000).

(iii) *Credit risk*

The Group has significant concentration of credit risk on trade and bills receivables as the amounts due from its three (2013: two) customers as at 31 March 2014 amounted to approximately HK$9,421,000 (2013: HK$4,042,000) which accounted for approximately 54% (2013: 32%) of the trade and bills receivables.

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 deposit with original maturity of over one year and cash at banks 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, comprising trade payables and other payables and accrued charges, mature in less than one year and their contractual undiscounted payments approximate their carrying amounts included in the statement of financial position.

30. FINANCIAL RISK MANAGEMENT *(Continued)*

(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% (2013: 15%) 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 2014 and 2013.

(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***
2014				
Available-for-sale investments – Listed	**6,985**	**–**	**–**	**6,985**

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2013				
Available-for-sale investments – Listed	6,068	–	–	6,068

31 March 2014

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

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 June 2014.

Five Year Financial Summary

31 March 2014

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

	2014	2013	2012	2011	2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
(Loss)/profit for the year	**(38,866)**	(2,569)	6,980	16,910	21,983
Assets and liabilities					
Total assets	**273,496**	308,952	318,599	310,420	297,809
Total liabilities	**(23,140)**	(20,515)	(27,579)	(23,960)	(25,464)
Total equity	**250,356**	288,437	291,020	286,460	272,345