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(Stock Code: 264)

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

The Board of Directors (the “Directors”) of Chanco International Group Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2014 as follows:–

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014*

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2014</b>	2013
		<b>Unaudited</b>	Unaudited
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	4	<b>56,987</b>	59,826
Cost of sales		<b>(49,503)</b>	(53,118)
Gross profit		<b>7,484</b>	6,708
Other income and gains		<b>3,395</b>	4,459
Selling and distribution costs		<b>(11,711)</b>	(11,880)
Administrative and other operating expenses		<b>(13,625)</b>	(13,602)
Loss before income tax expense	5	<b>(14,457)</b>	(14,315)
Income tax expense	6	<b>(557)</b>	(346)
Loss for the period attributable to owners of the Company		<b>(15,014)</b>	(14,661)

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2014</b>	2013
		<b>Unaudited</b>	Unaudited
<i>Notes</i>		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Other comprehensive income</b>			
Items that may be subsequently reclassified to profit or loss:			
	Change in fair value of available-for-sale investments	<b>706</b>	140
	Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments	<b>(177)</b>	–
	Exchange differences arising on translation of financial statements of operations outside Hong Kong	<b>159</b>	599
	Other comprehensive income for the period	<b>688</b>	739
<b>Total comprehensive income for the period attributable to owners of the Company</b>		<b><u>(14,326)</u></b>	<b><u>(13,922)</u></b>
Loss per share			
	– Basic	<b><u>(HK4.7 cents)</u></b>	<b><u>(HK4.6 cents)</u></b>
	– Diluted	<b><u>(HK4.7 cents)</u></b>	<b><u>(HK4.6 cents)</u></b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 SEPTEMBER 2014**

		<b>30 September 2014</b>	31 March 2014
	<i>Notes</i>	<b>Unaudited HK\$'000</b>	Audited HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		<b>2,085</b>	1,862
Available-for-sale investments	9	<b>7,126</b>	6,985
Rental deposits		<b>1,620</b>	1,115
		<u>10,831</u>	<u>9,962</u>
<b>Current assets</b>			
Inventories		<b>61,922</b>	69,025
Trade and bills receivables	10	<b>10,132</b>	17,528
Other receivables, deposits and prepayments		<b>7,399</b>	6,884
Tax recoverable		<b>132</b>	132
Bank deposit with original maturity of over one year		–	9,434
Cash and cash equivalents		<b>167,793</b>	160,531
		<u>247,378</u>	<u>263,534</u>
<b>Current liabilities</b>			
Trade payables	11	<b>8,626</b>	8,474
Other payables and accrued charges		<b>13,306</b>	14,304
Current tax liabilities		<b>186</b>	301
		<u>22,118</u>	<u>23,079</u>
<b>Net current assets</b>		<u>225,260</u>	240,455
<b>Total assets less current liabilities</b>		<b>236,091</b>	250,417
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>61</b>	61
<b>Total Net Assets</b>		<u>236,030</u>	<u>250,356</u>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	12	<b>3,188</b>	3,188
Reserves		<b>232,842</b>	247,168
<b>Total Equity</b>		<u>236,030</u>	<u>250,356</u>

## **NOTES**

### **1. GENERAL**

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

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

### **2. BASIS OF PREPARATION**

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

### **3. PRINCIPAL ACCOUNTING POLICIES**

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

Except as described below, the accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2014.

In the current interim period, the Group has applied, for the first time, the following new standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA, that are relevant for the Group’s condensed interim financial statements:

HKAS 32 (Amendment)	Financial instruments: presentation – offsetting financial assets and financial liabilities
HKAS 36 (Amendment)	Recoverable amount disclosures

The adoption of the new and revised HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

The following new and revised HKFRSs have been issued but are not effective for the financial year beginning 1 April 2014 and have not been early adopted:

HKAS 16 and 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation <sup>1</sup>
HKFRS 9 (2014)	Financial instruments <sup>5</sup>
HKFRS 15	Revenue from contracts with customers <sup>2</sup>
HKFRSs (Amendments)	Annual improvements 2010-2012 cycle <sup>4</sup>
HKFRSs (Amendments)	Annual improvements 2011-2013 cycle <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2017

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

<sup>4</sup> Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2018

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.

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

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

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

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

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

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

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

	Manufacturing business		Retail business		Total	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	Unaudited 2014 HK\$'000	Unaudited 2013 HK\$'000	Unaudited 2014 HK\$'000	Unaudited 2013 HK\$'000	Unaudited 2014 HK\$'000	Unaudited 2013 HK\$'000
Revenue from external customers	43,661	45,791	13,326	14,035	56,987	59,826
Inter-segment revenue	3,322	1,683	–	–	3,322	1,683
Reportable segment revenue	<u>46,983</u>	<u>47,474</u>	<u>13,326</u>	<u>14,035</u>	<u>60,309</u>	<u>61,509</u>
Reportable segment result	(13,346)	(12,527)	(3,532)	(4,067)	(16,878)	(16,594)
Elimination of inter-segment losses/(profits)					120	(24)
Dividend income from available-for-sale investments					206	168
Gain on disposal of available-for-sale investments					177	–
Interest income					2,304	2,493
Unallocated other income and gains					71	206
Unallocated corporate expenses					(457)	(564)
Loss before income tax expense					(14,457)	(14,315)
Income tax expense					(557)	(346)
Loss for the period					<u>(15,014)</u>	<u>(14,661)</u>

	Manufacturing business		Retail business		Total	
	30 September	31 March	30 September	31 March	30 September	31 March
	2014	2014	2014	2014	2014	2014
	Unaudited	Audited	Unaudited	Audited	Unaudited	Audited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	120,258	142,240	15,795	15,826	136,053	158,066
Available-for-sales investments					7,126	6,985
Tax recoverable					132	132
Unallocated cash and cash equivalents					114,034	107,489
Other unallocated corporate assets					864	824
					<u>258,209</u>	<u>273,496</u>
Reportable segment liabilities	21,046	21,855	845	880	21,891	22,735
Current tax liabilities					186	301
Deferred tax liabilities					61	61
Unallocated corporate liabilities					41	43
					<u>22,179</u>	<u>23,140</u>

## 5. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

	Six months ended	
	30 September	2013
	2014	2013
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	49,503	53,118
Depreciation of property, plant and equipment	342	1,196
Operating lease rentals in respect of land and buildings	9,331	9,120
Write down of inventories	412	1,396
Staff costs (excluding directors' emoluments)	8,049	8,105
and crediting:		
Dividend income from available-for-sale investments	206	168
Interest income	2,304	2,493
Foreign exchange gain, net	586	1,684
Gain on disposal of available-for-sale investments	177	—

## 6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2014	2013
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	–	–
– PRC enterprise income tax	557	346
Deferred tax	–	–
	<u>–</u>	<u>–</u>
	<u>557</u>	<u>346</u>

No provision for Hong Kong profits tax has been made for the period as the Group has sustained estimated tax losses for both periods. The PRC enterprise income tax rate for the Company's subsidiary in the PRC is 25% (2013: 25%).

## 7. INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2014 and 2013.

## 8. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss for the period of HK\$15,014,000 (2013: loss of HK\$14,661,000) and weighted average number of 318,804,000 (2013: 318,804,000) ordinary shares in issue during the period.

For the six months ended 30 September 2014 and 2013, diluted loss per share is equal to the basic loss per share for the respective periods as there is no dilutive effect on the outstanding share options.

## 9. AVAILABLE-FOR-SALE INVESTMENTS

	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000
Equity securities listed in Hong Kong, at fair value	<u>7,126</u>	<u>6,985</u>

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



## 10. TRADE AND BILLS RECEIVABLES

	<b>30 September 2014 Unaudited HK\$'000</b>	31 March 2014 Audited HK\$'000
Trade and bills receivables	10,959	18,266
Less: impairment loss	<u>(827)</u>	<u>(738)</u>
	<b><u>10,132</u></b>	<b><u>17,528</u></b>

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

	<b>30 September 2014 Unaudited HK\$'000</b>	31 March 2014 Audited HK\$'000
Less than 30 days	6,282	9,817
31-60 days	2,758	784
61-90 days	656	4,092
91-120 days	157	1,507
121-365 days	278	1,328
More than 365 days	<u>1</u>	<u>-</u>
	<b><u>10,132</u></b>	<b><u>17,528</u></b>

## 11. TRADE PAYABLES

Details of the ageing analysis are as follows:

	<b>30 September 2014 Unaudited HK\$'000</b>	31 March 2014 Audited HK\$'000
Less than 30 days	6,212	5,149
31-60 days	193	1,943
61-90 days	1,428	892
91-120 days	490	322
121-365 days	227	154
More than 365 days	<u>76</u>	<u>14</u>
	<b><u>8,626</u></b>	<b><u>8,474</u></b>

## 12. SHARE CAPITAL

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

## 13. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2014 and 31 March 2014.

## 14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 September	
	2014	2013
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	<u>375</u>	<u>300</u>

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

### (b) Compensation of key management personnel

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

	Six months ended 30 September	
	2014	2013
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short-term benefits	5,225	5,243
Post employment benefits	<u>77</u>	<u>76</u>
	<u>5,302</u>	<u>5,319</u>

## **DIVIDEND**

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2014.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL PERFORMANCE**

The first half of the financial year 2014/15 continued to be challenging. For the six months ended 30 September 2014, the Group recorded a lower turnover of approximately HK\$56,987,000 as compared to approximately HK\$59,826,000 for the six months ended 30 September 2013. Revenue from both manufacturing and retail business segments declined in the reporting period. Nevertheless, gross profit increased from approximately HK\$6,708,000 to approximately HK\$7,484,000. It was mainly attributed to the increase of gross profit derived from retail business. Gross profit margin increased from around 11% to around 13%.

Other income and gains decreased from approximately HK\$4,459,000 to approximately HK\$3,395,000 which was mainly attributed to the decrease in net foreign exchange gain recognized in the reporting period.

Selling and distribution costs decreased slightly from approximately HK\$11,880,000 to approximately HK\$11,711,000. Administrative and other operating expense for the period was around approximately HK\$13,625,000 as compared to HK\$13,602,000 of same period last year. The Group implemented rigid cost control over the reporting period.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK\$15,014,000 for the six month ended 30 September 2014 (2013: approximately HK\$14,661,000). Loss per share for the six month ended 30 September 2014 was HK4.7 cents (2013: HK4.6 cents) and diluted loss per share for the six month ended 30 September 2014 was HK4.7 cents (2013: HK4.6 cents).

## **BUSINESS REVIEW**

### **Manufacturing Business**

Global manufacturing activity remained subdued. The Group's turnover of manufacturing business segment from external customers for the six months ended 30 September 2014 decreased by around 5% to approximately HK\$43,661,000. Global market demands remained weak and uncertain. Geographically, sales to Europe decreased from approximately HK\$17,604,000 to approximately HK\$14,392,000. Sales to the U.S. increased from approximately HK\$3,567,000 to approximately HK\$4,033,000. Sales in Hong Kong decreased from approximately HK\$8,734,000 to approximately HK\$6,340,000. Sales in the PRC market was approximately HK\$5,924,000 as compared to approximately HK\$5,423,000 in same period last year. Apart from the major markets, sales to other countries including Australia, Japan, India, Korea, Singapore and Malaysia, etc. increased from approximately HK\$10,463,000 to approximately HK\$12,972,000. This was mainly due to the increase in sales and shipment to Japan, Singapore and India.

In terms of product category, sales of belts decreased to HK\$35,478,000 (2013: HK\$39,346,000) and sales of leather goods and other accessories increased to approximately HK\$8,183,000 (2013: HK\$6,445,000). In the reporting period, the Group endeavored to reduce the inventory level of raw materials in particular to consume the slow-moving cowhide leathers. However, the utilization rate of production capacity remained low. As a result, the Group still incurred gross loss and gross loss margin was around 1% (2013: gross loss margin around 1%). Against the backdrop of tough operating environment, the Group's manufacturing business segment recorded an operating loss of around HK\$13,346,000 for the period ended 30 September 2014 (2013: HK\$12,527,000).

### **Retail Business**

In the first half of the financial year, Hong Kong retail sales growth continued decelerating as a result of weaker tourist spending and softening of domestic consumption. The Group's turnover of retail business segment decreased around 5% from approximately HK\$14,035,000 to approximately HK\$13,326,000. The average number of operating stores and its sales area in the reporting period was less than same period last year. The Group's in-house brand sales increased slightly and it accounted for around 80% of total retail sales as compared to around 71% of same period last year. Despite decrease in overall retail sales, the comparable same store sales increased around 10% against same period last year. The increase was mainly attributable to the surge of sales of in-house brand leather bags in the reporting period. High in-house brand sales drove up gross profit margin from around 51% to around 60%. The overall shop rental to turnover ratio increased by 3 percentage points to approximately 45%. This was mainly due to lower sales and increase in rental expenses after renewal of tenancy in the reporting period. The staff cost reduced as a result of the decrease in number of staff in the reporting period. As a consequence of the above, the operating loss of retail business segment decreased from approximately HK\$4,067,000 to approximately HK\$3,532,000. During the reporting period, the Group closed two stores upon expiry of the tenancy and opened one new store in Kowloon Bay. As at 30 September 2014, the Group operated five AREA 0264 stores in Hong Kong.

## **Prospects**

The outlook of Group's manufacturing business in the second half of the financial year 2014/15 remains uncertain. In view of uncertain market conditions, the Group will continue to pursue cautious and prudent business strategies.

In retail aspect, the business environment remains challenging in view of slowdown of retail sales growth and increasing market competition in Hong Kong. Nevertheless, the Group's retail performance kept improving in October and November 2014. The Group will open one new store in Tsuen Wan. The Group will continue to look for strategic location to expand its sales networks. Barring unforeseeable circumstances, the management believes that the worst challenges are behind us and the Group's retail business will continue to improve in the second half year.

## **Liquidity, Financial Resources and Capital Structure**

As at 30 September 2014 the Group's cash and bank deposits were approximately HK\$167,793,000 as compared to approximately HK\$169,965,000 as at 31 March 2014.

As at 30 September 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 total current assets of approximately HK\$247,378,000 as at 30 September 2014 (31 March 2014: HK\$263,534,000) and total current liabilities of approximately HK\$22,118,000 (31 March 2014: HK\$23,079,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 11 times as at 30 September 2014 (31 March 2014: 11 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\$250,356,000 as at 31 March 2014 to approximately HK\$236,030,000 as at 30 September 2014. The decrease was mainly attributable to operating loss incurred in the reporting period.

## **Treasury Policy**

The Group generally finances its operation with internally generated resources. Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars (“HK\$”), US dollars (“USD”), Renminbi (“RMB”) and Euro. Transactions of the Group are mainly denominated in HK\$, USD, RMB and Euro. As HK\$ is pegged to USD, the Group does not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD. The Group has significant exposure to foreign exchange fluctuation in RMB 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 six months ended 30 September 2014.

## **Human Resources**

As at 30 September 2014, the Group had around 96 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 488 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.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 September 2014.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 to the Listing Rules during the six months ended 30 September 2014, except for the deviations from CG Code provisions A1.8 and A2.1. Under the CG Code provision A1.8, the Company should arrange appropriate insurance cover in respect of legal action against its directors. The Board decided that it was not necessary to arrange insurance cover to the Directors because Directors had always been prudent in making business decision for the Company and so the legal risk to the Directors was quite low. Under the CG Code provision A2.1, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Due to the small size of the existing management team, both the roles of the chairman and chief executive officer of the Company are currently played by Mr. Chan King Hong, Edwin. Mr. Chan has considerable experience in manufacturing industry and is the person most knowledgeable about the business of the Group. The Board believes that the current structure will enable us to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of Group.

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

The Company has adopted the Model Code for Securities Transactions by Directors (“Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 September 2014.

## **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors, Mr. Fong Pui Sheung David (Chairman), Ms. Chau Cynthia Sin Ha, and Mr. Or Kam Chung Janson. The Audit Committee has reviewed with Group’s management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited interim financial statements and the results of the Group for the six months ended 30 September 2014.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This results announcement is published on the websites of the Company (<http://www.irasia.com/listco/hk/chanco/index.htm>) and the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)). An interim report for the six months ended 30 September 2014 containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

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

Hong Kong, 28 November 2014

*As at the date of this announcement, Mr. Chan King Hong, Edwin, Mr. Chan King Yuen, Stanley, Ms. Chan Wai Po, Rebecca are the executive directors of the Company, Mr. Fong Pui Sheung, David MH, Ms. Chau Cynthia Sin Ha JP and Mr. Or Kam Chung, Janson are the independent non-executive directors of the Company.*