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## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of the Offer, this Composite Document and/or the accompanying Acceptance Form or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Chanco International Group Limited, you should at once hand this Composite Document, together with the accompanying Acceptance Form, to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities, or other agent through whom the sale or the transfer was effected for onward transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Acceptance Form, the contents of which form part of the terms and conditions of the Offer contained herein.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Acceptance Form, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Acceptance Form.

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### GREEN PARADE LIMITED

*(Incorporated in the BVI with limited liability)*



**COMPOSITE DOCUMENT IN RELATION TO  
POSSIBLE MANDATORY UNCONDITIONAL CASH OFFER  
BY OPTIMA CAPITAL LIMITED  
ON BEHALF OF GREEN PARADE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
CHANCO INTERNATIONAL GROUP LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
GREEN PARADE LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

**Financial adviser to Green Parade Limited**



**Independent Financial Adviser to the Independent Board Committee**



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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from Optima Capital containing, among other things, the principal terms of the Offer is set out on pages 7 to 17 of this Composite Document. A letter from the Board is set out on pages 18 to 26 of this Composite Document.

A letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Offer is set out on pages 27 to 28 of this Composite Document. A letter from MESSIS CAPITAL to the Independent Board Committee in respect of the Offer and the principal factors considered by it in arriving at its advice is set out on pages 29 to 47 of this Composite Document.

The procedures for acceptance and settlement and the acceptance period of the Offer are set out in Appendix I to this Composite Document and in the accompanying Acceptance Form. Acceptances of the Offer must be received by the Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event no later than 4:00 p.m. on Monday, 21 September 2015, or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.

Persons including, without limitation, custodians, nominees and trustees who would, or otherwise intend to, forward this Composite Document and/or the accompanying Acceptance Form to any jurisdiction outside Hong Kong should read the details in this regard which are contained in the section headed "Important notice" in this Composite Document before taking any action. It is the responsibility of each Overseas Shareholder wishing to accept the Offer to satisfy himself, herself or itself as to the full observance of the laws and regulations of the relevant jurisdictions in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdiction. Overseas Shareholders are advised to seek professional advice on deciding whether to accept the Offer.

This Composite Document will remain on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.irasia.com/listco/hk/chanco/index.htm>) as long as the Offer remains open.

31 August 2015

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## EXPECTED TIMETABLE

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*The expected timetable set out below is indicative only and may be subject to change. Any change to the timetable will be jointly announced by the Offeror and the Company as and when appropriate. Unless otherwise specified, all times and dates contained in this Composite Document refer to Hong Kong local time and dates.*

2015

Despatch date of this Composite Document and  
the accompanying Acceptance Form and  
the Offer opens for acceptance (*Note 1*) . . . . . Monday, 31 August

The Offer becomes unconditional in all respects  
upon Completion and the announcement of  
the Offer having become unconditional in all respects  
to be posted on the Stock Exchange's website (*Note 2*) . . . . . on or before  
Monday, 7 September

Latest time and date for acceptance of the Offer  
(*Notes 3, 4 and 8*). . . . . 4:00 p.m. on  
Monday, 21 September

Closing Date of the Offer (*Notes 1, 3, 5 and 8*) . . . . . Monday, 21 September

Announcement of the results of the Offer  
(or its extension or revision, if any) to be posted  
on the Stock Exchange's website (*Note 6*) . . . . . by 7:00 p.m. on  
Monday, 21 September

Latest date of posting of remittances in respect of  
valid acceptances received under the Offer on or  
before 4:00 p.m. on the Closing Date (*Notes 7 and 8*) . . . . . Friday, 2 October

*Notes:*

1. The Offer is made on the date of posting of this Composite Document, and is capable of acceptance on and from 31 August 2015 until the Closing Date of the Offer on 21 September 2015. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances set out in the section headed "Right of withdrawal" in Appendix I to this Composite Document.
2. It is the intention of the parties to the Agreement that Completion shall take place on or before 7 September 2015, upon which the Offer shall become unconditional in all respects. In accordance with the Takeovers Code, where the Offer becomes or is declared unconditional in all respects, at least 14 days' notice in writing must be given before the Offer is closed to the Independent Shareholders who have not accepted the Offer and an announcement must be published.
3. In accordance with the Takeovers Code, the Offer must initially be open for acceptance for at least 21 days following the date on which this Composite Document is posted. Where the Offer Period laid down by the Takeovers Code ends on a day which is not a Stock Exchange Business Day, the period is extended until the next Stock Exchange Business Day.
4. The Independent Shareholders are required to submit the duly completed and signed Acceptance Form to the Registrar on or before 4:00 p.m. on 21 September 2015, being the Closing Date, in order to accept the Offer.

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## EXPECTED TIMETABLE

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5. The Offer will become unconditional in all respects upon Completion. As the Vendors and the Guarantors have undertaken not to accept the Offer in respect of any Shares held by them, the Offer is not capable of becoming unconditional until Completion takes place. Pursuant to the Takeovers Code, the Offer will lapse if Completion does not take place and the Offer does not become unconditional as to acceptances before 7:00 p.m. on 30 October 2015, being the 60th day after the day this Composite Document is posted.
6. In accordance with the Takeovers Code, an announcement will be issued on the website of the Stock Exchange by 7:00 p.m. on the Closing Date stating the results of the Offer and whether the Offer has been extended, revised or expired. In the event that the Offeror decides to extend the Offer after the Offer has become unconditional as to acceptances and the announcement does not specify the next closing date, at least 14 days' notice by way of an announcement will be given before the Offer is closed to those Independent Shareholders who have not accepted the Offer.
7. Remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty) payable for the Offer Shares tendered under the Offer will be made to the Independent Shareholders accepting the Offer by ordinary post at their own risk as soon as possible, but in any event within seven Stock Exchange Business Days following the later of (i) the date on which the Offer becomes or is declared unconditional in all respects; and (ii) the date of receipt by the Registrar of the duly completed Acceptance Form together with all the valid requisite documents from the Independent Shareholders accepting the Offer in compliance with Note 1 to Rule 30.2 of the Takeovers Code.
8. If there is a tropical cyclone warning signal no. 8 or above, or a black rainstorm warning:
  - (a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on the latest date for acceptance of the Offer or the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer or the posting of remittances, as the case may be, will remain at 4:00 p.m. on the same Stock Exchange Business Day; or
  - (b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the latest date for acceptance of the Offer or the latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances, the latest time for acceptance of the Offer or the posting of remittances, as the case may be, will be rescheduled to 4:00 p.m. on the following Stock Exchange Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m. or such other day as the Executive may approve in accordance with the Takeovers Code.

Save as mentioned above, if Completion does not take place on the date as stated above, the date on which the Offer becomes unconditional in all respects and other dates mentioned above may be affected. The Offeror and the Company will notify the Shareholders by way of announcement(s) of any change in the expected timetable as soon as possible.

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## IMPORTANT NOTICE

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### NOTICE TO SHAREHOLDERS OUTSIDE HONG KONG

The making of the Offer to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws and regulations of the relevant jurisdictions. Overseas Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should observe any applicable legal requirements and, where necessary, seek independent legal advice. It is the responsibility of any such person who wishes to accept the Offer to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdictions in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes or other required payments due in respect of such jurisdiction. The Offeror, the Company, Optima Capital, Messis Capital and the Registrar, their respective ultimate beneficial owners, directors, officers, agents and associates and any other person involved in the Offer shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay. Please see the paragraph headed "Taxation advice" under the section headed "Possible mandatory unconditional cash offer" set out in the letter from Optima Capital in this Composite Document.

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## DEFINITIONS

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*In this Composite Document, the following expressions have the following meanings unless the context otherwise requires:*

“Acceptance Form”	the form of acceptance and transfer in respect of the Offer accompanying this Composite Document
“Agreement”	the sale and purchase agreement dated 14 July 2015 entered into among the Offeror, the Vendors and the Guarantors in relation to the sale and purchase of the Sale Shares
“associates”	has the meaning ascribed to it in the Takeovers Code
“Board”	the board of Directors
“Business Day(s)”	(a) day(s) (excluding Saturday, Sunday, public holiday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 5:00 p.m. and is not lowered at or before 5:00 p.m. or on which a “black” rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 5:00 p.m. and is not discontinued at or before 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	Monday, 21 September 2015, being the closing date of the Offer as stated in the section headed “Expected Timetable” in this Composite Document or any subsequent closing date as may be announced by the Offeror in accordance with the Takeovers Code
“Company”	Chanco International Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Agreement

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## DEFINITIONS

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“Completion Date”	the date on which Completion takes place
“Composite Document”	this composite offer and response document jointly issued by the Offeror and the Company to the Shareholders in connection with the Offer in compliance with the Takeovers Code containing, among other things, details of the Offer, procedures for acceptance and settlement and the acceptance period of the Offer, letters from the Independent Board Committee and the Independent Financial Adviser, and the accompanying Acceptance Form
“Condition(s)”	the condition(s) precedent to Completion
“Consideration”	the consideration payable under the Agreement for the Sale Shares
“Director(s)”	director(s) of the Company from time to time
“Disclosure Letters”	letters described as such, together with bundle of documents referred thereto, prepared by the Vendors in the agreed form and delivered to the Offeror at any time prior to the execution of the Agreement up to and inclusive of 31 July 2015
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time or any delegate of such Executive Director
“Group”	the Company and its subsidiaries
“Guarantors”	collectively, Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors established in accordance with the Takeovers Code to give recommendations to the Independent Shareholders in respect of the Offer

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## DEFINITIONS

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“Independent Financial Adviser” or “Messis Capital”	Messis Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee in respect of the Offer
“Independent Shareholders”	Shareholders other than (i) the Vendors, the Guarantors and parties acting in concert with any of them; and (ii) the Offeror, Mr. Pong and parties acting in concert with any of them
“Joint Announcement”	the joint announcement dated 28 July 2015 jointly issued by the Offeror and the Company in relation to the Agreement, the Offer and the transactions contemplated thereunder
“Last Trading Day”	14 July 2015, being the date of the Agreement and the last trading day of the Shares preceding the date of the Joint Announcement
“Latest Practicable Date”	28 August 2015, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining information contained herein
“Leopark Worldwide”	Leopark Worldwide Inc., a company incorporated in the BVI with limited liability and one of the Vendors
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Edwin Chan”	Mr. Chan King Hong Edwin, an executive Director, the Chairman and the Chief Executive Officer of the Company, and one of the Guarantors
“Mr. Pong”	Mr. Pong Wilson Wai San, the sole beneficial owner and a director of the Offeror
“Mr. Stanley Chan”	Mr. Chan King Yuen Stanley, an executive Director and the Vice Chairman of the Company, and one of the Guarantors
“Ms. Rebecca Chan”	Ms. Chan Wai Po Rebecca, an executive Director and one of the Guarantors



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## DEFINITIONS

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“New Paramount”	New Paramount Profits Limited, a company incorporated in the BVI with limited liability and one of the Vendors
“Offer”	the possible mandatory unconditional cash offer being made by Optima Capital on behalf of the Offeror to acquire the Offer Shares on the terms and conditions set out in this Composite Document and in compliance with the Takeovers Code
“Offer Period”	has the meaning ascribed to it in the Takeovers Code
“Offer Price”	HK\$1.415 for each Offer Share payable by the Offeror to the Independent Shareholders for accepting the Offer
“Offer Shares”	all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it
“Offeror”	Green Parade Limited, a company incorporated in the BVI with limited liability and wholly and beneficially owned by Mr. Pong
“Optima Capital”	Optima Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the financial adviser to the Offeror
“Optionholder(s)”	holder(s) of the Share Option(s)
“Overseas Shareholders”	Independent Shareholders whose addresses as shown on the register of members of the Company are outside Hong Kong
“PRC”	the People’s Republic of China which, for the purpose of this Composite Document, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Prevail Assets”	Prevail Assets Limited, a company incorporated in the BVI with limited liability and one of the Vendors

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## DEFINITIONS

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“Registrar”	Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, the branch registrar of the Company in Hong Kong
“Relevant Period”	the period commencing from 28 January 2015, being the date falling six months preceding the date of the Joint Announcement, up to and including the Latest Practicable Date
“Sale Shares”	a total of 226,140,000 Shares to be acquired by the Offeror pursuant to the terms and conditions of the Agreement
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Option(s)”	the outstanding share option(s) granted by the Company under its share option scheme adopted on 18 February 2003
“Shareholder(s)”	holder(s) of the issued Share(s)
“Smarty Worldwide”	Smarty Worldwide Limited, a company incorporated in the BVI with limited liability and one of the Vendors
“Stamp Duty Ordinance”	the Stamp Duty Ordinance (Chapter 117 of the laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Stock Exchange Business Day(s)”	(a) day(s) on which the Stock Exchange is open for the transaction of business
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers

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## DEFINITIONS

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“Undertaking”	the undertaking given by the Vendors and the Guarantors, pursuant to which the Vendors and the Guarantors have undertaken to the Offeror not to (i) accept the Offer in respect of any Shares and/or Share Options held by them; and (ii) transfer or sell or otherwise deal in the Shares and/or the Share Options or otherwise create any encumbrances thereon during the Offer Period
“Vendors”	collectively, Leopark Worldwide, New Paramount, Prevail Assets and Smarty Worldwide
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

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## LETTER FROM OPTIMA CAPITAL

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Suite 1501, 15th Floor  
Jardine House  
1 Connaught Place  
Central, Hong Kong

31 August 2015

*To the Independent Shareholders*

Dear Sir or Madam,

**POSSIBLE MANDATORY UNCONDITIONAL CASH OFFER  
BY OPTIMA CAPITAL LIMITED  
ON BEHALF OF GREEN PARADE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
CHANCO INTERNATIONAL GROUP LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
GREEN PARADE LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

### INTRODUCTION

Reference is made to the Joint Announcement. On 14 July 2015, the Vendors, the Guarantors and the Offeror entered into the Agreement, pursuant to which the Vendors and the Guarantors agreed to sell and the Offeror agreed to acquire an aggregate of up to 226,140,000 Sale Shares for a total consideration of HK\$319,988,100 (equivalent to HK\$1.415 per Sale Share). The 226,140,000 Sale Shares comprise (i) 204,220,000 Shares held by the Vendors and the Guarantors as at the date of the Agreement; and (ii) 21,920,000 new Shares to be issued to the Guarantors upon the exercise of Share Options.

As at the date of the Joint Announcement, there were Share Options outstanding entitling the holders thereof to subscribe for 29,100,000 new Shares. On 10 August 2015, a total of 29,100,000 new Shares were issued to the following Optionholders (including the Guarantors) upon the exercise of all Share Options:

<b>Optionholder</b>	<b>Exercise price per Share</b>	<b>Number of new Shares issued</b>
Mr. Edwin Chan	HK\$0.57	8,700,000
Mr. Stanley Chan	HK\$0.57	8,700,000
Ms. Rebecca Chan	HK\$0.57	8,700,000
Ms. Li Shuk Han ( <i>Note 1</i> )	HK\$0.57	1,500,000
Ms. Chan Wai Foon ( <i>Note 2</i> )	HK\$0.57	1,500,000
		29,100,000

*Notes:* 1. Ms. Li Shuk Han is an employee of the Group and the spouse of Mr. Edwin Chan.

2. Ms. Chan Wai Foon is an employee of the Group and the sister of Mr. Edwin Chan, Mr Stanley Chan and Ms. Rebecca Chan.

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## LETTER FROM OPTIMA CAPITAL

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Accordingly, the number of Sale Shares to be acquired by the Offeror under the Agreement would be 226,140,000, which represent approximately 65% of the issued share capital of the Company as at the Latest Practicable Date. There were no Share Options outstanding as at the Latest Practicable Date.

Completion is conditional upon:

- (i) the exercise of Share Options by the Guarantors and the allotment and issue of 21,920,000 new Shares to the respective Guarantors upon the exercise of their Share Options;
- (ii) there being no indication from the Stock Exchange or the SFC that listing of the Shares will be, for whatever reason, suspended, revoked or withdrawn at any time for more than seven consecutive Business Days immediately before Completion, excluding any suspension for the purpose of obtaining clearance from the SFC or Stock Exchange for the Joint Announcement relating to the sale and purchase of the Sale Shares under the Agreement;
- (iii) completion of the due diligence review of the assets, liabilities, operations and affairs of the Group to be conducted by the Offeror and/or its agents and that the results of such due diligence review (in the reasonable opinion of the Offeror) have not revealed or disclosed any matter, fact or circumstance which constitutes or is likely to constitute any material breach of any of the warranties or other provisions of the Agreement by the Vendors and/or the Guarantors;
- (iv) the representations, warranties, indemnities and undertakings given by the Vendors in the Agreement remaining true and accurate in all material respects as of the Completion Date;
- (v) all necessary consents and approvals as may be required to be obtained on the part of each of the Vendors and the Guarantors in respect of the Agreement and the transactions contemplated thereunder having been obtained by each of the Vendors and the Guarantors respectively; and
- (vi) the delivery of the Disclosure Letters at any time prior to the execution of the Agreement or before 31 July 2015, provided that the maximum aggregate actual, contingent, deferred and/or potential liabilities, obligations or indebtedness of the Group as a whole in respect of the matters disclosed therein or implied thereto shall not exceed HK\$10,000,000.

As at the Latest Practicable Date, Conditions (i), (v) and (vi) have been fulfilled.

Completion shall take place on the date falling on the third Business Day after all the Conditions have been fulfilled or waived provided that such date shall fall on a date after the record date for any dividends or distribution which may be declared, paid or made by the Company after the date of the Agreement (or such other time or day as may be agreed between the parties to the Agreement).

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## LETTER FROM OPTIMA CAPITAL

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On 28 July 2015, the Company declared a special interim dividend in respect of the year ending 31 March 2016 of HK\$0.4254 per Share (the “**Special Dividend**”), details of which were disclosed in the announcement of the Company dated 28 July 2015. The Special Dividend is payable on 31 August 2015 to those Shareholders whose names appear on the Company’s principal or branch share register on 13 August 2015 (the “**Record Date**”). It is the intention of the parties to the Agreement that Completion shall take place after the aforesaid payment date of the Special Dividend and on or before 7 September 2015. An announcement will be made by the Company upon Completion in compliance with Rule 3.6 of the Takeovers Code, the Listing Rules and/or other applicable laws, codes, rules and regulations.

As at the Latest Practicable Date, Mr. Pong (the sole beneficial owner and a director of the Offeror) was interested in 376,000 Shares, representing approximately 0.11% of the existing issued share capital of the Company. Immediately after Completion, the Offeror and parties acting in concert with it (including Mr. Pong) will become interested in a total of 226,516,000 Shares (representing approximately 65.11% of the issued share capital of the Company) assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to Completion Date. As stated in the Joint Announcement, pursuant to Rules 13 and 26.1 of the Takeovers Code, subject to Completion, the Offeror would be required to make mandatory unconditional general offers in cash for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) and to cancel all the Share Options. As there were no Share Options outstanding as at the Latest Practicable Date, the Offeror is no longer required to make a comparable offer for the Share Options pursuant to Rule 13 of the Takeovers Code. Hence, we, Optima Capital, for and on behalf of the Offeror, is making the Offer, which will become unconditional in all respects upon Completion.

This letter forms part of this Composite Document and sets out, among other things, the principal terms of the Offer, the information on the Offeror and its intentions in relation to the Company. Further details of the Offer are also set out in Appendix I to this Composite Document and in the accompanying Acceptance Form. Your attention is also drawn to the letter from the Board on pages 18 to 26, the letter from the Independent Board Committee on pages 27 to 28 and the letter from Messis Capital on pages 29 to 47 of this Composite Document before reaching a decision as to whether or not to accept the Offer.

### **POSSIBLE MANDATORY UNCONDITIONAL CASH OFFER**

#### **Principal terms of the Offer**

We, Optima Capital, the financial adviser to the Offeror, are making the Offer, for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each Offer Share . . . . .HK\$1.415 in cash

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## LETTER FROM OPTIMA CAPITAL

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The Offer Price of HK\$1.415 per Offer Share under the Offer is the same as the purchase price per Sale Share payable by the Offeror under the Agreement. The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution (excluding the Special Dividend) declared, made or paid on or after the date on which the Offer is made, being the date of despatch of this Composite Document.

**For the avoidance of doubt, any Shareholder whose name appeared on the Company's principal or branch share register on the Record Date and subsequently accepts the Offer would still be entitled to the Special Dividend.**

Your attention is drawn to the further terms of the Offer, including procedures for acceptance and settlement and the acceptance period of the Offer, as set out in Appendix I to this Composite Document and the Acceptance Form.

### **The Offer Price**

The Offer Price of HK\$1.415 per Offer Share represents:

- (i) a premium of approximately 0.4% over the ex-dividend closing price of HK\$1.41 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 13.7% to the closing price of HK\$1.64 per Share as quoted on the Stock Exchange on 14 July 2015, being the Last Trading Day;
- (iii) a premium of approximately 16.5% over the ex-dividend closing price of HK\$1.2146 per Share on 14 July 2015 after taking into account the Special Dividend of HK\$0.4254 per Share;
- (iv) a premium of approximately 14.7% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including 14 July 2015 of approximately HK\$1.234 per Share;
- (v) a premium of approximately 75.0% over the average of the ex-dividend closing prices of the Shares for the five consecutive trading days up to and including 14 July 2015 of approximately HK\$0.8086 per Share after taking into account the Special Dividend of HK\$0.4254 per Share;
- (vi) the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten consecutive trading days up to and including 14 July 2015 of approximately HK\$1.415 per Share;

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## LETTER FROM OPTIMA CAPITAL

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- (vii) a premium of approximately 43.0% over the average of the ex-dividend closing prices of the Shares for the ten consecutive trading days up to and including 14 July 2015 of approximately HK\$0.9896 per Share after taking into account the Special Dividend of HK\$0.4254 per Share;
- (viii) a discount of approximately 9.9% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty consecutive trading days up to and including 14 July 2015 of approximately HK\$1.571 per Share;
- (ix) a premium of approximately 23.5% over the average of the ex-dividend closing prices of the Shares for the thirty consecutive trading days up to and including 14 July 2015 of approximately HK\$1.1456 per Share after taking into account the Special Dividend of HK\$0.4254 per Share;
- (x) a premium of approximately 117.5% over the consolidated net assets value per Share of approximately HK\$0.6506 (calculated based on the audited consolidated net asset value of the Group as at 31 March 2015 of approximately HK\$226,356,000 and the 347,904,000 Shares in issue as at the Latest Practicable Date); and
- (xi) a premium of approximately 528.3% over the ex-dividend consolidated net asset value per Share of approximately HK\$0.2252 (calculated based on the audited consolidated net assets value of the Group as at 31 March 2015 of approximately HK\$226,356,000, the Special Dividend of HK\$0.4254 per Share declared and the 347,904,000 Shares in issue as at the Latest Practicable Date).

### **Highest and lowest Share prices**

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the six-month period immediately preceding the Latest Practicable Date were HK\$2.28 per Share on 4 August 2015 and HK\$0.77 per Share on 10 April 2015 respectively. Taking into account the Special Dividend of HK\$0.4254 per Share, the highest and lowest ex-dividend closing prices of the Shares during the six-month period immediately preceding the Latest Practicable Date would be HK\$1.8546 per Share on 4 August 2015 and HK\$0.3446 per Share on 10 April 2015 respectively.

### **Value of the Offer**

As at the Latest Practicable Date, there were 347,904,000 Shares in issue and the Company did not have any other outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares. On the basis of the Offer Price at HK\$1.415 per Offer Share, the entire issued share capital of the Company would be valued at HK\$492,284,160.



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## LETTER FROM OPTIMA CAPITAL

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Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date up to the Closing Date, there will be 121,388,000 Shares subject to the Offer. Accordingly, the value of the Offer is HK\$171,764,020.

### **Undertaking not to accept the Offer**

Immediately after Completion, the Vendors and the Guarantors will hold in aggregate 5,888,000 Shares, representing approximately 1.69% of the issued share capital as at the Latest Practicable Date. The Vendors and the Guarantors have executed the Undertaking and have undertaken to the Offeror not to (i) accept the Offer in respect of any Shares and/or Share Options held by them; and (ii) transfer or sell or otherwise deal in the Shares and/or the Share Options or otherwise create any encumbrances thereon during the Offer Period. There is no circumstance in which the Undertaking will cease to be binding.

### **Financial resources available to the Offeror**

After taking into account the Undertaking and the deposit of HK\$5.0 million paid by the Offeror to the Vendors upon the signing of the Agreement, the maximum aggregate amount payable by the Offeror for the remaining balance of the Consideration in respect of the Sale Shares and the consideration payable upon full acceptances of the Offer will be HK\$478,420,600.

The Offeror intends to finance and satisfy the remaining balance of the Consideration payable under the Agreement and the consideration payable under the Offer by cash from the internal resources of the Offeror and Mr. Pong. Optima Capital, the financial adviser to the Offeror, is satisfied that there are sufficient financial resources available to the Offeror to satisfy the remaining balance of the Consideration and the consideration payable upon full acceptances of the Offer.

### **Condition of the Offer**

The Offer will become unconditional in all respects upon Completion. As the Vendors and the Guarantors have undertaken to the Offeror not to accept the Offer in respect of any Shares held by them, the Offer is not capable of becoming unconditional until Completion takes place.

As mentioned in the paragraph headed "Introduction" above, it is the intention of the parties to the Agreement that Completion shall take place on or before 7 September 2015. Pursuant to the Takeovers Code, where the Offer becomes or is declared unconditional in all respects, the Offer will remain open for acceptance for not less than 14 days thereafter. The Offeror will make an announcement as and when the Offer becomes or is declared unconditional in all respects.

Pursuant to the Takeovers Code, the Offer will lapse if Completion does not take place and the Offer does not become unconditional as to acceptances before 7:00 p.m. on 30 October 2015, being the 60th day after the day this Composite Document is posted.

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## LETTER FROM OPTIMA CAPITAL

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### **Compulsory acquisition**

The Offeror does not intend to exercise any right which may be available to it to compulsorily acquire any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

### **Effect of accepting the Offer**

By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution (excluding the Special Dividend) declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

**For the avoidance of doubt, any Shareholder whose name appeared on the Company's principal or branch share register on the Record Date and subsequently accepts the Offer would still be entitled to the Special Dividend.**

The Independent Shareholders are reminded to read the recommendations of the Independent Board Committee and the advice of Messis Capital appointed by the Independent Board Committee in respect of the Offer which are included in this Composite Document.

### **Payment**

Settlement of the consideration in respect of acceptances received on or before the latest time and date for acceptance of the Offer will be made as soon as possible but in any event within seven Stock Exchange Business Days following the later of (a) the date on which the Offer becomes or is declared unconditional in all respects; and (b) the date of receipt by the Registrar of the duly completed Acceptance Form together with all the valid requisite documents from the Independent Shareholders accepting the Offer in compliance with Note 1 to Rule 30.2 of the Takeovers Code.

### **Taxation advice**

The Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror and parties acting in concert with it, the Company, Optima Capital, Messis Capital, the Registrar and their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

### **Overseas Shareholders**

The availability of the Offer to any Overseas Shareholders may be affected by the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders should observe any applicable legal and regulatory requirements and,

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## LETTER FROM OPTIMA CAPITAL

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where necessary, consult their own professional advisers. It is the responsibilities of the Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by such Overseas Shareholders in respect of such jurisdictions).

### **Hong Kong stamp duty**

The seller's Hong Kong ad valorem stamp duty on acceptance of the Offer at a rate of 0.1% of the consideration payable in respect of the acceptances by the Independent Shareholders or if higher, the value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance, will be deducted from the amount payable to those relevant Independent Shareholders who accept the Offer.

The Offeror will arrange for payment of the seller's Hong Kong ad valorem stamp duty on behalf of the relevant Independent Shareholders who accept the Offer and pay the buyer's Hong Kong ad valorem stamp duty in connection with the acceptances of the Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance.

### **INFORMATION ON THE OFFEROR**

The Offeror is an investment holding company incorporated in the BVI with limited liability. Mr. Pong is the sole beneficial owner of the Offeror. The board of directors of the Offeror comprises Mr. Pong and Mr. Lee Wing Yin. Mr. Pong is the controlling shareholder of Winfull Group Holdings Limited (stock code: 183), the issued shares of which are listed on the Main Board of the Stock Exchange. Mr. Pong holds a bachelor degree in Applied Science from the University of British Columbia.

None of the Offeror, its ultimate beneficial owner and/or parties acting in concert with any of them had dealt for value in any Shares or any options, warrants or convertible securities in respect of the Shares during the Relevant Period, apart from the entering into of the Agreement to acquire 226,140,000 Sale Shares.

### **INTENTION OF THE OFFEROR IN RELATION TO THE GROUP**

It is the intention of the Offeror to continue with the Group's existing principal business after the close of the Offer. The Offeror does not intend to introduce any major changes to the existing business and operation of the Group after the close of the Offer. As at the Latest Practicable Date, the Offeror has no intention to discontinue the employment of the employees (save for the proposed changes to the composition of the Board as detailed below) or to re-deploy the assets of the Group.

As disclosed in the annual report of the Company for the year ended 31 March 2015, notwithstanding that the Group was loss-making for the previous two years, the Group will continue to seek business opportunities to strengthen its existing business. The Offeror believes that there will be continued business development in the Group under the management of the new Board.

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## LETTER FROM OPTIMA CAPITAL

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Despite the Offeror has not involved in running a business in the industry similar to the Group prior to the close of the Offer, Mr. Edwin Chan and Mr. Stanley Chan will remain as directors of all operating subsidiaries of the Group and Ms. Rebecca Chan will remain as director of certain operating subsidiaries of the Group after the close of the Offer to ensure that the business of the Group is able to operate smoothly following the change of the Board composition. Their continued involvement will ensure that the board of the relevant subsidiaries can continue to enjoy the benefit of their experience in the industry and in the relevant company in particular. Their continued roles as directors of the operating subsidiaries of the Group will also give comfort to staff and customers that the relevant company's business will continue to operate as usual.

As at the Latest Practicable Date, the Offeror and Mr. Pong had no intention, arrangement, agreement, understanding, negotiation (concluded or otherwise) (i) on any material disposal/termination/scaling-down of the existing businesses of the Group; (ii) to inject any new business to the Group; and (iii) to change the shareholding structure of the Company save for those contemplated under the Agreement.

### **PROPOSED CHANGE TO THE BOARD COMPOSITION**

The Board is currently made up of six members, comprising three executive Directors, namely Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan; and three independent non-executive Directors, namely Mr. Fong Pui Sheung David MH, Ms. Chau Cynthia Sin Ha JP and Mr. Or Kam Chung Janson. It is intended that all existing Directors will resign with effect from the later of (i) the Completion Date; (ii) the earliest time permitted under the Takeovers Code for the existing Directors to resign; and (iii) the day after the new Directors nominated by the Offeror have been appointed to the Board. Mr. Edwin Chan and Mr. Stanley Chan will remain as directors of all operating subsidiaries of the Group and Ms. Rebecca Chan will remain as director of certain operating subsidiaries of the Group. All the terms and conditions (including duration of the contracts) of the employment contracts of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan remain the same. The Offeror intends to nominate new Directors to the Board with effect after the close of the Offer. Notwithstanding that the Offeror had not reached any final decision as to who will be nominated as new Directors as at the Latest Practicable Date, the Offeror intends to nominate suitable candidates as new Directors before the Closing Date. Any changes to the Board composition will be announced by the Company and made in compliance with the Takeovers Code and the Listing Rules.

### **INTENTION OF THE OFFEROR TO MAINTAIN THE LISTING OF THE COMPANY**

The Offeror intends to maintain the listing of the Shares on the Main Board of the Stock Exchange after the close of the Offer.

The directors of the Offeror have jointly and severally undertaken, and the proposed Directors who would be nominated by the Offeror and appointed as new Directors will jointly and severally undertake, to the Stock Exchange to take appropriate steps as soon as possible after the close of the Offer to ensure that a sufficient public float exists for the Shares if the public float of the Company falls below 25% after the close of the Offer.

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## LETTER FROM OPTIMA CAPITAL

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The Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.

### ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the further details regarding the procedures for acceptance and settlement and the acceptance period of the Offer as set out in Appendix I to this Composite Document and the accompanying Acceptance Form.

### GENERAL INFORMATION

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold the Offer Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Offer Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offer. The attention of the Overseas Shareholders is drawn to the section headed "Important Notice" contained in this Composite Document and the section headed "Overseas Shareholders" in Appendix I to this Composite Document.

All documents and remittances sent to the Independent Shareholders by ordinary post will be sent to them at their own risk. Such documents and remittances will be sent to the Independent Shareholders at their respective addresses as they appear in the register of members of the Company or in the case of joint Independent Shareholders, to the Independent Shareholder whose name appears first in the register of members of the Company. None of the Offeror and parties acting in concert with it, the Company, Optima Capital, Messis Capital, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

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## LETTER FROM OPTIMA CAPITAL

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### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document and the accompanying Acceptance Form, which forms part of this Composite Document. In addition, your attention is also drawn to the letter from the Board on pages 18 to 26 of this Composite Document, the letter from the Independent Board Committee on pages 27 to 28 of this Composite Document and the letter from Messis Capital on pages 29 to 47 of this Composite Document in relation to their respective recommendation and advice with respect to the Offer.

Yours faithfully,  
for and on behalf of  
**Optima Capital Limited**  
**Beatrice Lung**  
*Managing Director*

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## LETTER FROM THE BOARD

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**CHANCO INTERNATIONAL GROUP LIMITED**

卓高國際集團有限公司  
(Incorporated in the Cayman Islands with limited liability)

**(Stock code: 264)**

*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 MH  
Ms. Chau Cynthia Sin Ha JP  
Mr. Or Kam Chung, Janson

*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

31 August 2015

*To the Independent Shareholders*

Dear Sir or Madam,

**POSSIBLE MANDATORY UNCONDITIONAL CASH OFFER  
BY OPTIMA CAPITAL LIMITED  
ON BEHALF OF GREEN PARADE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
CHANCO INTERNATIONAL GROUP LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
GREEN PARADE LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

Reference is made to the Joint Announcement. On 14 July 2015, the Vendors, the Guarantors and the Offeror entered into the Agreement, pursuant to which the Vendors and the Guarantors agreed to sell and the Offeror agreed to acquire an aggregate of up to 226,140,000 Sale Shares, for a total consideration of HK\$319,988,100 (equivalent to HK\$1.415 per Sale Share). The 226,140,000 Sale Shares comprise (i) 204,220,000 Shares held by the Vendors and the Guarantors as at the date of the Agreement; and (ii)

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## LETTER FROM THE BOARD

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21,920,000 new Shares to be issued to the Guarantors upon the exercise of Share Options. The 226,140,000 Sale Shares represent approximately 65% of the issued share capital of the Company as at the Latest Practicable Date.

As at the date of the Joint Announcement, there were Share Options outstanding entitling the holders thereof to subscribe for 29,100,000 new Shares. On 10 August 2015, a total of 29,100,000 new Shares were issued to the following Optionholders (including the Guarantors) upon the exercise of all Share Options:

Optionholder	Exercise price per Share	Number of new Shares issued
Mr. Edwin Chan	HK\$0.57	8,700,000
Mr. Stanley Chan	HK\$0.57	8,700,000
Ms. Rebecca Chan	HK\$0.57	8,700,000
Ms. Li Shuk Han ( <i>Note 1</i> )	HK\$0.57	1,500,000
Ms. Chan Wai Foon ( <i>Note 2</i> )	HK\$0.57	1,500,000
		<u>29,100,000</u>

*Notes:* 1. Ms. Li Shuk Han is an employee of the Group and the spouse of Mr. Edwin Chan.

2. Ms. Chan Wai Foon is an employee of the Group and the sister of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan.

Accordingly, the number of Sale Shares to be acquired by the Offeror under the Agreement would be 226,140,000, which represent approximately 65% of the issued share capital of the Company as at the Latest Practicable Date. There were no Share Options outstanding as at the Latest Practicable Date.

Completion is conditional upon:

- (i) the exercise of Share Options by the Guarantors and the allotment and issue of the 21,920,000 new Shares to the respective Guarantors upon the exercise of their Share Options;
- (ii) there being no indication from the Stock Exchange or the SFC that listing of the Shares will be, for whatever reason, suspended, revoked or withdrawn at any time for more than seven consecutive Business Days immediately before Completion, excluding any suspension for the purpose of obtaining clearance from the SFC or Stock Exchange for the Joint Announcement relating to the sale and purchase of the Sale Shares under the Agreement;
- (iii) completion of the due diligence review of the assets, liabilities, operations and affairs of the Group to be conducted by the Offeror and/or its agents and that the results of such due diligence review (in the reasonable opinion of the Offeror) have not revealed or disclosed any matter, fact or circumstance which



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## LETTER FROM THE BOARD

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constitutes or is likely to constitute any material breach of any of the warranties or other provisions of the Agreement by the Vendors and/or the Guarantors;

- (iv) the representations, warranties, indemnities and undertakings given by the Vendors in the Agreement remaining true and accurate in all material respects as of the Completion Date;
- (v) all necessary consents and approvals as may be required to be obtained on the part of each of the Vendors and the Guarantors in respect of the Agreement and the transactions contemplated thereunder having been obtained by each of the Vendors and the Guarantors respectively; and
- (vi) the delivery of the Disclosure Letters at any time prior to the execution of the Agreement or before 31 July 2015, provided that the maximum aggregate actual, contingent, deferred and/or potential liabilities, obligations or indebtedness of the Group as a whole in respect of the matters disclosed therein or implied thereto shall not exceed HK\$10,000,000.

As at the Latest Practicable Date, Conditions (i), (v) and (vi) have been fulfilled.

Completion shall take place on the date falling on the third Business Day after all the Conditions have been fulfilled or waived provided that such date shall fall on a date after the record date for any dividends or distribution which may be declared, paid or made by the Company after the date of the Agreement (or such other time or day as may be agreed between the parties to the Agreement).

On 28 July 2015, the Company declared a special interim dividend in respect of the year ending 31 March 2016 of HK\$0.4254 per Share (the “**Special Dividend**”), details of which were disclosed in the announcement of the Company dated 28 July 2015. The Special Dividend is payable on 31 August 2015 to those Shareholders whose names appear on the Company’s principal or branch share register on 13 August 2015 (the “**Record Date**”). It is the intention of the parties to the Agreement that Completion shall take place after the aforesaid payment date of the Special Dividend and on or before 7 September 2015. An announcement will be made by the Company upon Completion in compliance with Rule 3.6 of the Takeovers Code, the Listing Rules and/or other applicable laws, codes, rules and regulations.

This letter forms part of this Composite Document and sets out, among other things, the principal terms of the Offer, the information on the Offeror and its intentions in relation to the Company, and information about the Group. Further details of the Offer are also set out in Appendix I to this Composite Document and in the accompanying Acceptance Form. Your attention is also drawn to the letter from Optima Capital on pages 7 to 17, the letter from the Independent Board Committee on pages 27 to 28 and the letter from Messis Capital on pages 29 to 47 of this Composite Document before reaching a decision as to whether or not to accept the Offer.

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## LETTER FROM THE BOARD

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### POSSIBLE MANDATORY UNCONDITIONAL CASH OFFER

#### Principal terms of the Offer

Optima Capital, the financial adviser to the Offeror, is making the Offer, for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each Offer Share . . . . . HK\$1.415 in cash

The Offer Price of HK\$1.415 per Offer Share under the Offer is the same as the purchase price per Sale Share payable by the Offeror under the Agreement. The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution (excluding the Special Dividend) declared, made or paid on or after the date on which the Offer is made, being the date of despatch of this Composite Document.

**For the avoidance of doubt, any Shareholder whose name appeared on the Company's principal or branch share register on the Record Date and subsequently accepts the Offer would still be entitled to the Special Dividend.**

Your attention is drawn to the further terms of the Offer, including procedures for acceptance and settlement and the acceptance period of the Offer, as set out in Appendix I to this Composite Document and the Acceptance Form.

#### The Offer Price

The Offer Price of HK\$1.415 per Offer Share represents:

- (i) a premium of approximately 0.4% over the ex-dividend closing price of HK\$1.41 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 13.7% to the closing price of HK\$1.64 per Share as quoted on the Stock Exchange on 14 July 2015, being the Last Trading Day;
- (iii) a premium of approximately 16.5% over the ex-dividend closing price of HK\$1.2146 per Share on 14 July 2015 after taking into account the Special Dividend of HK\$0.4254 per Share;
- (iv) a premium of approximately 14.7% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including 14 July 2015 of approximately HK\$1.234 per Share;
- (v) a premium of approximately 75.0% over the average of the ex-dividend closing prices of the Shares for the five consecutive trading days up to and including 14 July 2015 of approximately HK\$0.8086 per Share after taking into account the Special Dividend of HK\$0.4254 per Share;

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## LETTER FROM THE BOARD

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- (vi) the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten consecutive trading days up to and including 14 July 2015 of approximately HK\$1.415 per Share;
- (vii) a premium of approximately 43.0% over the average of the ex-dividend closing prices of the Shares for the ten consecutive trading days up to and including 14 July 2015 of approximately HK\$0.9896 per Share after taking into account the Special Dividend of HK\$0.4254 per Share;
- (viii) a discount of approximately 9.9% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty consecutive trading days up to and including 14 July 2015 of approximately HK\$1.571 per Share;
- (ix) a premium of approximately 23.5% over the average of the ex-dividend closing prices of the Shares for the thirty consecutive trading days up to and including 14 July 2015 of approximately HK\$1.1456 per Share after taking into account the Special Dividend of HK\$0.4254 per Share;
- (x) a premium of approximately 117.5% over the consolidated net assets value per Share of approximately HK\$0.6506 (calculated based on the audited consolidated net asset value of the Group as at 31 March 2015 of approximately HK\$226,356,000 and the 347,904,000 Shares in issue as at the Latest Practicable Date); and
- (xi) a premium of approximately 528.3% over the ex-dividend consolidated net assets value per Share of approximately HK\$0.2252 (calculated based on the audited consolidated net asset value of the Group as at 31 March 2015 of approximately HK\$226,356,000, the Special Dividend of HK\$0.4254 per Share declared and the 347,904,000 Shares in issue as at the Latest Practicable Date).

The Offer will become conditional in all respects upon Completion. As the Vendors and the Guarantors have undertaken to the Offeror not to accept the Offer in respect of any Shares held by them, the Offer is not capable of becoming unconditional until Completion takes place. By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution (excluding the Special Dividend) declared, made or paid on or after the date on which the Offer is made, being the date of the despatch of this Composite Document.

The Special Dividend is paid on 31 August 2015.

Please also refer to the letter from Optima Capital on pages 9 to 14 and Appendix I to this Composite Document for further information in relation to the terms of the Offer, the making of the Offer to the Overseas Shareholders, taxation, acceptance and settlement procedures of the Offer.

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## LETTER FROM THE BOARD

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### INTENTIONS REGARDING THE BUSINESS OF THE GROUP

The Offeror is an investment holding company incorporated in the BVI with limited liability. Please refer to the letter from Optima Capital on page 14 of this Composite Document for more information about it.

Your attention is drawn to the letter from Optima Capital on pages 14 to 15 of this Composite Document which sets out the intention of the Offeror regarding the business of the Group and the proposed change to the Board composition. The Board is aware of the Offeror's intention in respect of the Group and is willing to co-operate with the Offeror in the interests of the Company and the Shareholders as a whole.

### INFORMATION ABOUT THE GROUP

The Company acts as an investment holding company. The Group is principally engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

As disclosed in the announcement of the Company dated 30 June 2015 of the annual results of the Group for the financial year ended 31 March 2015, for the year ended 31 March 2015, the Group's turnover decreased by approximately 2.1% from approximately HK\$131,418,000 for the corresponding period in 2014 to approximately HK\$128,711,000. Revenue from both manufacturing and retail business segments declined in the reporting year. Gross profit increased by approximately 86.8% from approximately HK\$12,208,000 for the corresponding period in 2014 to approximately HK\$22,807,000. Gross profit margin increased from approximately 9.3% for the corresponding period in 2014 to approximately 17.7%. This was mainly due to gross profit improved from both manufacturing and retail business segments.

The Group recorded a net loss attributable to owners of the Company of approximately HK\$25,780,000 for the year ended 31 March 2015 (2014: approximately HK\$38,866,000). Loss per share for the year ended 31 March 2015 was HK8.09 cents (2014: HK12.19 cents).

As disclosed in the Company's profit warning announcement dated 25 August 2015, because of the recent volatility of the exchange rate of RMB, the Group had converted all its RMB fixed deposits, amounting to approximately RMB92.2 million, into HK\$ at spot rates ranging from approximately 1.185 to 1.200 recently between 12 and 24 August 2015. As a result, the Group has recorded a foreign exchange loss of approximately HK\$7.2 million (the "**Foreign Exchange Loss**") which may have a substantial negative impact to the results of the Group for the six months ending 30 September 2015 as compared to the same corresponding period in 2014 (the "**Profit Warning Statement**"). BDO Limited has reported on the Foreign Exchange Loss and Messis Capital has reported on the Profit Warning Statement in accordance with Note 1(c) to Rules 10.1 and 10.2 of the Takeovers Code. Please refer to Appendices IIIA and IIIB to the Composite Document for the relevant reports issued by BDO Limited and Messis Capital respectively.

## LETTER FROM THE BOARD

### SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structures of the Company (i) as at the Latest Practicable Date; and (ii) upon Completion are set out below:

Name of Shareholder	As at the		Upon Completion	
	Latest Practicable Date			
	No. of Shares	Approximately %	No. of Shares	Approximately %
The Offeror and parties acting in concert with it (Note 1)	376,000	0.11	226,516,000	65.11
The Vendors, the Guarantors and parties acting in concert with any of them (Note 2)	235,028,000	67.55	8,888,000	2.55
Other Shareholders	112,500,000	32.34	112,500,000	32.34
<b>Total</b>	<b>347,904,000</b>	<b>100.00</b>	<b>347,904,000</b>	<b>100.00</b>

Notes:

1. As at the Latest Practicable Date, 376,000 Shares are held by Mr. Pong, the sole beneficial owner and a director of the Offeror. Upon Completion, the 226,516,000 Shares comprise 376,000 Shares held by Mr. Pong and 226,140,000 Shares held by the Offeror.
2. As at the Latest Practicable Date, the 235,028,000 Shares comprise the following:
  - (i) 16,184,000 Shares held by Mr. Edwin Chan (an executive Director, the Chairman and the Chief Executive Officer of the Company), 1,500,000 Shares held by Ms. Li Shuk Han (the spouse of Mr. Edwin Chan) and 47,727,352 Shares held by Leopark Worldwide (a company wholly owned by Mr. Edwin Chan);
  - (ii) 33,280,000 Shares held by Mr. Stanley Chan (an executive Director and the Vice Chairman of the Company) and 47,727,352 Shares held by New Paramount, a company wholly owned by Mr. Stanley Chan;
  - (iii) 8,700,000 Shares held by Ms. Rebecca Chan (an executive Director) and 39,204,648 Shares held by Prevail Assets, a company wholly owned by Ms. Rebecca Chan;
  - (iv) 39,204,648 Shares held by Smarty Worldwide, a company wholly owned by Mr. Chan Woon Man, the father of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan; and
  - (v) 1,500,000 Shares held by Ms. Chan Wai Foon, an employee of the Group and the sister of Mr. Edwin Chan, Mr Stanley Chan and Ms. Rebecca Chan.

Upon Completion, the 8,888,000 Shares comprise (i) 5,888,000 Shares held by the Guarantors; (ii) 1,500,000 Shares held by Ms. Li Shuk Han; and (iii) 1,500,000 Shares held by Ms. Chan Wai Foon.

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## LETTER FROM THE BOARD

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### COMPULSORY ACQUISITION

The Offeror does not intend to exercise any right which may be available to it to compulsorily acquire any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

### INTENTION OF THE OFFEROR TO MAINTAIN THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares on the Main Board of the Stock Exchange after the close of the Offer.

The directors of the Offeror have jointly and severally undertaken, and the proposed Directors who would be nominated by the Offeror and appointed as new Directors will jointly and severally undertake, to the Stock Exchange to take appropriate steps as soon as possible after the close of the Offer to ensure that a sufficient public float exists for the Shares if the public float of the Company falls below 25% after the close of the Offer.

**The Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend trading in the Shares until the prescribed level of public float is restored.**

### RECOMMENDATION

The Independent Board Committee has been established to make a recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer. The Independent Board Committee has approved the appointment of Messis Capital as the independent financial adviser to advise the Independent Board Committee in respect of the Offer.

Your attention is drawn to the letter from the Independent Board Committee immediately following this letter, which contains the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Offer; and the letter from Messis Capital set out immediately thereafter in this Composite Document, which contains its advice to the Independent Board Committee in respect of the fairness and reasonableness of the Offer and the principal factors considered by it in arriving at its advice.

The Independent Shareholders are urged to read these letters carefully before taking any action in respect of the Offer.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

You are recommended to read this Composite Document and the Acceptance Form for information relating to the terms of the Offer and procedures for acceptance and settlement and the acceptance period of the Offer.

Your attention is also drawn to the additional information set out in the appendices to this Composite Document.

Yours faithfully,  
For and on behalf of  
**Chanco International Group Limited**  
**Chan King Hong Edwin**  
*Executive Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**CHANCO INTERNATIONAL GROUP LIMITED**  
卓高國際集團有限公司  
(Incorporated in the Cayman Islands with limited liability)

(Stock code: 264)

31 August 2015

*To the Independent Shareholders*

Dear Sir or Madam,

**POSSIBLE MANDATORY UNCONDITIONAL CASH OFFER  
BY OPTIMA CAPITAL LIMITED  
ON BEHALF OF GREEN PARADE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
CHANCO INTERNATIONAL GROUP LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY  
GREEN PARADE LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

### INTRODUCTION

We refer to the composite offer and response document dated 31 August 2015 jointly issued by the Offeror and the Company (the “**Composite Document**”), of which this letter forms part. Unless specified otherwise, capitalised terms used herein shall have the same meanings as those defined in the Composite Document.

We have been appointed to form the Independent Board Committee to consider the terms of the Offer and to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Messis Capital has been appointed as the independent financial adviser to advise us in this respect. Details of its advice and the principal factors taken into consideration in arriving at its advice are set out in the letter from Messis Capital in this Composite Document. We also wish to draw your attention to the letter from the Board in this Composite Document, the letter from Optima Capital and the additional information set out in the appendices to this Composite Document.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### RECOMMENDATION

Taking into account the terms of the Offer and the advice from Messis Capital, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and therefore we recommend the Independent Shareholders to accept the Offer.

Notwithstanding our recommendation, the Independent Shareholders should consider carefully the terms of the Offer and then decide whether to accept or not to accept the Offer.

Yours faithfully,  
Independent Board Committee

**Ms. Chau Cynthia Sin Ha JP**  
*Independent*  
*non-executive director*

**Mr. Fong Pui Sheung David MH**  
*Independent*  
*non-executive director*

**Mr. Or Kam Chung Janson**  
*Independent*  
*non-executive director*

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## LETTER FROM MESSIS CAPITAL

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*The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee for inclusion in this Composite Document.*



**大有融資有限公司**  
**MESSIS CAPITAL LIMITED**

31 August 2015

To: *The Independent Board Committee*  
*of Chanco International Group Limited*

Dear Sir/Madam,

**POSSIBLE MANDATORY UNCONDITIONAL CASH OFFER  
BY OPTIMA CAPITAL LIMITED  
ON BEHALF OF GREEN PARADE LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
CHANCO INTERNATIONAL GROUP LIMITED  
(OTHER THAN THOSE ALREADY OWNED OR AGREED  
TO BE ACQUIRED BY GREEN PARADE LIMITED  
AND PARTIES ACTING IN CONCERT WITH IT)**

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offer, details of which are set out in the Composite Document dated 31 August 2015, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

On 14 July 2015 (after trading hours), the Vendors, the Guarantors and the Offeror entered into the Agreement, pursuant to which the Vendors and the Guarantors agreed to sell and the Offeror agreed to acquire an aggregate of up to 226,140,000 Sale Shares. The 226,140,000 Sale Shares comprise (i) 204,220,000 Shares held by the Vendors and the Guarantors as at the date of the Agreement; and (ii) 21,920,000 new Shares to be issued to the Guarantors upon the exercise of 21,920,000 Share Options. The Consideration for the 226,140,000 Sale Shares is HK\$319,988,100, equivalent to HK\$1.415 per Sale Share. The 226,140,000 Sale Shares represent approximately 65.00% of the issued share capital of the Company as at the Latest Practicable Date.

Immediately following Completion, the Offeror and parties acting in concert with it (including Mr. Pong) will become interested in a total of 226,516,000 Shares (representing approximately 65.11% of the issued share capital of the Company) assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date to Completion Date. Pursuant to Rule 26.1 of the Takeovers Code, subject to Completion, the Offeror is required to make a mandatory unconditional general

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## LETTER FROM MESSIS CAPITAL

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offer in cash for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it). The principal terms of the Offer are set out under the section headed “Possible mandatory unconditional cash offer” in the “Letter from Optima Capital” of the Composite Document. Optima Capital is making the Offer for and on behalf of the Offeror.

An Independent Board Committee comprising all independent non-executive Directors, namely Mr. Fong Pui Sheung David MH, Ms. Chau Cynthia Sin Ha JP and Mr. Or Kam Chung Janson, has been formed to advise the Independent Shareholders in relation to the terms and conditions of the Offer, in particular as to whether the Offer is, or is not, fair and reasonable and so to the acceptance of the Offer.

We are appointed as the Independent Financial Adviser to advise the Independent Board Committee as to (i) whether the Offer is on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Offer should be accepted. Our appointment has been approved by the Independent Board Committee.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company, the Vendor or the Offeror, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, or any party acting, or presumed to be acting, in concert with any of them and accordingly, are considered suitable to give independent advice to the Independent Board Committee in respect of the Offer. During the last two years, there was no previous engagement between us and the Group or the Offeror. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

### BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the representations made to us by the Directors and the senior management of the Company. We have assumed that all statements, information and representations provided by the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such statements, information, opinions and/or representations as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us.

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## LETTER FROM MESSIS CAPITAL

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The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than information relating to the Offeror and parties acting in concert with it, the terms of the Offer and the intention of the Offeror in relation to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statement contained in the Composite Document, including this letter, incorrect or misleading.

The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in the Composite Document (other than those relating to the Group), and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in the Composite Document (other than opinions expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document, the omission of which would make any statement in the Composite Document misleading.

We consider that we have been provided with sufficient information and have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Group. We have not considered the taxation implication on the Group or the Shareholders as a result of the Offer. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the Offer, we have considered the principal factors and reasons as set out below:

#### **1. Background of the Offer**

On 14 July 2015, the Vendors, the Guarantors and the Offeror entered into the Agreement, pursuant to which the Vendors and the Guarantors agreed to sell and the Offeror agreed to acquire an aggregate of 226,140,000 Sale Shares. The 226,140,000 Sale Shares comprise (i) 204,220,000 Shares held by the Vendors and the Guarantors as at the date of the Agreement; and (ii) 21,920,000 new Shares issued to the Guarantors on 10 August 2015 upon the exercise of 21,920,000 Share Options, out of the total of 29,100,000 Share Options exercised on 10 August 2015. The 226,140,000 Sale Shares represent approximately 65.00% of the issued share capital of the Company as at the Latest Practicable Date. It is the intention of the parties to the Agreement that Completion shall take place after the payment date of the Special Dividend and on or before 7 September 2015.

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## LETTER FROM MESSIS CAPITAL

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As at the Latest Practicable Date, Mr. Pong (the sole beneficial owner and a director of the Offeror) was interested in 376,000 Shares, representing approximately 0.11% of the existing issued share capital of the Company. Immediately following Completion, the Offeror and parties acting in concert with it (including Mr. Pong) will become interested in a total of 226,516,000 Shares, representing approximately 65.11% of the issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, subject to Completion, the Offeror is required to make a mandatory unconditional general offers in cash for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

As at the Latest Practicable Date, there were 347,904,000 Shares in issue. Excluding the 226,516,000 Shares which are owned by the Offeror and parties acting in concert with it, there will be 121,388,000 Shares which are subject to the Offer. The Offer is valued at approximately HK\$171,764,020 based on the Offer Price. As at the Latest Practicable Date, the Company does not have any other outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

### 2. Background information of the Group

#### (a) *Principal business*

The Company is an investment holding company. 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.

#### (b) *Historical financial information*

A summary of the audited consolidated financial results of the Group for the three financial years ended 31 March 2015 as extracted from the annual reports of the Company for the financial year ended 31 March 2014 (the “**Annual Report 2013/14**”) and 31 March 2015 (the “**Annual Report 2014/15**”) is as below.

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**LETTER FROM MESSIS CAPITAL**

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**Table 1: Consolidated income statement of the Group**

	<b>For the year ended 31 March</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
Turnover			
– Manufacturing business	97,199	97,906	134,773
– Retail business	31,512	33,512	52,788
Total Turnover	128,711	131,418	187,561
Gross Profit	22,807	12,208	51,356
Loss for the year attributable to owners of the Company	(25,780)	(38,866)	(2,569)

**Table 2: Consolidated statement of financial position of the Group**

	<b>As at 31 March</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)	<i>HK\$'000</i> (audited)
Non-current assets	12,898	9,962	26,042
Current assets	234,999	263,534	282,910
Current liabilities	21,480	23,079	20,454
Net current assets	213,519	240,455	262,456
Net asset attributable to owners of the Company	226,356	250,356	288,437

*Financial year ended 31 March 2014 vs financial year ended 31 March 2013*

For the financial year ended 31 March 2014, the Group recorded lower turnover of approximately HK\$131.42 million down around 29.9% from approximately HK\$187.56 million for the financial year ended 31 March 2013. Revenue from both manufacturing and retail business segments declined in the reporting year.

Regarding the manufacturing business, geographically, sales to the European Union (the “EU”) decreased from approximately HK\$49.33 million to approximately HK\$31.90 million. Sales to the United States of America (the “USA”) decreased from approximately HK\$19.25 million to approximately HK\$10.10 million. Sales in Hong Kong increased from approximately HK\$16.96 million to approximately HK\$18.09 million. Sales in the People’s Republic of China (the “PRC”) market decreased from approximately HK\$17.14 million to approximately HK\$11.27 million. Apart from the major markets, sales to other countries including Australia, Japan, Canada, India, Korea, Singapore and Malaysia, etc. decreased from approximately HK\$32.10

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## LETTER FROM MESSIS CAPITAL

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million to approximately HK\$26.55 million. On the other hand, the Group's revenue from retail business, which was derived solely from Hong Kong, decreased by around 36.5% from approximately HK\$52.79 million for the year ended 31 March 2013 to approximately HK\$33.51 million for the corresponding period in 2014.

The gross profit was approximately HK\$12.21 million for the year ended 31 March 2014, down 76.2% from approximately HK\$51.36 million for the corresponding period in 2013. The gross profit margin decreased from around 27.4% to around 9.3%. Such decrease was mainly due to gross loss incurred from the Group's manufacturing business.

According to the Annual Report 2013/2014, 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 of the Group. In addition, an impairment loss of approximately HK\$4.76 million (2013: nil) had been recognized on the Group's property, plant and equipment for the year ended 31 March 2014. As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK\$38.87 million for the year ended 31 March 2014 (2013: net loss of approximately HK\$2.57 million).

As at 31 March 2014, the Group recorded net current assets and net assets attributable to owners of the Company of approximately HK\$240.46 million and HK\$250.36 million, respectively.

### *Financial year ended 31 March 2015 vs financial year ended 31 March 2014*

For the year ended 31 March 2015, the Group's turnover decreased by approximately 2.1% from approximately HK\$131.42 million for the corresponding period in 2014 to approximately HK\$128.71 million. Revenue from both manufacturing and retail business segments declined in the reporting year.

Regarding the manufacturing business, geographically, sales to the EU decreased by approximately 5.5% from approximately HK\$31.90 million for the corresponding period in 2014 to approximately HK\$30.13 million. Sales in Hong Kong decreased by approximately 20.1% from approximately HK\$18.09 million for the corresponding period in 2014 to approximately HK\$14.46 million. Sales to the USA stayed at approximately HK\$10.10 million for the corresponding period in 2014 to approximately HK\$10.47 million. Sales in the PRC market increased by approximately 39.3% from approximately HK\$11.27 million for the corresponding period in 2014 to approximately HK\$15.69 million. Apart from the major markets, sales to other countries including Australia, Japan, Canada, India, Korea, Singapore and Malaysia, etc. decreased by approximately 0.4% from approximately HK\$26.55 million for the corresponding period in 2014 to approximately HK\$26.45 million. On the

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## LETTER FROM MESSIS CAPITAL

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other hand, the Group's revenue from retail business, which was solely derived from Hong Kong, decreased by approximately 6.0% from approximately HK\$33.51 million for the year ended 31 March 2014 to approximately HK\$31.51 million for the corresponding period in 2015.

Gross profit increased by approximately 86.8% from approximately HK\$12.21 million for the corresponding period in 2014 to approximately HK\$22.81 million due to better in cost control. The cost decreased from approximately HK\$119.21 million for the corresponding period in 2014 to approximately HK\$105.90 million. Gross profit margin also increased from approximately 9.3% for the corresponding period in 2014 to approximately 17.7%. This was mainly due to gross profit improved from both manufacturing and retail business segments.

The Group recorded a net loss attributable to owners of the Company of approximately HK\$25.78 million for the year ended 31 March 2015 (2014: net loss of approximately HK\$38.87 million). The loss was primarily attributable to (i) decrease in turnover; and (ii) increase in administrative and other operating expenses due to the increase of staff cost.

As at 31 March 2015, the Group recorded net current assets and net assets attributable to owners of the Company of approximately HK\$213.52 million and HK\$226.36 million, respectively.

### **3. Prospect and outlook of the Group**

The Group is principally engaged in (i) manufacturing and distribution of leather products; and (ii) retails of fashion apparel, footwear and leather accessories. For the year ended 31 March 2015, the two business segments — manufacturing and retail business segments accounted for approximately 76% (2014: 74% and 2013: 72%) and 24% (2014: 26% and 2013: 28%) of the Group total turnover respectively.

Revenue from both manufacturing and retail business segments declined for the three financial years ended 31 March 2015. For the year ended 31 March 2015, turnover of manufacturing business segment from external customers slightly decreased from approximately HK\$97.91 million for the corresponding period in 2014 to approximately HK\$97.20 million. According to the Group's Annual report 2014/15, this was mainly due to the decline in demand from the EU and Hong Kong market which was partly offset by increased in the PRC market. The Group's revenue from its retail business decreased by approximately 6.0% from approximately HK\$33.51 million for the corresponding period in 2014 to approximately HK\$31.51 million, as a result of intensified market competition.

As stated in the section headed "Letter from Optima Capital" contained in the Composite Document, we noted that the Offeror intends to continue with the Group's principal existing business and does not intend to introduce any major changes to the existing business and operation of the Group. The Offeror has no intention to discontinue the employment of the employees or to dispose of or re-deploy the assets of the Group. We have, accordingly, researched on the information from the public domain with respect to the prospect of the leather consumer goods industry in Hong Kong.



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## LETTER FROM MESSIS CAPITAL

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According to a research report titled “Leather Consumer Goods Industry in Hong Kong” published by Hong Kong Trade Development Council (“HKTDC”) on 29 July 2015 (“HKTDC’s Research”), overseas buyers regard Hong Kong as an important sourcing centre for leather consumer goods and they are attracted by the industry’s high quality products, flexibility, production with short lead-time, quick response to fashion trends and ability to meet customer specifications. However, Hong Kong’s exports of leather consumer goods fell another 8% to HK\$14.6 billion in the first five months of 2015 after registering a decrease of 8% in 2014. Re-exports, accounting for almost all exports of leather consumer goods from Hong Kong, also fell by 8%, while domestic exports were up 1%.

(HK\$ billion)	2013		2014		Jan–May 2015	
	Value	Growth %	Value	Growth %	Value	Growth %
Domestic exports						
(Note 1)	0.005	-28	0.009	+79	0.003	+1
Re-exports (Note 2)	44.887	-5	41.471	-8	14.631	-8
– Of the PRC						
origin	32.652	-8	30.139	-8	10.303	-8
Total exports						
(Note 3)	44.892	-5	41.480	-8	14.634	-8

Source: HKTDC

*Note 1:* Domestic exports are the natural produce of Hong Kong or the products of a manufacturing process in Hong Kong which has changed permanently the shape, nature, form or utility of the basic materials used in the manufacturing process. Processes such as simple diluting, packing, bottling, drying, simple assembling, sorting, decorating, etc., do not confer Hong Kong as the origin.

*Note 2:* Re-exports are products which have previously been imported into Hong Kong and which are re-exported without having undergone in Hong Kong a manufacturing process which has changed permanently the shape, nature, form or utility of the product.

*Note 3:* Total exports comprise domestic exports and re-exports of imported goods.

Further to the HKTDC’s Research, the USA remains the leading export destination for Hong Kong’s leather consumer goods, accounting for approximately 30% of the total export during the first five months of 2015, followed by the EU and the PRC, with respective shares of approximately 16% and 14%. In terms of performance, Hong Kong’s exports of leather consumer goods to the USA declined by approximately 10% in the first five months of 2015. As for the EU, sales also dropped by 15%. The decrease in the Group’s turnover is in line with the overall decrease in total exports of the leather consumer goods industry in Hong Kong as shown in the above table.

According to the statistical reports titled “Report on Monthly Survey of Retail Sales (June 2014)” and “Report on Monthly Survey of Retail Sales (June 2015)” published by the Census and Statistics Department, the total value of retail sales in clothing, footwear and allied products outlet in Hong Kong decreased 3.6% from approximately HK\$34.15 billion in the first six months of 2014 to approximately HK\$32.91 billion in the same period of 2015. In particular, the total value of retail sales of wearing apparel in the first six months

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## LETTER FROM MESSIS CAPITAL

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of 2015 was approximately HK\$28.21 billion, decreased by 3.9% from approximately HK\$29.36 billion compared with the same period in 2014. The total value of retail sales of footwear, allied products and other clothing accessories decreased 1.9% from approximately HK\$4.79 billion in the first six months of 2014 to approximately HK\$4.70 billion in the corresponding period in 2015.

According to the Annual Report 2014/15, the Group's retail sales growth in Hong Kong 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. The decrease in the Group's turnover from retail business in 2015 was in line with the overall performance in Hong Kong.

The Group has altered the product mix by focusing on selling more fashion bags with high quality and creative design, which contributed a mild increase in the Group's in-house brand sales and increase in gross profit margin in retail business. The Group's total in-house brand sales increased 11.1% from approximately HK\$22.90 million in the financial year ended 31 March 2014 to approximately HK\$25.43 million in the financial year ended 31 March 2015. Non in-house brand sales decreased 42.7% from approximately HK\$10.62 million in the financial year ended 31 March 2014 to approximately HK\$6.08 million in the financial year ended 31 March 2015.

Despite the improvement in gross profit from both manufacturing and retail business segments of the Group for the year ended 31 March 2015, having considered that Hong Kong's exports of leather consumer goods fell in recent years and sluggish market demand as mentioned above in the "Report on Monthly Survey of Retail Sales", it is difficult for the Group to secure new orders; and also the increasing market competition in the retail business, we remain cautious about the outlook and prospects of the Group.

#### **4. Principal terms of the Offer**

Subject to and upon Completion, Optima Capital, the financial adviser to the Offeror, will make the Offers on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

##### *The Offer*

For each Offer Share ..... HK\$1.415 in cash

The Offer Price of HK\$1.415 per Offer Share under the Offer is the same as the purchase price per Sale Share payable by the Offeror under the Agreement. The Offer Shares to be acquired under the Offer shall be fully paid and free from all encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution (excluding the Special Dividend) declared, made or paid on or after the date on which the Offer is made, being the date of this Composite Document.

For the avoidance of doubt, any Shareholder whose name appears on the Company's principal or branch share register on the Record Date and subsequently accepts the Offer would still be entitled to the Special Dividend.

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## LETTER FROM MESSIS CAPITAL

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Your attention is drawn to the further terms of the Offer, including procedures for acceptance, settlement and the acceptance period, as set out in Appendix I to this Composite Document and the Acceptance Form.

### *The Offer Price*

The Offer Price of HK\$1.415 per Offer Share represents:

- (i) a premium of approximately 0.4% over the ex-dividend closing price of HK\$1.41 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 13.7% to the closing price of HK\$1.64 per Share as quoted on the Stock Exchange on 14 July 2015, being the Last Trading Day;
- (iii) a premium of approximately 16.5% over the ex-dividend closing price of HK\$1.2146 per Share on 14 July 2015 after taking into account the Special Dividend of HK\$0.4254 declared;
- (iv) a premium of approximately 14.7% over the average of the closing prices of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including 14 July 2015 of approximately HK\$1.234 per Share;
- (v) a premium of approximately 75.0% over the average of the ex-dividend closing prices of the Shares for the five consecutive trading days up to and including 14 July 2015 of approximately HK\$0.8086 per Share after taking into account the Special Dividend of HK\$0.4254 declared;
- (vi) the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten consecutive trading days up to and including 14 July 2015 of approximately HK\$1.415 per Share;
- (vii) a premium of approximately 43.0% over the average of the ex-dividend closing prices of the Shares for the ten consecutive trading days up to and including 14 July 2015 of approximately HK\$0.9896 per Share after taking into account the Special Dividend of HK\$0.4254 declared;
- (viii) a discount of approximately 9.9% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty consecutive trading days up to and including 14 July 2015 of approximately HK\$1.571 per Share;
- (ix) a premium of approximately 23.5% over the average of the ex-dividend closing prices of the Shares for the thirty consecutive trading days up to and including 14 July 2015 of approximately HK\$1.1456 per Share after taking into account the Special Dividend of HK\$0.4254 declared;

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## LETTER FROM MESSIS CAPITAL

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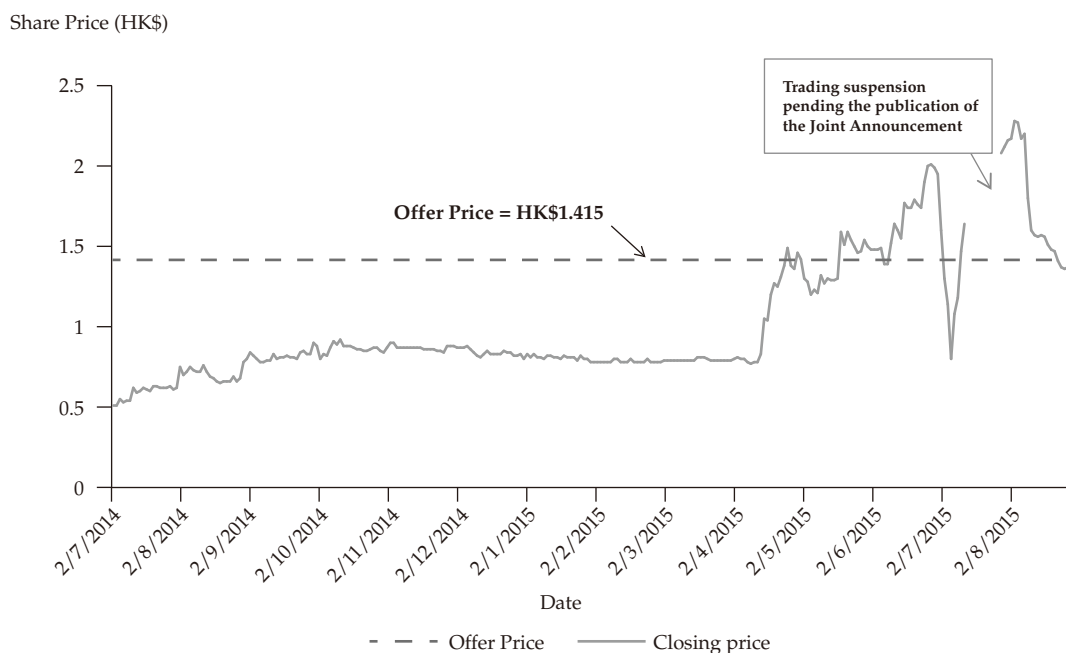
- (x) a premium of approximately 117.5% over the consolidated net asset value per Share of approximately HK\$0.6506 (calculated based on the audited consolidated net asset value of the Group as at 31 March 2015 of approximately HK\$226,356,000 and the 347,904,000 Shares in issue as at the Latest Practicable Date); and
- (xi) a premium of approximately 528.3% over the ex-dividend consolidated net asset value per Share of approximately HK\$0.2252 (calculated based on the audited consolidated net asset value of the Group as at 31 March 2015 of approximately HK\$226,356,000, the Special Dividend of HK\$0.4254 per Share declared and the 347,904,000 Shares in issue as at the Latest Practicable Date).

### 5. Historical performance of the Shares

#### 5.1 Share Price

The chart of daily closing price of the Shares during the Review Period (as defined below) is as follows:

**Daily closing prices of the Shares**



Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

Notes: Trading in the Shares was suspended from 15 July 2015 to 28 July 2015 (both days inclusive) pending the publication of the Joint Announcement.

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## LETTER FROM MESSIS CAPITAL

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We have reviewed the movements in the closing price of the Shares for the period commencing from 2 July 2014, being the 12-month period prior to the date of the Joint Announcement and up to and including the Latest Practicable Date (the “**Review Period**”). We consider that the length of the Review Period to be reasonably long enough to illustrate the relationship between the historical trend of the closing price of the Shares and the Offer. The chart above represents the daily movement in the closing prices of the Shares against the Offer Price during the Review Period.

Prior the release of the Joint Announcement on 28 July 2015, the lowest and highest closing price of the Shares during the Review Period were HK\$0.51 per Share recorded on 2 July 2014 and HK\$2.01 per Share recorded on 29 June 2015 respectively, as quoted on the Stock Exchange. The average daily closing price of the Shares during the Review Period before the release of the Joint Announcement is HK\$0.95 per Share. The Offer Price of HK\$1.415 per Share represents (i) a premium of approximately 177.45% from the lowest closing price; (ii) a discount of approximately 29.60% from the highest closing price; and (iii) a premium of approximately 48.95% from the average daily closing price during the Review Period before the release of the Joint Announcement.

The closing price of the Shares gradually increased from HK\$0.51 per Share on 2 July 2014 to HK\$0.8 per Share on 27 August 2014. During the period from 28 August 2014 to 15 April 2015, the closing price of the Share hovered between HK\$0.77 per Share and HK\$0.92 per Share. In this regard, the Shares appear to be trading at a price substantially lower than the Offer Price for a considerable period of time.

The closing price of the Share then surged to HK\$1.05 per Share on 16 April 2015 and reached the highest of HK\$2.01 per Share on 29 June 2015. Since no information of change in the financial position of the Group published in the public domain during such period, we have enquired with the Directors regarding the possible reasons for the increase in the Share price before the Joint Announcement and were advised that they were not aware of any particular matters which might have impact on the share price. Therefore, we believe that the surge of the closing price of the Shares immediately before the publication of the Joint Announcement did not reflect the fundamentals of the Company and the Share price during such period does not serve a fair and meaningful indicator for assessing the Offer Price.

There was a sharp decrease in Hang Seng Index from 24,975.31 on 7 July 2015 to 23,516.56 on 8 July 2015 (-5.84%), and a quick bounce back to 24,392.79 on 9 July 2015 (+3.73%). A similar movement in the price of the Share is observed. The price of the Share decreased from HK\$1.14 on 7 July 2015 to HK\$0.8 on 8 July 2015 (29.8%), and then bounced back to HK\$1.08 on 9 July 2015 (35%).

At the request of the Company, trading in the Shares was suspended from 15 July 2015 to 28 July 2015 (both days inclusive) pending the publication of the Joint Announcement. Subsequent to the issue of the Joint Announcement, the closing price of the Shares increased by approximately 26.83% to HK\$2.08 per Share on 29

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## LETTER FROM MESSIS CAPITAL

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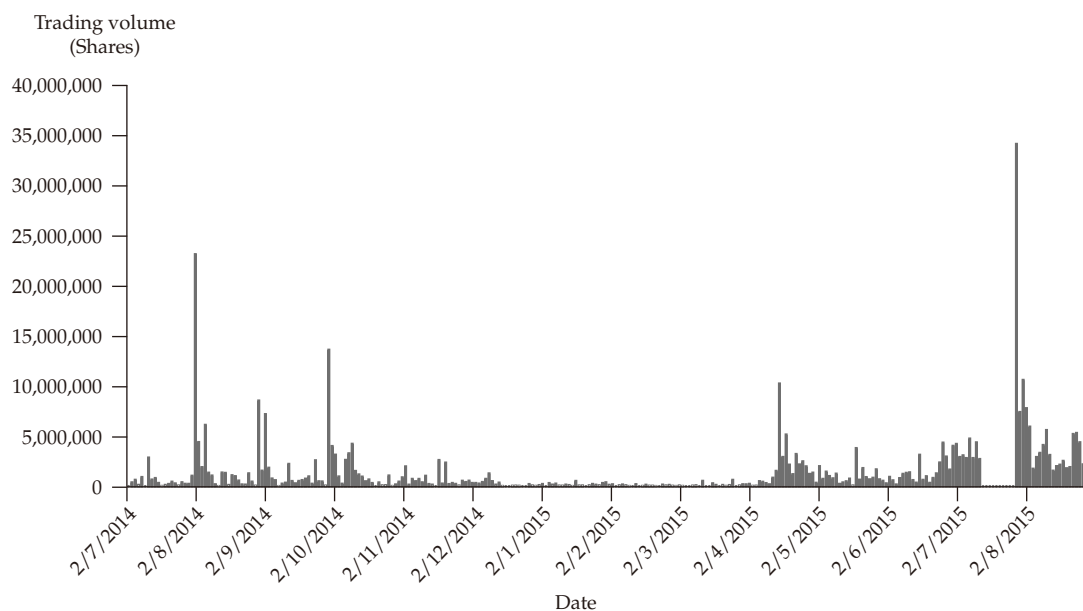
July 2015 (being the first trading day after the publication of the Joint Announcement) as compared to that of HK\$1.64 per Share on the Last Trading Day. We have enquired with the Directors regarding the possible reasons for the increase in the Share price after the publication of the Joint Announcement and were advised that save for the sale and purchase of the Sale Shares owned by the Vendor contemplated under the Sale and Purchase Agreement and the possibility of the Offer, they were not aware of any other matters which might have impact on the Share price. Therefore, we believe that the surge in the closing price of the Shares immediately after the publication of the Joint Announcement was likely attributable to the positive market speculation on the sale and purchase of the Sale Shares contemplated under the Sale and Purchase Agreement and the possibility of the Offer as disclosed in the Joint Announcement.

In view of the recent surge in the Share price of the Group, Independent Shareholders who wish to realize their investment in the Group are reminded that they should carefully and closely monitor the market price of the Group during the offer period and consider selling their Shares in the open market during the offer period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Offer.

### 5.2 *Liquidity of the Shares*

The chart of daily trading volume of the Shares during the Review Period is as follows:

**Daily trading volume of the Shares during the Review Period**



Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

Notes: Trading in the Shares was suspended from 15 July 2015 to 28 July 2015 (both days inclusive) pending the publication of the Joint Announcement.

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## LETTER FROM MESSIS CAPITAL

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A table showing the average daily volume of the Shares per month and the respective percentages of the average daily trading volume as compared to the total number of issued Shares and total number of issued Shares held by public Shareholders respectively during the Review Period is as follows:

	Total monthly trading volume <i>(in number of shares)</i>	Number of trading days in the month <i>(days)</i>	Approximate average daily trading volume <i>(in number of shares)</i> <i>(Note 1)</i>	Number of trading days with no turnover (excluding suspension period) <i>(days)</i>	Percentage of average daily trading volume to total number of shares in issue as at the Latest Practicable Date <i>(Approximate %)</i> <i>(Note 2)</i>	Percentage of average daily trading volume to total number of shares held by public Shareholders as at the Latest Practicable Date <i>(Approximate %)</i> <i>(Note 3)</i>
<b>2014</b>						
July	37,020,000	22	1,682,727	2	0.48%	1.48%
August	39,016,000	21	1,857,905	0	0.53%	1.63%
September	34,120,000	21	1,624,762	0	0.47%	1.43%
October	20,508,000	21	976,571	1	0.28%	0.86%
November	11,696,000	20	584,800	1	0.17%	0.51%
December	4,324,000	21	205,905	5	0.06%	0.18%
<b>2015</b>						
January	3,160,000	21	150,476	2	0.04%	0.13%
February	1,116,000	18	62,000	3	0.02%	0.05%
March	2,608,000	22	118,545	7	0.03%	0.10%
April	37,671,900	19	1,982,732	0	0.57%	1.74%
May	19,587,501	19	1,030,921	0	0.30%	0.90%
June	27,106,000	22	1,232,091	0	0.35%	1.08%
July	83,497,000	12	6,958,083	0	2.00%	6.10%
August (up to and including the Latest Practicable Date)	66,400,000	20	3,322,000	0	0.95%	2.91%

Source: website of the Stock Exchange (<http://www.hkex.com.hk>)

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## LETTER FROM MESSIS CAPITAL

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*Notes:*

1. Average daily trading volume is calculated by dividing the total trading volume for the month/ period by the number of trading days during the month/ period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day. (i.e. From 15 July 2015 to 28 July 2015 pending the release of the Joint Announcement in relation to the sale and purchase agreement and the possible mandatory unconditional cash offers)
2. Based on 347,904,000 Shares in issue as at the Latest Practicable Date.
3. Based on 114,000,000 Shares held by public as at the Latest Practicable Date.
4. The Review Period commenced on 2 July 2014.
5. The Review Period ended on the Latest Practicable Date.

The average daily trading volume of the Shares per month during the Review Period was ranging from approximately 0.02% in February 2015 to 2.00% in July 2015 of the total number of issued Shares as at the Latest Practicable Date. If only Shares held by public Shareholders, i.e. the free float, are considered in calculating the percentage of average daily trading volume of the Shares per month during the Review Period, the percentage was ranging from approximately 0.05% in February 2015 to 6.10% in July 2015.

On 29 July 2015, the first trading day after the publication of the Joint Announcement, the daily trading volume was 34,057,000 Shares, representing 9.79% of the Shares in issue as at the Latest Practicable Date. We have enquired with the Directors regarding the possible reasons for the increase in the trading volume after the publication of the Joint Announcement and were advised that save for the sale and purchase of the Sale Shares owned by the Vendor contemplated under the Sale and Purchase Agreement and the possibility of the Offer, they were not aware of any other matters which might have impact on the trading volume. Therefore, we believe that the surge in the trading volume of the Shares immediately after the publication of the Joint Announcement was likely attributable to the positive market speculation on the sale and purchase of the Sale Shares contemplated under the Sale and Purchase Agreement and the possibility of the Offer as disclosed in the Joint Announcement.

Comparing with the high volume activities following the Joint Announcement in late July 2015, the average daily trading volume of Shares during the Review Period was generally thin. The average daily trading volume for the pre-announcement period was 1,052,474 Shares, representing approximately 0.30% of the total number of Shares in issue.

Given that the trading volume of the Shares fluctuated during the Review Period, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open



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## LETTER FROM MESSIS CAPITAL

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market. Therefore, we are of the view that the Offer represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of the Shares, to dispose of part or all of their Shares at the Offer Price if they so wish to.

### 5.3 Comparable analysis

The Group is principally engaged in manufacturing and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

Given that the Company is loss making, it is impracticable to use price-to-earnings (“P/E”) ratio to value the Company with other companies engaged in similar industry. Other than P/E ratio, price-to-book (“P/B”) ratio is the most commonly used benchmark in valuing a company. Based on the price of HK\$1.415 per Offer Share and the total number of issued Shares of 347,904,000 as at the Latest Practicable Date, the Company is valued at approximately HK\$492.28 million. The P/B ratio of the Company implied by the Offer Price (the “**Implied P/B**”) is approximately 6.28 times based on the equity attributable to owners of the Company of approximately HK\$78.36 million (calculated based on the audited consolidated net asset value of the Group as at 31 March 2015 of approximately HK\$226.36 million deducted by the Special Dividend of HK\$0.4254 per Share declared). As at the Latest Practicable Date, the market capitalization of the Company is HK\$490.54 million.

In assessing the fairness and reasonableness of the Offer Price, we have identified an exhaustive list of companies (the “**Comparable Companies**”) which (i) are principally engaged in and generated a majority of their revenue from accessories and leather goods in their respective latest financial year; and (ii) have their shares listed on the Main Board of the Stock Exchange. Based on these criteria, we identified 3 Comparable Companies. We consider this sample fair and representative as the Comparable Companies are engaged in the same sector as the Company does. The following table sets out the details of the Comparable Companies:

Company (Stock code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Net asset value attributable to the shareholders of the company (HK\$ million)	PB Ratio (Note) (times)
Sitoy Group Holdings Ltd. (1023)	Design, research, development, manufacturing, sales and retailing of handbags, small leather goods and travel goods.	4,046.19	2,016.22	2.01
Guangdong Tannery Ltd. (1058)	Processing and sale of semi-finished and finished leather.	355.09	352.53	1.01

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## LETTER FROM MESSIS CAPITAL

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Company (Stock code)	Principal business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Net asset value attributable to the shareholders of the company (HK\$ million)	PB Ratio (Note) (times)
Lee & Man Handbags Holding Ltd. (1488)	Manufacture and sale of ladies' handbags, tote bags, cosmetics bags, children's bags and backpacks.	948.75	284.08	3.34
			Average	2.12
			Median	2.01
			Maximum	3.34
			Minimum	1.01
The Offer		492.28	78.36	6.28

*Source:* website of the Stock Exchange (<http://www.hkex.com.hk>)

*Note:* The P/B ratios of the Comparable Companies are calculated based on the market capitalisation of the respective Comparable Companies as at the Latest Practicable Date divided by the equity attributable to owners of the respective Comparables as extracted from their respective latest published annual or interim results.

As illustrated in the table set out above, the P/B Ratios of the Comparables ranged from approximately 1.01 times to approximately 3.34 times, with an average and median of approximately 2.12 times and 2.01 times respectively. The Implied P/B Ratio of approximately 6.28 times is significantly higher than the average and median of the P/B Ratios of the Comparables. As such, we consider the Offer Price, with reference to the Implied P/B Ratio, is fair and reasonable given the current market valuation of the Comparables.

### 6. Background and intention of the Offeror

#### *Background of the Offeror*

The Offeror is an investment holding company incorporated in the BVI with limited liability. Mr. Pong is the sole beneficial owner of the Offeror. The board of directors of the Offeror comprises Mr. Pong and Mr. Lee Wing Yin. Mr. Pong is the substantial and controlling shareholder of Winfull Group Holdings Limited, a company with shares listed on the Main Board of the Stock Exchange. Mr. Pong holds a bachelor degree in Applied Science from the University of British Columbia.

None of the Offeror, its ultimate beneficial owner and/or parties acting in concert with any of them has dealt in any Shares or any options, warrants or convertible securities in respect of the Shares during the Relevant Period, apart from the entering into of the Agreement.

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## LETTER FROM MESSIS CAPITAL

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### *Intention of the Offeror*

It is the intention of the Offeror to continue with the Group's existing principal business following the close of the Offers. The Offeror does not intend to introduce any major changes to the existing business and operation of the Group following the close of the Offer. As at the Latest Practicable Date, the Offeror has no intention to discontinue the employment of the employees (save for the proposed changes to the composition of the Board as detailed below) or to dispose of or re-deploy the assets of the Group.

As at the Latest Practicable Date, the Offeror and Mr. Pong had no intention, arrangement, agreement, understanding, negotiation (concluded or otherwise) (i) on any material disposal/termination/scaling-down of the existing businesses of the Group; (ii) to inject any new business to the Group; and (iii) to change the shareholding structure of the Company save for those contemplated under the Agreement. For further details, please refer to the section headed "Intention of the Offeror" set out in the "Letter from Optima Capital" to the Composite Document.

### *Proposed Change to the Board*

The Board is currently made up of six members, comprising three executive Directors, namely Mr. Edwin Chan, Mr. Stanley Chan, and Ms. Rebecca Chan; and three independent non-executive Directors, namely Mr. Fong Pui Sheung David MH, Ms. Chau Cynthia Sin Ha JP and Mr. Or Kam Chung Janson. It is intended that all existing Directors will resign with effect from the later of (i) the Completion Date; (ii) the earliest time permitted under the Takeovers Code for the existing Directors to resign; and (iii) the day after the new Directors nominated by the Offeror have been appointed to the Board. Mr. Edwin Chan and Mr. Stanley Chan will remain as directors of all operating subsidiaries of the Group and Ms. Rebecca Chan will remain as directors of certain operating subsidiaries of the Group. All terms and conditions (including duration of the contracts) of the employment contracts of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan remain the same. The Offeror intends to nominate new Directors to the Board with effect after the close of the Offers. As at the Latest Practicable Date, the Offeror had not reached any final decision as to who will be nominated as new Directors. Any changes to the Board composition will be announced by the Company and made in compliance with the Takeovers Code and the Listing Rules.

As mentioned above, the Offeror intends to nominate new Directors to the Board with effect after the close of the Offer. The Offeror has not reached any final decision as to who will be nominated as new Directors as at the Latest Practicable Date. In view of above, we consider that it is uncertain that the proposed changes of the Board would have positive or negative impact on the existing business of the Group and its performance. Shareholders should form their own judgment as to the commercial attractiveness of the effect of the new management on the Group.

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## LETTER FROM MESSIS CAPITAL

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### RECOMMENDATION

Having considered the abovementioned principal factors and reasons for the Offer, in particular that:

- (a) the Offer Price is substantially higher than historical prices of the Shares during the Review Period prior to the release of the Joint Announcement, a period of which we consider more appropriately reflects the fundamentals of the Group as analysed in section 5 headed "Historical performance of the Shares";
- (b) the Implied P/B Ratio of approximately 6.28 times is significantly higher than the average and median of the P/B Ratios of the Comparables;
- (c) trading volume of the Shares fluctuated during the Review Period and the Offer provides an opportunity for the Independent Shareholders to realise their investment at the Offer Price without exerting a downward impact on the Share price;
- (d) it is uncertain that any of the business or investment opportunities would be identified, or if, materialized, such projects would bring positive impacts to the Group, and that the proposed change if the Board would have a positive impact on the existing business of the Group and its performance; and
- (e) the market demand for Hong Kong's exports of leather consumer goods is sluggish and there is increasing market competition in the retail business as discussed in the paragraph headed "Prospect and outlook of the Group" above,

we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and we recommend the Independent Board Committee to advise the Independent Shareholders to, and we recommend the Independent Shareholders to, accept the Offer.

In view of the recent surge in the price of the Shares, Independent Shareholders who wish to realize their investment in the Group are reminded that they should carefully and closely monitor the market price of the Shares during the offer period and consider selling their Shares in the open market during the offer period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Offer. In any event, Independent Shareholders should note that there is no certainty that the current trading volume and/or current trading price level of the Shares will be sustainable during or after the Offer Period of the Offer.

Yours faithfully,  
For and on behalf of  
**Messis Capital Limited**  
**Robert Siu**  
*Managing Director*

*Note:* Mr. Robert Siu is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Messis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.

**1. PROCEDURES FOR ACCEPTANCE OF THE OFFER**

To accept the Offer, you should complete and sign the accompanying Acceptance Form in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offer.

- (i) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer in respect of your Shares, you must send the duly completed and signed Acceptance Form together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to Computershare Hong Kong Investor Services Limited, the Registrar, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong, marked “Chanco International Group Limited – Offer” on the envelope, in any event not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code.
- (ii) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your Shares, you must either:
  - (a) lodge your share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver in an envelope marked “Chanco International Group Limited – Offer” the duly completed and signed Acceptance Form together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
  - (b) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver in an envelope marked “Chanco International Group Limited – Offer” the duly completed and signed Acceptance Form together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or

- (c) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC to accept the Offer on your behalf on or before the deadline set by HKSCC. In order to meet the deadline set by HKSCC, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or
  - (d) if your Shares have been lodged with your investor participant stock account with CCASS, authorise your instruction via the CCASS phone system or CCASS internet system no later than the deadline set by HKSCC.
- (iii) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Acceptance Form and deliver it in an envelope marked “Chanco International Group Limited – Offer” to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an authority to the Offeror and/or Optima Capital or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the Acceptance Form.
- (iv) If the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares is/are not readily available or is/are lost, as the case may be, and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Acceptance Form and deliver it in an envelope marked “Chanco International Group Limited – Offer” to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your Shares or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar requesting a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (v) Acceptance of the Offer will be treated as valid only if the duly completed and signed Acceptance Form is received by the Registrar by no later than 4:00 p.m.

on the Closing Date (or such later time and/or date as the Offeror may determine and announce with the consent of the Executive and in accordance with the Takeovers Code) and in compliance with Note 1 to Rule 30.2 of the Takeovers Code, and the Registrar has recorded that the Acceptance Form and any relevant documents required under paragraph (vi) below have been so received.

- (vi) Acceptance of the Offer may not be counted as valid unless the Acceptance Form is duly completed and signed and is:
  - (a) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Shares; or
  - (b) from an Independent Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph under this paragraph (vi)); or
  - (c) certified by the Registrar or the Stock Exchange.

If the Acceptance Form is executed by a person other than the registered Independent Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

- (vii) No acknowledgement of receipt of any Acceptance Form, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.
- (viii) If the Offer does not become, or is not declared, unconditional in all respects within the time permitted by the Takeovers Code, the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Registrar will be returned to the Independent Shareholders who have accepted the Offer by ordinary post at the Independent Shareholders' own risk as soon as possible but in any event within 10 days after the Offer has lapsed.

## 2. SETTLEMENT

- (i) If you accept the Offer, settlement of the consideration, less seller's Hong Kong ad valorem stamp duty, will be made by cheque as soon as possible, but

in any event within seven (7) Stock Exchange Business Days following the later of (a) the date on which the Offer becomes or is declared unconditional in all respects; and (b) the date of receipt by the Registrar of the duly completed Acceptance Form together with all the valid requisite documents from the Independent Shareholders accepting the Offer in compliance with Note 1 to Rule 30.2 of the Takeovers Code. Each cheque will be despatched by ordinary post to the address specified on the relevant Independent Shareholder's Acceptance Form at his/her/its own risk.

- (ii) No fractions of a cent will be payable and the amount of cash consideration payable to an Independent Shareholder who accepts the Offer will be rounded up to the nearest cent.

### 3. ACCEPTANCE PERIOD AND REVISIONS

- (i) The Offer is made on 31 August 2015, being the date of despatch of this Composite Document, and is open for acceptance on and from this date.
- (ii) Unless the Offer has previously been revised or extended with the consent of the Executive and in accordance with the Takeovers Code, to be valid, the Acceptance Form must be received by the Registrar by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the relevant Acceptance Form. The Offer will become unconditional in all respects upon Completion. As the Vendors and the Guarantors have undertaken to the Offeror not to accept the Offer in respect of any Shares held by them, the Offer is not capable of becoming unconditional until Completion takes place. Pursuant to the Takeovers Code, the Offer will lapse if Completion does not take place and the Offer does not become unconditional as to acceptances before 7:00 p.m. on 30 October 2015, being the 60th day after the day this Composite Document is posted. Pursuant to the Takeovers Code, where the Offer becomes or is declared unconditional in all respects, the Offer will remain open for acceptance for not less than 14 days thereafter. The Offeror will make an announcement as and when the Offer becomes or is declared unconditional in all respects.
- (iii) If the Offer is extended, the announcement of such extension will state the next closing date or, if the Offer is unconditional as to acceptances, a statement may be made that the Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing must be given to those Independent Shareholders who have not accepted the Offer before the Offer is closed and an announcement must be published. If, in the course of the Offer, the Offeror revises the terms of the Offer, all Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms. The revised Offer must be kept open for at least 14 days following the date on which the revised offer document(s) are posted and shall not close earlier than 21 days following this Composite Document is posted.



- (iv) If the Closing Date is extended, any references in this Composite Document and the Acceptance Form to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent closing date.

#### 4. ANNOUNCEMENT

- (i) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry or unconditionality of the Offer. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offer has been revised or extended, has expired or has become or been declared unconditional (whether as to acceptances or in all respects).

The announcement will state the total number of Shares:

- (a) for which acceptances of the Offer have been received;
- (b) held, controlled or directed by the Offeror and parties acting in concert with it before the Offer Period; and
- (c) acquired by the Offeror and parties acting in concert with it during the Offer Period.

The announcement will also include details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company (the "**Relevant Securities**") which the Offeror and any parties acting in concert with it has borrowed or lent, save for any borrowed securities which have been either on-lent or sold.

The announcement will also specify the percentages of the issued share capital of the Company, and the percentages of voting rights, represented by these numbers.

In computing the total number of Shares represented by acceptances, only valid acceptances that are complete, in good order and fulfil the acceptance conditions set out in this Appendix I, and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offer, shall be included.

- (ii) As required under the Takeovers Code, all announcements in relation to the Offer will be made in accordance with the requirements of the Takeovers Code and the Listing Rules.

**5. NOMINEE REGISTRATION**

To ensure equality of treatment of all Shareholders, those Shareholders who hold Shares as nominees on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. In order for beneficial owners of Shares whose investments are registered in the names of nominees to accept the Offer, it is essential that they provide instructions of their intentions with regard to the Offer to their nominees.

**6. RIGHT OF WITHDRAWAL**

- (i) Acceptance of the Offer tendered by the Independent Shareholders or by their agent(s) on their behalf shall be irrevocable and cannot be withdrawn, except in the circumstances set out in subparagraph (ii) below.
- (ii) If the Offeror is unable to comply with the requirements set out in the paragraph headed "Announcement" in this Appendix above, the Executive may require, pursuant to Rule 19.2 of the Takeovers Code, that the Independent Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements of Rule 19 of the Takeovers Code can be met.

In such case, when the Independent Shareholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within ten days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Acceptance Form to the relevant Independent Shareholder(s).

Save as aforesaid, acceptances of the Offer shall be irrevocable and not capable of being withdrawn.

**7. OVERSEAS SHAREHOLDERS**

The Offer is available to all the Independent Shareholders, including the Overseas Shareholders. However, the Overseas Shareholders who wish to accept the Offer are subject to, and may be affected by, the applicable laws and regulations of their relevant jurisdictions of residence. Overseas Shareholders should observe any applicable legal and regulatory requirements and, where necessary, consult their own professional advisers. It is the responsibility of Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction in connection with the acceptance of the Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by such Overseas Shareholders in respect of such jurisdiction).

**8. STAMP DUTY**

Seller's Hong Kong ad valorem stamp duty arising in connection with acceptance of the Offer amounting to 0.1% of the amount payable in respect of relevant acceptances by the Independent Shareholders, or (if higher) the value of the Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance, will be deducted from the cash amount payable to the Independent Shareholders who accept the Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty so deducted on behalf of the accepting Independent Shareholders and will pay to the Stamp Office the buyer's ad valorem stamp duty in connection with the acceptances of the Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance.

**9. TAX IMPLICATIONS**

The Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of the Offeror and parties acting in concert with it, the Company, Optima Capital, Messis Capital, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer accepts any responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

**10. GENERAL**

- (i) All communications, notices, the Acceptance Form, share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk. Such communications, notices, documents and remittances will be sent to the Independent Shareholders at their addresses specified on the relevant Acceptance Form. None of the Offeror and parties acting in concert with it, the Company, Optima Capital, Messis Capital, the Registrar or any of their respective ultimate beneficial owners, directors, officers, agents or associates or any other person involved in the Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.
- (ii) The provisions set out in the Acceptance Form form part of the terms of the Offer.
- (iii) The accidental omission to despatch this Composite Document and/or Acceptance Form or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.

- (iv) The Offer is, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong.
- (v) Due execution of the Acceptance Form will constitute an irrevocable authority to the Offeror and/or Optima Capital (or such person or persons as the Offeror and/or Optima Capital may direct) to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror (or such person or persons as it may direct) the Shares in respect of which such person has accepted the Offer.
- (vi) Acceptance of the Offer by the Independent Shareholders will be deemed to constitute a warranty by such person(s) to the Offeror that such Shares acquired under the Offer are sold or tendered by the Independent Shareholders free from all pledges, charges, claim, community or other marital property interest, liens, mortgages, lease, security interests, attachments, pre-emption rights, options restrictions, conditional sale agreement or other title retention agreement and any other encumbrances or similar third party rights or claims of any kind, and together with all rights accruing or attaching thereto on the date on which the Offer is made or subsequently becoming attached to them, including the right to receive in full all dividends (whether final or interim) (excluding the Special Dividend) and other distributions, if any, declared, made or paid on or after the date on which the Offer is made.

**For the avoidance of doubt, any Shareholder whose name appeared on the Company's principal or branch share register on the Record Date and subsequently accepts the Offer would still be entitled to the Special Dividend.**

- (vii) References to the Offer in this Composite Document and in the Acceptance Form shall include any extension and/or revision thereof.
- (viii) Any Independent Shareholders accepting the Offer will be responsible for payment of any other transfer or cancellation or other taxes or duties payable by them in any relevant jurisdiction.
- (ix) Save for the payment of stamp duty, settlement of the consideration to which any Independent Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholder.

- (x) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares it has indicated in the Acceptance Form is the aggregate number of Shares for which such nominee has received authorisations from the beneficial owners to accept the Offer on their behalf.
- (xi) The English text of this Composite Document and of the Acceptance Form shall prevail over the Chinese text for the purpose of interpretation.
- (xii) In making their decision, the Independent Shareholders must rely on their own examination of the Group and the terms of the Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Acceptance Form, shall not be construed as any legal or business advice on the part of the Offeror, the Company, Optima Capital, Messis Capital, the Registrar or their respective professional advisers. Independent Shareholders should consult their own professional advisers for professional advice.
- (xiii) This Composite Document has been prepared for the purposes of compliance with the legislative and regulatory requirements applicable in respect of the Offer in Hong Kong (including the Takeovers Code) and the operating rules of the Stock Exchange.

## 1. THREE YEARS FINANCIAL SUMMARY

The following is a summary of the audited financial results of the Group for each of the three financial years ended 31 March 2013, 2014 and 2015; and the Group's assets and liabilities as at 31 March 2013, 2014 and 2015. They are extracted from the published audited financial statements of the Group for the three financial years ended 31 March 2013, 2014 and 2015.

BDO Limited, the auditor of the Company, did not issue any qualified opinion on any of financial statements of the Group for each of the three financial years ended 31 March 2013, 2014 and 2015.

For each of the three financial years ended 31 March 2013, 2014 and 2015:

- the Group had no exceptional or extraordinary items because of size, nature or incidence;
- the Group did not record any non-controlling interests; and
- all of the loss of the Group was attributable to owners of the Company.

	<b>Year ended 31 March</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>(i) Turnover</b>	187,561	131,418	128,711
Loss before income tax expenses	(1,226)	(38,489)	(25,230)
Income tax expense	(1,343)	(377)	(550)
Loss for the year and attributable to owners of the Company	(2,569)	(38,866)	(25,780)
<b>Loss per Share</b>			
– Basic and diluted ( <i>Note 1</i> )	(HK0.81 cents)	(HK12.19 cents)	(HK8.09 cents)

*Note 1:* The calculation of basic loss per Share is based on the loss for each of the three financial years ended 31 March 2013, 2014 and 2015 attributable to owners of the Company and 318,804,000 Shares in issue during each year.

Diluted loss per Share equals to basic loss per Share, as the computation of diluted loss per Share does not assume the exercise of the Company's outstanding Share Options as the outstanding Share Options have an anti-dilutive effect on the basic loss per Share during each of the three financial years ended 31 March 2013, 2014 and 2015.

	Year ended 31 March		
	2013	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>(ii) Assets and liabilities</b>			
Non-current assets	26,042	9,962	12,898
Current assets	<u>282,910</u>	<u>263,534</u>	<u>234,999</u>
Total assets	<u><u>308,952</u></u>	<u><u>273,496</u></u>	<u><u>247,897</u></u>
Current liabilities	(20,454)	(23,079)	(21,480)
Non-current liabilities	<u>(61)</u>	<u>(61)</u>	<u>(61)</u>
Total liabilities	<u><u>(20,515)</u></u>	<u><u>(23,140)</u></u>	<u><u>(21,541)</u></u>
Net assets	<u><u>288,437</u></u>	<u><u>250,356</u></u>	<u><u>226,356</u></u>

**(iii) Dividend**

For each of the three financial years ended 31 March 2013, 2014 and 2015, no final dividend was declared and paid. An interim dividend of HK0.33 cents each per Share, aggregating a total of approximately HK\$1,052,000, was paid during the year ended 31 March 2013.

**2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP**

The following is the full text of the audited consolidated financial statements of the Group for the year ended 31 March 2015 extracted from the annual report of the Company for the year ended 31 March 2015. Capitalised terms used in this section 2 have the same meanings as defined in the related annual report of the Company.

**Consolidated Statement of Comprehensive Income***For the year ended 31 March 2015*

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
Turnover	7	128,711	131,418
Cost of sales		<u>(105,904)</u>	<u>(119,210)</u>
Gross profit		22,807	12,208
Other income and gains		5,401	6,978
Selling and distribution costs		(23,855)	(24,081)
Administrative and other operating expenses		(29,583)	(28,839)
Impairment loss on property, plant and equipment	14	<u>–</u>	<u>(4,755)</u>
Loss before income tax expense	8	(25,230)	(38,489)
Income tax expense	11	<u>(550)</u>	<u>(377)</u>
<b>Loss for the year attributable to owners of the Company</b>	12	<u>(25,780)</u>	<u>(38,866)</u>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Change in fair value of available-for-sale investments		1,817	(26)
Exchange differences arising on translation of financial statements of operations outside Hong Kong		(140)	644
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments		(177)	(463)
Reclassification from equity to profit or loss on impairment of available-for-sale investments		<u>280</u>	<u>630</u>
Other comprehensive income for the year		<u>1,780</u>	<u>785</u>
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<u>(24,000)</u>	<u>(38,081)</u>
Loss per share	13		
– Basic		<u>(HK8.09 cents)</u>	<u>(HK12.19 cents)</u>
– Diluted		<u>(HK8.09 cents)</u>	<u>(HK12.19 cents)</u>



**Consolidated Statement of Financial Position***As at 31 March 2015*

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	14	2,086	1,862
Available-for-sale investments	16	8,236	6,985
Rental deposits		2,576	1,115
		<u>12,898</u>	<u>9,962</u>
<b>Current assets</b>			
Inventories	17	50,623	69,025
Trade and bills receivables	18	14,419	17,528
Other receivables, deposits and prepayments		8,241	6,884
Tax recoverable		282	132
Bank deposit with original maturity of over one year		–	9,434
Bank balances and cash		161,434	160,531
		<u>234,999</u>	<u>263,534</u>
<b>Current liabilities</b>			
Trade payables	20	8,472	8,474
Other payables and accrued charges		13,008	14,304
Current tax liabilities		–	301
		<u>21,480</u>	<u>23,079</u>
<b>Net current assets</b>		<u>213,519</u>	<u>240,455</u>
<b>Total assets less current liabilities</b>		226,417	250,417
<b>Non-current liabilities</b>			
Deferred tax liabilities	21	61	61
<b>Total net assets</b>		<u>226,356</u>	<u>250,356</u>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	22	3,188	3,188
Reserves		223,168	247,168
<b>Total equity</b>		<u>226,356</u>	<u>250,356</u>

**Statement of Financial Position***As at 31 March 2015*

	<i>Notes</i>	<b>2015</b> <i>HK\$'000</i>	<b>2014</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Investments in subsidiaries	15	48,181	48,181
Available-for-sale investments	16	8,236	6,985
		<u>56,417</u>	<u>55,166</u>
<b>Current assets</b>			
Other receivables		145	179
Amounts due from subsidiaries	19	33,663	22,407
Bank balances and cash		2,179	28,717
		<u>35,987</u>	<u>51,303</u>
<b>Current liabilities</b>			
Accrued charges and other payables		32	42
Amount due to a subsidiary	19	–	15,797
		<u>32</u>	<u>15,839</u>
<b>Net current assets</b>		<u>35,955</u>	<u>35,464</u>
<b>Total net assets</b>		<u>92,372</u>	<u>90,630</u>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	22	3,188	3,188
Reserves	24	89,184	87,442
<b>Total equity</b>		<u>92,372</u>	<u>90,630</u>

**Consolidated Statement of Changes In Equity***For the year ended 31 March 2015*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Foreign exchange reserve <i>HK\$'000</i>	Statutory and discretionary reserves <i>HK\$'000</i>	Available- for-sale reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 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)

	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 31 March 2014 and 1 April 2014	3,188	32,608	4,904	6,424	888	217	202,127	250,356
Loss for the year	-	-	-	-	-	-	(25,780)	(25,780)
Change in fair value of available- for-sale investments	-	-	-	-	-	1,817	-	1,817
Exchange differences arising on translation of financial statements of operations outside Hong Kong	-	-	-	(140)	-	-	-	(140)
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments	-	-	-	-	-	(177)	-	(177)
Reclassification from equity to profit or loss on impairment of available-for-sale investments	-	-	-	-	-	280	-	280
Total comprehensive income for the year	-	-	-	(140)	-	1,920	(25,780)	(24,000)
Transfer between reserves	-	-	-	-	2,031	-	(2,031)	-
At 31 March 2015	3,188	32,608	4,904	6,284	2,919	2,137	174,316	226,356

*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 the subsidiaries in the PRC upon approval from the relevant authorities.

**Consolidated Statement of Cash Flows***For the year ended 31 March 2015*

	2015 HK\$'000	2014 HK\$'000
<b>Cash flows from operating activities</b>		
Loss before income tax expense	(25,230)	(38,489)
Adjustments for:		
Interest income	(4,595)	(5,029)
Dividend income from available-for-sale investments	(288)	(221)
Gain on disposal of available-for-sale investments	(177)	(463)
Impairment loss on property, plant and equipment	–	4,755
Depreciation of property, plant and equipment	848	2,719
(Gain)/loss on disposal of property, plant and equipment	(4)	94
Impairment loss on available-for-sale investments	280	630
Impairment loss on trade receivables	181	17
Write-down of inventories	1,839	10,218
	<u>          </u>	<u>          </u>
<b>Operating loss before working capital changes</b>	(27,146)	(25,769)
(Increase)/decrease in rental deposits	(1,461)	2,109
Decrease/(increase) in inventories	16,551	(4,546)
Decrease/(increase) in trade and bills receivables	2,969	(5,047)
Increase in other receivables, deposits and prepayments	(1,332)	(1,470)
(Decrease)/increase in trade payables	(437)	2,756
(Decrease)/increase in other payables and accrued charges	(1,321)	214
	<u>          </u>	<u>          </u>
<b>Cash used in operations</b>	(12,177)	(31,753)
Hong Kong Profits Tax refunded	32	17
PRC Enterprise Income Tax paid	(1,031)	(784)
	<u>          </u>	<u>          </u>
<b>Net cash used in operating activities</b>	<u>(13,176)</u>	<u>(32,520)</u>

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(1,116)	(1,967)
Purchase of available-for-sale investments	–	(2,847)
Proceeds from disposal of property, plant and equipment	53	–
Proceeds from disposal of available-for-sale investments	566	1,904
Proceeds from redemption of held-to-maturity investment	–	1,524
Decrease in bank deposit with original maturity of over one year	9,434	–
Increase in bank deposit with original maturity of over three months	(15,488)	–
Interest received	4,595	5,029
Dividend received from available-for-sale investments	288	221
	<u>          </u>	<u>          </u>
<b>Net cash (used in)/generated from investing activities</b>	<u>(1,668)</u>	<u>3,864</u>
<b>Net decrease in cash and cash equivalents</b>	(14,844)	(28,656)
<b>Cash and cash equivalents at beginning of year</b>	160,531	188,764
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>259</u>	<u>423</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>145,946</u></u>	<u><u>160,531</u></u>

**Consolidated Statement of Cash Flows***For the year ended 31 March 2015*

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and cash equivalents as stated in the consolidated statement of cash flows	145,946	160,531
Bank deposit with original maturity of over three months	<u>15,488</u>	<u>–</u>
Bank balances and cash as stated in the consolidated statement of financial position	<u><u>161,434</u></u>	<u><u>160,531</u></u>

**Notes to the Financial Statements**

31 March 2015

**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 “Stock Exchange”). 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”) AND NEW HONG KONG COMPANIES ORDINANCE PROVISIONS RELATING TO THE DISCLOSURE REQUIREMENTS FOR FINANCIAL STATEMENTS****(a) Adoption of new/revised HKFRSs – first effective on 1 April 2014**

A number of amendments to HKFRSs and one new interpretation are first effective for the current accounting period of the Group. The adoption of these amendments to HKFRSs and interpretation has no material impact on the Group’s financial statements.

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

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

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle <sup>2</sup>
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle <sup>1</sup>
HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>3</sup>
HKFRS 9 (2014)	Financial Instruments <sup>5</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>4</sup>

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

<sup>2</sup> Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

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

***Annual Improvements 2010–2012 Cycle, 2011-2013 Cycle and 2012–2014 Cycle***

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear.

***Amendments to HKAS 1 – Disclosure Initiative***

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.



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

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

*HKFRS 9 (2014) – Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income (“FVTOCI”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“FVTPL”).

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the 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.

*HKFRS 15 – Revenue from Contracts with Customers*

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group is in the process of making an assessment of the potential impact of these pronouncements disclosed above. 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.

(c) **New Hong Kong Companies Ordinance provisions relating to the disclosure requirements for financial statements**

The Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) requiring financial statements disclosures with reference to the provisions of the new Hong Kong Companies Ordinance, Cap. 622 will first apply to the Company in its first financial year ending on 31 March 2016.

The directors of the Company consider that there will be no impact on the Group’s financial position or performance, however the disclosure requirements of the new Hong Kong Companies Ordinance, Cap. 622, would have impacts on the presentation and disclosures in the consolidated financial statements. For example, the statement of financial position of the Company will be presented in the notes to the financial statements rather than a separate statement and certain related notes need not be included.

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 Listing Rules.

(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.

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.

(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, bank balances and cash, 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.

*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.

**(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 contract 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.

(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.

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) *Short term employee benefits*

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) *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.

(iii) *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.

**(k) Share-based payments**

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

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

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

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.



**(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 ("CGU") to which they belong, is the higher of its value in use ("VIU") and fair value less costs of disposal ("FVL COD").

#### *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. Key assumptions and estimates in the VIU calculations include the expected growth in revenues, timing of future capital expenditures and selection of discount rates to reflect the risks involved.

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.

#### *FVL COD*

Management estimate the amount obtainable from the sales of the assets or the CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal, as appropriate. Management estimated that the FVL CODs of the CGUs should not be materially different from their respective VIUs 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. While in estimating the FVL CODs of

individual assets, key assumptions and estimates used by management include the scarp value of the assets and the asking price of comparable assets.

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.

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	
	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	97,199	97,906	31,512	33,512	128,711	131,418
Inter-segment revenue	6,121	3,799	–	–	6,121	3,799
Reportable segment revenue	<u>103,320</u>	<u>101,705</u>	<u>31,512</u>	<u>33,512</u>	<u>134,832</u>	<u>135,217</u>
Reportable segment loss	<u>(25,949)</u>	<u>(35,362)</u>	<u>(3,208)</u>	<u>(7,368)</u>	<u>(29,157)</u>	<u>(42,730)</u>
Depreciation of property, plant and equipment	371	1,627	298	712	669	2,339
Impairment loss on property, plant and equipment	–	2,798	–	1,002	–	3,800
Write-down of inventories	1,795	7,505	44	2,713	1,839	10,218
Reportable segment assets	114,955	142,240	18,267	15,826	133,222	158,066
Additions to property, plant and equipment	145	1,443	905	91	1,050	1,534
Reportable segment liabilities	<u>20,315</u>	<u>21,855</u>	<u>1,133</u>	<u>880</u>	<u>21,448</u>	<u>22,735</u>

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

	2015 HK\$'000	2014 HK\$'000
<b>Revenue</b>		
Reportable segment revenue	134,832	135,217
Elimination of inter-segment revenue	<u>(6,121)</u>	<u>(3,799)</u>
Consolidated revenue	<u>128,711</u>	<u>131,418</u>
<b>Loss before income tax expense</b>		
Reportable segment loss	(29,157)	(42,730)
Elimination of inter-segment losses	104	245
Interest income	4,595	5,029
Dividend income from available-for-sale investments	288	221
Gain on disposal of available-for-sale investments	177	463
Impairment loss on available-for-sale investments	(280)	(630)
Unallocated corporate expenses	<u>(957)</u>	<u>(1,087)</u>
Consolidated loss before income tax expense	<u>(25,230)</u>	<u>(38,489)</u>

	2015 HK\$'000	2014 HK\$'000
<b>Depreciation of property, plant and equipment</b>		
Reportable segment depreciation	669	2,339
Depreciation of unallocated property, plant and equipment	179	380
	<u>179</u>	<u>380</u>
Consolidated depreciation of property, plant and equipment	<u>848</u>	<u>2,719</u>
<b>Impairment loss on property, plant and equipment</b>		
Reportable segment impairment loss on property, plant and equipment	–	3,800
Impairment loss on unallocated property, plant and equipment	–	955
	<u>–</u>	<u>955</u>
Consolidated impairment loss on property, plant and equipment	<u>–</u>	<u>4,755</u>
<b>Additions to property, plant and equipment</b>		
Reportable segment additions	1,050	1,534
Unallocated additions to property, plant and equipment	66	433
	<u>66</u>	<u>433</u>
Consolidated additions to property, plant and equipment	<u>1,116</u>	<u>1,967</u>
<b>Assets</b>		
Reportable segment assets	133,222	158,066
Available-for-sale investments	8,236	6,985
Tax recoverable	282	132
Unallocated corporate bank balances and cash	105,448	107,489
Other unallocated corporate assets	709	824
	<u>709</u>	<u>824</u>
Consolidated total assets	<u>247,897</u>	<u>273,496</u>
<b>Liabilities</b>		
Reportable segment liabilities	21,448	22,735
Current tax liabilities	–	301
Deferred tax liabilities	61	61
Unallocated corporate liabilities	32	43
	<u>32</u>	<u>43</u>
Consolidated total liabilities	<u>21,541</u>	<u>23,140</u>

**(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 <i>(Note)</i>		Property, plant and equipment	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Hong Kong (place of domicile)	45,973	51,605	907	716
Europe	30,131	31,901	-	-
The PRC	15,692	11,267	1,179	1,146
The United States of America	10,469	10,100	-	-
Other countries	26,446	26,545	-	-
Total	82,738	79,813	1,179	1,146
	<u>128,711</u>	<u>131,418</u>	<u>2,086</u>	<u>1,862</u>

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

**(d) Information about major customers**

For the year ended 31 March 2015, no individual customers accounted for 10% or more of the Group's revenue. For the year ended 31 March 2014, revenue from one customer of the Group's manufacturing business segment amounted to approximately HK\$14,699,000 which represented 10% or more of the Group's revenue for that 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):

	2015 HK\$'000	2014 HK\$'000
Auditor's remuneration	438	418
Cost of inventories recognised as expenses	105,904	119,210
Staff costs, excluding directors' emoluments (note 9)	31,623	17,956
Depreciation of property, plant and equipment	848	2,719
(Gain)/loss on disposal of property, plant and equipment	(4)	94
Impairment loss on property, plant and equipment	–	4,755
Impairment loss on trade receivables	181	17
Write-down of inventories	1,839	10,218
Impairment loss on available-for-sale investments	280	630
Foreign exchange loss/(gain), net	112	(1,044)
Interest income	(4,595)	(5,029)
Dividend income from available-for-sale investments	(288)	(221)
Gain on disposal of available-for-sale investments	(177)	(463)
	<u>                    </u>	<u>                    </u>

## 9. STAFF COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	2015 HK\$'000	2014 HK\$'000
Salaries and other benefits	29,628	17,155
Retirement benefits scheme contributions	1,995	801
	<u>                    </u>	<u>                    </u>
	<u>31,623</u>	<u>17,956</u>

## 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

## (a) Directors' emoluments

	2015 HK\$'000	2014 HK\$'000
Directors' fees	150	150
Other emoluments:		
Salaries and other benefits	7,476	7,032
Retirement benefits scheme contributions	88	75
	<u>                    </u>	<u>                    </u>
	<u>7,714</u>	<u>7,257</u>

Details of directors' emoluments for the year ended 31 March 2015 are as follows:

	Fees <i>HK\$'000</i>	Salaries and other benefits <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>2015</b>				
<b>Executive directors:</b>				
Chan King Hong Edwin	–	2,544	35	2,579
Chan King Yuen Stanley	–	2,544	35	2,579
Chan Wai Po Rebecca	–	2,388	18	2,406
<b>Independent non-executive directors:</b>				
Chau Cynthia Sin Ha	50	–	–	50
Fong Pui Sheung David	50	–	–	50
Or Kam Chung Janson	50	–	–	50
<b>Total</b>	<b>150</b>	<b>7,476</b>	<b>88</b>	<b>7,714</b>
<b>2014</b>				
<b>Executive directors:</b>				
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
<b>Independent non-executive directors:</b>				
Chau Cynthia Sin Ha	50	–	–	50
Fong Pui Sheung David	50	–	–	50
Or Kam Chung Janson	50	–	–	50
<b>Total</b>	<b>150</b>	<b>7,032</b>	<b>75</b>	<b>7,257</b>

No directors waived any emoluments during the years ended 31 March 2015 and 2014.

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include three (2014: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2014: two) individuals are as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Salaries and other benefits	1,888	1,820
Discretionary bonuses	–	48
Retirement benefits scheme contributions	35	30
	<b>1,923</b>	<b>1,898</b>



The emoluments of the remaining individuals were within the following bands:

	2015 <i>No. of individuals</i>	2014 <i>No. of individuals</i>
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	–
	<u>          </u>	<u>          </u>

During the years ended 31 March 2015 and 2014, 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:

	2015 <i>No. of individuals</i>	2014 <i>No. of individuals</i>
Nil to HK\$1,000,000	7	8
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	3
HK\$2,500,001 to HK\$3,000,000	2	–
	<u>          </u>	<u>          </u>

#### 11. INCOME TAX EXPENSE

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
– overprovision in respect of prior years	–	(25)
	<u>          </u>	<u>          </u>
Current tax – PRC Enterprise Income Tax		
– tax for the year	698	688
– overprovision in respect of prior years	(148)	(286)
	<u>          </u>	<u>          </u>
	550	402
	<u>          </u>	<u>          </u>
Income tax expense	550	377
	<u>          </u>	<u>          </u>

No provision for Hong Kong Profits Tax has been made as the Group has sustained estimated tax losses for the years ended 31 March 2015 and 2014.

The PRC Enterprise Income Tax rate for the Company's subsidiaries in the PRC is 25% (2014: 25%).

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:

	2015 HK\$'000	2014 HK\$'000
Loss before income tax expense	<u>(25,230)</u>	<u>(38,489)</u>
Tax credit calculated at Hong Kong Profits Tax rate of 16.5% (2014: 16.5%)	(4,163)	(6,351)
Tax effect of expenses not deductible for tax purpose	5,751	10,602
Tax effect of income not taxable for tax purpose	(4,728)	(8,516)
Overprovision in respect of prior years	(148)	(311)
Effect of different tax rates of subsidiaries operating in other jurisdiction	(360)	235
Tax effect of tax losses not recognised	4,504	3,932
Utilisation of other deductible temporary difference previously not recognised	(328)	–
Tax effect of other deductible temporary difference not recognised	–	790
Others	<u>22</u>	<u>(4)</u>
Income tax expense	<u>550</u>	<u>377</u>

## 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\$178,000 (2014: HK\$405,000) 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\$25,780,000 (2014: HK\$38,866,000) attributable to owners of the Company and the weighted average number of 318,804,000 (2014: 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 outstanding share options have an anti-dilutive effect on the basic loss per share for both years ended 31 March 2015 and 2014.

## 14. PROPERTY, PLANT AND EQUIPMENT

The Group	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1 April 2014	9,657	6,132	14,064	2,646	32,499
Additions	38	144	854	80	1,116
Disposals	–	(138)	(2,494)	(155)	(2,787)
Exchange realignment	23	1	–	7	31
At 31 March 2015	9,718	6,139	12,424	2,578	30,859
<b>Accumulated depreciation and impairment</b>					
At 1 April 2014	9,302	5,897	13,669	1,769	30,637
Depreciation	118	75	372	283	848
Eliminated on disposals	–	(132)	(2,464)	(142)	(2,738)
Exchange realignment	21	1	–	4	26
At 31 March 2015	9,441	5,841	11,577	1,914	28,773
<b>Net book value</b>					
At 31 March 2015	277	298	847	664	2,086
<b>Cost</b>					
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
<b>Accumulated depreciation and impairment</b>					
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
<b>Net book value</b>					
At 31 March 2014	355	235	395	877	1,862

## 15. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2015 HK\$'000	2014 HK\$'000
Unlisted shares, at cost	48,181	48,181

Details of the Company's subsidiaries at 31 March 2015 are as follows:

Name	Place of incorporation or establishment/ operations	Issued share capital/paid-up registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
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)	The PRC	Paid up registered capital HK\$5,600,000 (2014: HK\$2,720,000)	100%		Manufacturing and trading of leather products
Dongguan Sze Cheik Leather Goods Company Limited (Note)	The PRC	Paid up registered capital HK\$5,000,000 (2014: HK\$1,665,866)	100%		Manufacturing and trading of leather products
Amid Success Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary share US\$1	100%		Investment holding
Urban Stranger Company Limited	Hong Kong	Ordinary share HK\$1	100%		Retail of fashion apparel, footwear and leather accessories

*Note:* These subsidiaries are wholly foreign-owned enterprises established in the PRC.

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

## 16. AVAILABLE-FOR-SALE INVESTMENTS

	The Group and the Company	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities listed in Hong Kong, at fair value	8,236	6,985

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

## 17. INVENTORIES

	The Group	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	39,562	54,968
Work in progress	3,015	3,630
Finished goods	8,046	10,427
	<u>50,623</u>	<u>69,025</u>

## 18. TRADE AND BILLS RECEIVABLES

	The Group	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivables	15,338	18,266
Less: impairment loss	(919)	(738)
	<u>14,419</u>	<u>17,528</u>

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	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	8,558	9,817
31 to 60 days	3,140	784
61 to 90 days	885	4,092
91 to 120 days	311	1,507
121 to 365 days	1,522	1,328
More than 365 days	3	–
	<u>14,419</u>	<u>17,528</u>

As at 31 March 2015, trade and bills receivables of approximately HK\$10,189,000 (2014: HK\$8,732,000) 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.

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

	<b>The Group</b>	
	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days past due	2,324	4,171
31–60 days past due	421	2,111
61–90 days past due	543	1,448
91–120 days past due	505	197
121–365 days past due	434	869
More than 365 days	3	–
	<u>4,230</u>	<u>8,796</u>

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:

	<b>The Group</b>	
	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	738	724
Impairment loss recognised	181	17
Bad debts written off	–	(3)
	<u>919</u>	<u>738</u>

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

#### 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:

	<b>The Group</b>	
	<b>2015</b>	<b>2014</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Less than 30 days	2,885	5,149
31 to 60 days	1,399	1,943
61 to 90 days	1,880	892
91 to 120 days	1,581	322
121 to 365 days	651	154
More than 365 days	76	14
	<u>8,472</u>	<u>8,474</u>

**21. DEFERRED TAX LIABILITIES**

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

	<b>Accelerated tax depreciation</b>
	<i>HK\$'000</i>
At 1 April 2013, 31 March 2014, 1 April 2014 and 31 March 2015	<u>61</u>

At 31 March 2015, the Group had other deductible temporary difference of approximately HK\$3,832,000 (2014: HK\$6,175,000) and unused tax losses of approximately HK\$52,227,000 (2014: HK\$29,079,000). The deductible temporary difference and unused tax losses of approximately HK\$3,832,000 (2014: HK\$6,175,000) and HK\$45,330,000 (2014: 29,079,000), respectively, can be carried forward indefinitely, while the remaining unused tax losses of approximately HK\$6,897,000 (2014: Nil) will expire in five years from the respective date of incurrence. 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\$26,208,000 (2014: HK\$24,088,000) 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 2015, the Group and the Company did not have other material unrecognised deferred tax assets and liabilities (2014: 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		
<b>Authorised:</b>		
At 1 April 2013, 31 March 2014, 1 April 2014 and 31 March 2015	2,000,000,000	20,000
<b>Issued and fully paid:</b>		
At 1 April 2013, 31 March 2014, 1 April 2014 and 31 March 2015	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\$226,356,000 (2014: HK\$250,356,000) as shown in the consolidated statement of financial position as at 31 March 2015. 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.

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 years ended 31 March 2014 and 2015.

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, 1 April 2014 and 31 March 2015	Exercisable period	Exercise price per share HK\$
<b>(a) Executive directors</b>						
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
		<u>35,643,600</u>	<u>(9,543,600)</u>	<u>26,100,000</u>		
<b>(b) Employees, in aggregate</b>						
	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
		<u>9,422,400</u>	<u>(6,422,400)</u>	<u>3,000,000</u>		
<b>(c) Others, in aggregate</b>						
	26 May 2003	<u>3,000,000</u>	<u>(3,000,000)</u>	-	26 May 2003 – 25 May 2013	0.580
Total		<u>48,066,000</u>	<u>(18,966,000)</u>	<u>29,100,000</u>		
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 2015.

The weighted average remaining contractual life of the options outstanding at 31 March 2015 is 4.31 years (2014: 5.31 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.

## 24. RESERVES

The Company	Share premium HK\$'000	Share option reserve HK\$'000	Available-for-sale investments reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April 2013	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 and 1 April 2014	80,779	4,904	217	1,542	87,442
Loss for the year	-	-	-	(178)	(178)
Change in fair value of available-for-sale investments	-	-	1,817	-	1,817
Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments	-	-	(177)	-	(177)
Reclassification from equity to profit or loss on impairment of available-for-sale investments	-	-	280	-	280
At 31 March 2015	<u>80,779</u>	<u>4,904</u>	<u>2,137</u>	<u>1,364</u>	<u>89,184</u>

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 directors of the Company do not recommend the payment of any dividend for both years ended 31 March 2015 and 2014.

**26. CONTINGENT LIABILITIES**

As at 31 March 2015, the Company issued guarantees to landlords in respect of the lease agreements entered into by a subsidiary for certain retail outlets. At 31 March 2015, there were no rental payables by the subsidiary under these lease agreements (2014: Nil) and the non-cancellable future minimum lease payment under these lease agreements was approximately HK\$4,441,000 (2014: HK\$6,258,000).

At 31 March 2014, the Company issued a guarantee to a bank in respect of general facilities granted to its subsidiaries to the extent of HK\$15,000,000, which had not been utilised by the subsidiaries. The Company had not recognised any deferred income in respect of the guarantee as the amount involved was insignificant. During the year ended 31 March 2015, the guarantee was released by the bank upon expiry of the general facilities.

**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 (2014: 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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Minimum lease payments	17,549	17,690
Contingent rents	14	53
	<u>17,563</u>	<u>17,743</u>

The total future minimum lease payments are due as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Not later than one year	11,378	10,116
Later than one year and not later than five years	8,990	930
	<u>20,368</u>	<u>11,046</u>

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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	765	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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Short-term benefits	11,204	11,067
Post employment benefits	175	150
	11,379	11,217

## 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 to the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group’s subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are 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") and Renminbi ("RMB"), which expose the Group to currency risk. Certain financial assets and liabilities of the Group are also denominated in USD and RMB. 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 at the end of reporting period are as follows:

	Liabilities		Assets	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
RMB	5,121	11,994	113,904	107,171

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.

*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 rate 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.

	2015		2014	
	Appreciation/ (depreciation) of foreign exchange rates against HK\$ %	Increase/ (decrease) in loss for the year and decrease/ (increase) in retained earnings HK\$'000	Appreciation/ (depreciation) of foreign exchange rates against HK\$ %	Increase/ (decrease) in loss for the year and decrease/ (increase) in retained earnings HK\$'000
RMB	2%	(2,383)	4%	(3,847)
	(2%)	2,383	(4%)	3,847

The sensitivity analysis has been determined assuming that the change in foreign exchange rate 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 rate over the period until the next annual reporting date. The analysis is performed on the same basis for the year ended 31 March 2014.

**(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 2015, 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\$333,000 (2014: HK\$347,000).

**(iii) Credit risk**

The Group has significant concentration of credit risk on trade and bills receivables as the amounts due from its four (2014: three) customers as at 31 March 2015 amounted to approximately HK\$8,122,000 (2014: HK\$9,421,000) which accounted for approximately 56% (2014: 54%) 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 bank balances and cash 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.

**(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. 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% (2014: 15%) in the prices of the respective equity instruments, with all other variables held constant, would have insignificant effect on the loss or other components of equity of the Group for the years ended 31 March 2015 and 2014.

## (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).

	<b>The Group and the Company</b>			
	<b>Level 1</b> <i>HK\$'000</i>	<b>Level 2</b> <i>HK\$'000</i>	<b>Level 3</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>2015</b>				
Available-for-sale investments – Listed	8,236	–	–	8,236
	<u>8,236</u>	<u>–</u>	<u>–</u>	<u>8,236</u>
	<b>Level 1</b> <i>HK\$'000</i>	<b>Level 2</b> <i>HK\$'000</i>	<b>Level 3</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>2014</b>				
Available-for-sale investments – Listed	6,985	–	–	6,985
	<u>6,985</u>	<u>–</u>	<u>–</u>	<u>6,985</u>

- (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 of the Company 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 30 June 2015.

### 3. INDEBTEDNESS STATEMENT

At the close of business on 30 June 2015, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this Composite Document, the details of the Group's indebtedness are as follows:

#### **Debt instruments**

As at the close of business on 30 June 2015, the Group had no borrowings.

#### **Commitments**

As at the close of business on 30 June 2015, the Group had no material capital commitment.

#### **Pledge of assets**

As at the close of business on 30 June 2015, the Group had no pledge of assets.

#### **Contingent liabilities**

As at the close of business on 30 June 2015, the Group had no material contingent liabilities.

#### **Disclaimer**

Apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, mortgages, charges or debentures, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills and payables), acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 30 June 2015.

### 4. MATERIAL CHANGE

The Directors confirmed that as at the Latest Practicable Date, save as disclosed below, they were not aware of any material changes in the financial or trading position or outlook of the Group since 31 March 2015, being the date to which the latest published audited consolidated financial statements of the Group were made, up to and including the Latest Practicable Date:

- (i) as disclosed in the announcement of the Company dated 25 August 2015 regarding the profit warning statement, which stated that because of the recent volatility of the exchange rate of RMB, the Group had converted all its RMB fixed deposits, amounting to approximately RMB92.2 million, into Hong



Kong dollar at spot rates ranging from approximately 1.185 to 1.200 recently between 12 and 24 August 2015. As a result, the Group has recorded a foreign exchange loss of approximately HK\$7.2 million which may have a substantial negative impact to the results of the Group for the six months ending 30 September 2015 as compared to the same corresponding period in 2014;

- (ii) as disclosed in the announcement of the Company dated 28 July 2015, the Directors resolved on 28 July 2015 to declare a Special Dividend in respect of the year ending 31 March 2016 of HK\$0.4254 per Share. The declaration of the Special Dividend was not conditional on Completion. The Special Dividend in an aggregate amount of approximately HK\$148.0 million will be payable on 31 August 2015 in cash to those Shareholders whose names were recorded on the principal or branch register of members of the Company on 13 August 2015;
- (iii) as disclosed in the announcement of the Company dated 10 August 2015, 29,100,000 new Shares have been allotted and issued pursuant to the exercise of the Share Options at the exercise price of HK\$0.570 per Share. The Company received proceeds of HK\$16.59 million from the exercise of Share Option; and
- (iv) subsequent to 31 March 2015, the Company had disposed all available-for-sale financial assets with carrying value of approximately HK\$8.2 million as at 31 March 2015. The proceeds from such disposal, which were not materially different from the carrying value as at 31 March 2015, were used for the distribution of the Special Dividend.

*The following is the text of a report received from BDO Limited, Certified Public Accountants, Hong Kong, for the sole purpose of inclusion in this Composite Document.*



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The Board of Directors  
Chanco International Group Limited  
3rd Floor Victory Industrial Building  
151-157 Wo Yi Hop Road  
Kwai Chung New Territories  
Hong Kong

31 August 2015

Dear Sirs

**CHANCO INTERNATIONAL GROUP LIMITED (THE "COMPANY") AND ITS  
SUBSIDIARIES (COLLECTIVELY REFERRED TO AS THE "GROUP")**

#### **FOREIGN EXCHANGE LOSS**

We refer to the following profit warning statement (the "Profit Warning Statement") made by the Company in its announcement dated 25 August 2015, which is also set forth in the section headed "Information about the Group" of the letter from the board of directors of the Company included in and the section headed "MATERIAL CHANGE" in Appendix II to the composite document in relation to possible mandatory unconditional cash offer by Optima Capital Limited on behalf of Green Parade Limited (the "Offeror") to acquire all the issued shares of the Company (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) (the "Composite Document") dated 31 August 2015, for which the directors of the Company are solely responsible.

"Because of the recent volatility of the exchange rate of Renminbi ("RMB"), the Group had converted all its RMB fixed deposits, amounting to approximately RMB92.2 million, into Hong Kong dollar at spot rates ranging from approximately 1.185 to 1.200 recently between 12 and 24 August 2015. As a result, the Group has recorded a foreign exchange loss of approximately HK\$7.2 million which may have a substantial negative impact to the results of the Group for the six months ending 30 September 2015 as compared to the same corresponding period in 2014."

Pursuant to Rule 10 of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"), the foreign exchange loss (the "Foreign Exchange Loss") as mentioned in the Profit Warning Statement constitutes a profit forecast which is required to be reported on under the Takeovers Code.

**Bases of calculation of Foreign Exchange Loss**

In accordance with the Group's accounting policies, the directors of the Company have calculated the Foreign Exchange Loss arising from conversion of the fixed deposits denominated in Renminbi into Hong Kong dollar, based on which the Profit Warning Statement has been made by the Company, based on the difference between the exchange rate used in translation of the fixed deposits as at 30 June 2015 and the spot exchange rates as at the respective dates of conversion of the relevant amounts of the fixed deposits.

**Respective responsibilities of directors and ourselves**

The directors of the Company are solely responsible for the bases as set out in the paragraph headed "Bases of calculation of Foreign Exchange Loss" in this report and the calculation of the Foreign Exchange Loss which should be compiled on a basis consistent with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2015, which are set out in section 2 of Appendix II to the Composite Document.

It is our responsibility to form an opinion as to whether we are satisfied that the Foreign Exchange Loss, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with bases adopted by the directors of the Company as set out in the paragraph headed "Bases of calculation of Foreign Exchange Loss" in this report and is compiled on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2015, which are set out in section 2 of Appendix II to the Composite Document, based on our procedures. This report is made solely to you, as a body, in accordance with our agreed terms of 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.

**Basis of opinion**

In accordance with our agreed terms of engagement, we have carried out our work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the directors of the Company have properly compiled the Foreign Exchange Loss in accordance with bases adopted by the directors of the Company as set out in the paragraph headed "Bases of calculation of Foreign Exchange Loss" in this report and on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work does not constitute an audit or a review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA. Accordingly, we do not express an audit opinion or a review opinion on the Foreign Exchange Loss.

**Opinion**

In our opinion, so far as the accounting policies and calculations are concerned, we are satisfied that the Foreign Exchange Loss has been properly compiled in accordance with bases adopted by the directors of the Company as set out in the paragraph headed “Bases of calculation of Foreign Exchange Loss” in this report and has been compiled on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements of the Company for the year ended 31 March 2015, which are set out in section 2 of Appendix II to the Composite Document.

Yours faithfully

**BDO Limited**  
Certified Public Accountants

Hong Kong

*The following is the text of a report received from Messis Capital Limited, addressed to the Directors and prepared for the sole purpose of inclusion in this Composite Document.*



大有融資有限公司  
MESSIS CAPITAL LIMITED

31 August 2015

The Directors  
Chanco International Group Limited  
3/F., Victory Industrial Building  
151-157 Wo Yi Hop Road  
Kwai Chung  
New Territories, Hong Kong

Dear Sirs,

We refer to the profit warning statement made by the Company in its announcement dated 25 August 2015 in respect of the foreign exchange loss of approximately HK\$7.2 million (the “**Foreign Exchange Loss**”) may have a substantial negative impact to the financial results of the Group for the six months ending 30 September 2015 (the “**Profit Warning Statement**”), for which the Directors are solely responsible. We note that the Profit Warning Statement is regarded as a profit forecast pursuant to Rule 10 of the Takeovers Code. Capitalised terms used herein have the same meanings as defined in the composite document of the Company date 31 August 2015 (the “**Composite Document**”), unless otherwise stated.

With reference to the Profit Warning Statement, it states that:

*“Because of the recent volatility of the exchange rate of Renminbi (“RMB”), the Group had converted all its RMB fixed deposits, amounting to approximately RMB92.2 million, into Hong Kong dollar at spot rates ranging from approximately 1.185 to 1.200 recently between 12 and 24 August 2015. As a result, the Group has recorded a foreign exchange loss of approximately HK\$7.2 million which may have a substantial negative impact to the results of the Group for the six months ending 30 September 2015 as compared to the same corresponding period in 2014.”*

We have obtained and reviewed the Profit Warning Statement including the schedule for the calculation of the Foreign Exchange Loss, the unaudited management accounts of the Group for the three months ended 30 June 2015 and other relevant information and documents which you as the Directors are solely responsible for and discussed with you and the senior management of the Company the information and documents provided by you which formed the key bases upon the Profit Warning Statement has been made. Although we have not performed any independent review of the preparation of the Profit Warning Statement, we have discussed with you the basis adopted by the Directors upon which the Foreign Exchange Loss has been calculated and the accounting policies and calculations adopted in arriving at the Foreign Exchange Loss

and, in particular, discussed with you as to whether the Foreign Exchange Loss has been prepared on a basis consistent in all material respects with the accounting policies and calculations normally adopted by the Group.

In addition, we have considered, the report on the Foreign Exchange Loss by BDO Limited addressed to the Directors regarding basis adopted by the Directors upon which the Foreign Exchange Loss has been calculated and the accounting policies adopted and calculations upon which the Foreign Exchange Loss has been made as set out in Appendix IIIA to the Composite Document.

Based on the above, we are satisfied that the Profit Warning Statement, for which you as the Directors are solely responsible, has been made with due care and consideration.

For the purpose of this letter, we have relied on and assumed the accuracy and completeness of all information provided to us and/or discussed with the Group. We have not assumed any responsibility for independently verifying the accuracy and completeness of such information or undertaken any independent evaluation or appraisal of any of the assets or liabilities of the Group. Save as provided in this letter, we do not express any other opinion or views on the Profit Warning Statement and the financial results of the Group for the six months ending 30 September 2015 (the “**2015 Interim Results**”). The Board remains solely responsible for the Profit Warning Statement and the 2015 Interim Results.

This letter is provided to the Company solely for the purpose of complying with Note 1(c) to Rules 10.1 and 10.2 and Rule 10.4 of the Takeovers Code and not for any other purpose. We do not accept any responsibility to any person(s), other than the Company, in respect of, arising out of, or in connection with this letter.

Your faithfully,  
For and on behalf of  
**Messis Capital Limited**  
**Robert Siu**  
*Managing Director*

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**APPENDIX IV                      GENERAL INFORMATION DISCLOSURES PURSUANT  
TO SCHEDULE I OF THE TAKEOVERS CODE**

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**1.      RESPONSIBILITY STATEMENT**

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those relating to the Group, the Vendors, the Guarantors and parties acting in concert with any of them) and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Group, the Vendors, the Guarantors and parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

**2.      MARKET PRICES**

The table below shows the closing price of the Shares quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

<b>Date</b>	<b>Closing price per Share HK\$</b>
<b>2015</b>	
28 January	0.78
30 January	0.78
27 February	0.78
31 March	0.8
30 April	1.46
29 May	1.47
30 June	1.99
14 July (Last Trading Day) ( <i>Note</i> )	1.64
31 July	2.16
Latest Practicable Date	1.41

*Note:* Trading of the Shares was suspended during the period from 15 July 2015 to 28 July 2015.

During the Relevant Period:

- (i) the highest closing price of the Shares as quoted on the Stock Exchange was HK\$2.28 per Share on 4 August 2015; and
- (ii) the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.77 per Share on 10 April 2015.

**3.     DISCLOSURE OF INTERESTS AND DEALINGS**

The Offeror is an investment holding company incorporated in the BVI with limited liability. Mr. Pong is the sole beneficial owner of the Offeror. The board of directors of the Offeror comprises Mr. Pong and Mr. Lee Wing Yin. For further details, please refer to the section headed “Information on the Offeror” set out in the letter from Optima Capital contained in this Composite Document.

As at the Latest Practicable Date, Mr. Pong (the sole beneficial owner and a director of the Offeror) was interested in 376,000 Shares, representing approximately 0.11% of the issued share capital of the Company. Immediately after Completion, the Offeror will be interested in 226,140,000 Shares, whereby the Offeror and parties acting in concert with it (including Mr. Pong) will become interested in a total of 226,516,000 Shares, representing approximately 65.11% of the issued share capital of the Company.

Save as mentioned above, the Offeror confirmed that:

- (i) none of the Offeror, its ultimate beneficial owner, the directors of the Offeror and/or parties acting in concert with any of them owned or controlled or was interested in any Relevant Securities as at the Latest Practicable Date;
- (ii) save for the entering into of the Agreement to acquire 226,140,000 Sale Shares, none of the Offeror, its ultimate beneficial owner, the directors of the Offeror and/or parties acting in concert with any of them had dealt for value in any Relevant Securities during the Relevant Period;
- (iii) there was no Relevant Securities which the Offeror, its ultimate beneficial owner and/or parties acting in concert with any of them had borrowed or lent as at the Latest Practicable Date and during the Relevant Period;
- (iv) the Offeror had no intention to enter into nor had entered into any agreement, arrangement or understanding to transfer, charge or pledge the 226,140,000 Sale Shares to be acquired under the Agreement and the Shares acquired in pursuance of the Offer to any other persons as at the Latest Practicable Date;
- (v) save for the Undertaking given by the Vendors and the Guarantors, no person had irrevocably committed himself/herself to accept or reject the Offer. There is no circumstance in which the Undertaking will cease to be binding. As at the Latest Practicable Date, the Vendors and the Guarantors held in total 232,028,000 Shares (details of which are disclosed in the section headed “Shareholding structure of the Company” in the letter from the Board as contained in this Composite Document). Save for the entering into of the Agreement to sell the 226,140,000 Sale Shares by the Vendors and the Guarantors and the exercise of Share Options by the Guarantors (details of which are disclosed in the section headed “Introduction” in the letter from the Board as contained in this Composite Document), none of the Vendors and the Guarantors had dealt for value in any Relevant Securities during the Relevant Period;



- (vi) save for the 232,028,000 Shares in total held by the Vendors and the Guarantors (details of which are disclosed in the section headed "Shareholding structure of the Company" in the letter from the Board as contained in this Composite Document), no Relevant Securities was owned or controlled by a person with whom the Offeror, its ultimate beneficial owner and/or parties acting in concert with any of them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, and, save for the entering into of the Agreement to sell the 226,140,000 Sale Shares by the Vendors and the Guarantors and the exercise of Share Options by the Guarantors (details of which are disclosed in the section headed "Introduction" in the letter from the Board as contained in this Composite Document), no person had dealt in any Relevant Securities during the Relevant Period; and
- (vii) as at the Latest Practicable Date, save for the Agreement to sell the 226,140,000 Sale Shares and the Undertakings given by the Vendors and the Guarantors, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Offeror and parties acting in concert with it and its associates, and any other person.

#### 4. OTHER ARRANGEMENTS IN RELATION TO THE OFFER

The Offeror confirmed that as at the Latest Practicable Date:

- (i) save as disclosed under the section headed "Proposed change to the Board composition" set out in the letter from Optima Capital contained in this Composite Document, there was no agreement, arrangement or understanding (including any compensation arrangement) existed between any of the Offeror, its ultimate beneficial owner and/or parties acting in concert with any of them, and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or was dependent on the Offer;
- (ii) save for the Agreement, there is no agreement or arrangement to which the Offeror, its ultimate beneficial owner and/or any party acting in concert with any of them is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer; and
- (iii) no benefit (other than statutory compensation) was or will be given to any Directors as compensation for loss of office or otherwise in connection with the Offer.

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**APPENDIX IV                      GENERAL INFORMATION DISCLOSURES PURSUANT  
TO SCHEDULE I OF THE TAKEOVERS CODE**

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**5.     EXPERT'S QUALIFICATION AND CONSENT**

The following is the qualification of the expert whose letter is contained in this Composite Document:

<b>Name</b>	<b>Qualification</b>
Optima Capital	a corporation licensed under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Optima Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of its letter and/or the references to its name in the form and context in which they appear.

**6.     GENERAL**

- (i) The Offeror is Green Parade Limited. It is wholly owned by Mr. Pong. The board of directors of the Offeror comprises Mr. Pong and Mr. Lee Wing Yin. The principal members of the Offeror's concert group are the Offeror, Mr. Pong and Mr. Lee Wing Yin.
- (ii) The registered office of the Offeror is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI.
- (iii) The correspondence address of the Offeror's concert group is at Unit A, 6/F., 9 Queen's Road Central, Hong Kong.
- (iv) The registered office of Optima Capital is at Suite 1501, 15th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong.
- (v) The English text of this Composite Document and the Acceptance Form shall prevail over their respective Chinese texts in the case of inconsistency.

**7.     DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection on the SFC's website at <http://www.sfc.hk> and the website of the Company at <http://www.irasia.com/listco/hk/chanco/index.htm> from the date of despatch of this Composite Document up to and including the Closing Date:

- (i) the memorandum and articles of association of the Offeror;
- (ii) the letter from Optima Capital as set out on pages 7 to 17 to this Composite Document;
- (iii) the written consent from the expert referred to under the paragraph headed "Expert's qualification and consent" in this appendix; and
- (iv) the Undertaking.

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APPENDIX V                      GENERAL INFORMATION DISCLOSURES PURSUANT  
TO SCHEDULE II OF THE TAKEOVERS CODE

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**1.     RESPONSIBILITY STATEMENT**

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the directors of the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statement in this Composite Document misleading.

**2.     SHARE CAPITAL**

As at the Latest Practicable Date, the authorised and issued share capital of the Company was as follows:

<i>Authorised:</i>	<i>HK\$'000</i>
<u>2,000,000,000 Shares</u>	<u>20,000</u>
 <i>Issued and fully paid up:</i>	
<u>347,904,000 Shares</u>	<u>3,479</u>

The number of Shares in issue at the end of the last financial year of the Company (being 31 March 2015) was 318,804,000.

All the Shares currently in issue rank pari passu in all respects with each other, including all rights in respect of dividends, voting and interest in capital. The Shares are listed and traded on the Stock Exchange and none of the securities of the Company are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, there were no outstanding warrants, derivatives, options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into the Shares and the Company has not entered into any agreement for the issue of any Shares or any warrants, derivatives, options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into the Shares.

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APPENDIX V                      GENERAL INFORMATION DISCLOSURES PURSUANT  
TO SCHEDULE II OF THE TAKEOVERS CODE

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**Shares issued since the end of last financial year of the Company**

Since 31 March 2015, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to the Latest Practicable Date, the Company issued a total of 29,100,000 Shares. Such new Shares were issued and allotted to the following Optionholders (including the Guarantors) on 10 August 2015 upon the exercise of all Share Options. These Share Options were granted under the share option scheme of the Company which was approved on 18 February 2003:

Optionholder	Exercise price per Share	Number of new Shares issued
Mr. Edwin Chan	HK\$0.57	8,700,000
Mr. Stanley Chan	HK\$0.57	8,700,000
Ms. Rebecca Chan	HK\$0.57	8,700,000
Ms. Li Shuk Han ( <i>Note 1</i> )	HK\$0.57	1,500,000
Ms. Chan Wai Foon ( <i>Note 2</i> )	HK\$0.57	1,500,000
		<b>29,100,000</b>

*Notes:* 1. Ms. Li Shuk Han is an employee of the Group and the spouse of Mr. Edwin Chan.

2. Ms. Chan Wai Foon is an employee of the Group and the sister of Mr. Edwin Chan, Mr Stanley Chan and Ms. Rebecca Chan.

Save for the above, the Company had not issued any Shares since the end of the last financial year of the Company until the Latest Practicable Date. There were no Share Options outstanding as at the Latest Practicable Date.

Neither the Company nor any of its subsidiaries has made any repurchase of the Shares since the last financial year ended 31 March 2015.

There was no re-organisation of the capital of the Company during the two financial years preceding the date of the Joint Announcement.

### 3. INTERESTS

#### Interests discloseable under Schedule II to the Takeovers Code

In this section, references to “shareholdings” mean (i) in the case of shareholdings in the Company, any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares or (ii) in the case of shareholdings in the Offeror, any equity share capital of the Offeror or any convertible securities, warrants, options or derivatives in respect of the shares of the Offeror, as the case may be.

As at the Latest Practicable Date, Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan (all being the executive Directors) had beneficial interests in 63,911,352, 81,007,352 and 47,904,648 Shares. Immediately after Completion, the Vendors and the Guarantors will hold in aggregate 5,888,000 Shares (representing approximately 1.69% of the issued share capital as at the Latest Practicable Date) and Ms. Li Shuk Han, an employee of the Group and the spouse of Mr. Edwin Chan, will hold 1,500,000 Shares. The Vendors and the Guarantors have executed the Undertaking and have undertaken to the Offeror not to (i) accept the Offer in respect of any Shares and/or Share Options held by them; and (ii) transfer or sell or otherwise deal in the Shares and/or the Share Options or otherwise create any encumbrances thereon during the Offer Period.

As at the Latest Practicable Date:

- (a) the Company did not have any interest in any shareholdings in the Offeror;
- (b) save for the interests of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan as disclosed above, no Directors had any interest in any shareholdings in the Company;
- (c) no Director had any interest in any shareholdings in the Offeror;
- (d) no subsidiary of the Company, nor any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code owned or controlled any shareholdings in the Company;
- (e) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code, including any arrangement involving rights over shares, any indemnity agreement, and any agreement or understanding, formal or informal, of whatever nature, relating to Relevant Securities which may be an inducement to deal or refrain from dealing, between any person and the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code;
- (f) no shareholdings in the Company were managed on a discretionary basis by fund managers connected with the Company; and
- (g) none of the Company and any of Directors had borrowed or lent any shareholdings in the Company (as defined under Note 4 to Rule 22 of the Takeovers Code).

**4. DEALING IN SECURITIES****Dealings in Shares discloseable under Schedule II to the Takeovers Code**

- (a) During the Relevant Period, the Company did not deal for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Offeror.
- (b) During the Relevant Period, save as disclosed (including the Agreement and the exercise of Share Options by Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan (details of which are disclosed in the section headed "Introduction" in the letter from the Board as contained in this Composite Document), no Director dealt for value in any shareholdings of the Company.
- (c) During the Relevant Period, no Director dealt for value in any shareholdings in the Offeror.
- (d) As at the Latest Practicable Date, no subsidiary of the Company, nor any pension fund of the Company or any of its subsidiaries, nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code dealt for value in any shareholdings in the Company during the Relevant Period.
- (e) As at the Latest Practicable Date, no fund managers managing funds on a discretionary basis (other than exempt fund managers) which are connected with the Company dealt for value in any shareholdings in the Company during the Relevant Period.

**5. ARRANGEMENTS AFFECTING DIRECTORS**

As at the Latest Practicable Date,

- (a) no benefit will be given to any Directors as compensation for loss of office or otherwise in connection with the Offer;
- (b) there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer; and
- (c) save as disclosed (including the Agreement), there was no material contract entered into by the Offeror in which any Director has a material personal interest.

**6. DIRECTORS' SERVICE CONTRACTS**

Mr. Edwin Chan, an executive Director, the Chairman and the Chief Executive Officer of the Company, entered into a service contract with the Company for an initial term of two years commencing from 1 March 2003, which is 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 and is also subject to the requirements for retirement and re-election at the annual general meeting of the Company under the Articles of Association of the Company. Mr. Edwin Chan is entitled to receive a monthly remuneration of HK\$217,000. Such emoluments are covered in his service contract with the Company. The emoluments of Mr. Edwin Chan are determined by the Board and remuneration committee of the Company with reference to his performance and contribution to the Group and also the terms of reference of the remuneration committee adopted by the Company. Mr. Edwin Chan is entitled to a discretionary management bonus provided that the aggregate amount of the discretionary bonus payable to all the executive Directors for any financial year may not exceed 10% of the audited consolidated profit before payment of such bonus, taxation, minority interests and extraordinary items of the Group (if any) in respect of that financial year.

Mr. Stanley Chan, an executive Director and Vice Chairman of the Company, entered into a service contract with the Company for an initial term of two years commencing from 1 March 2003, which is 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 and is also subject to the requirements for retirement and re-election at the annual general meeting of the Company under the Articles of Association of the Company. Mr. Stanley Chan is entitled to receive a monthly remuneration of HK\$217,000. Such emoluments are covered in his service contract with the Company. The emoluments of Mr. Stanley Chan are determined by the Board and remuneration committee of the Company with reference to his performance and contribution to the Group and also the terms of reference of the remuneration committee adopted by the Company. Mr. Stanley Chan is entitled to a discretionary management bonus provided that the aggregate amount of the discretionary bonus payable to all the executive Directors for any financial year may not exceed 10% of the audited consolidated profit before payment of such bonus, taxation, minority interests and extraordinary items of the Group (if any) in respect of that financial year.

Ms. Rebecca Chan, an executive Director of the Company, entered into a service contract with the Company for an initial term of two years commencing from 1 March 2003, which is 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 and is also subject to the requirements for retirement and re-election at the annual general meeting of the Company under the Articles of Association of the Company. Ms. Rebecca Chan is entitled to receive a monthly remuneration of HK\$204,000. Such emoluments are covered in her service contract with the Company. The emoluments of Ms. Rebecca Chan are determined by the Board and remuneration committee of the Company with reference to her performance and contribution to the Group and also the terms of reference of the

remuneration committee adopted by the Company. Ms. Rebecca Chan is entitled to a discretionary management bonus provided that the aggregate amount of the discretionary bonus payable to all the executive Directors for any financial year may not exceed 10% of the audited consolidated profit before payment of such bonus, taxation, minority interests and extraordinary items of the Group (if any) in respect of that financial year.

Save as disclosed above, as at the Latest Practicable Date, there was no service contract with the Company or any of its subsidiaries or associated companies in force for Directors (i) which (including both continuous and fixed term contracts) has been entered into or amended within 6 months before the date on which the Offer Period commenced; (ii) which is a continuous contract with a notice period of 12 months or more; or (iii) which is a fixed term contract with more than 12 months to run irrespective of the notice period.

**7. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

**8. MATERIAL CONTRACTS**

The Group did not enter into any contract which are or may be material (other than those entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) within the two years immediately preceding the date on which the Offer Period commenced.

**9. EXPERTS AND CONSENTS**

The following are the qualifications of the experts who have given opinion or advice which are contained in this Composite Document:

<b>Name</b>	<b>Qualifications</b>
BDO Limited	certified public accountants
Messis Capital	a licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities

BDO Limited and MESSIS Capital have given and have not withdrawn their written consent to the issue of this Composite Document with the inclusion of their advice, letter/report or recommendation and the references to their names and logos in the form and context in which they respectively appear.



**10. MISCELLANEOUS**

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at 3rd Floor, Victory Industrial Buildings, Nos. 151–157 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong.
- (c) The Board comprises three executive Directors, namely Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan, and three independent non-executive directors, namely Ms. Chan Cynthia Sin Ha *JP*, Mr. Fong Pui Sheung David *MH* and Mr. Or Kam Chung Janson.
- (d) The company secretary of the Company is Mr. Lee Man Tai. He is a fellow member of Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants in the United Kingdom.
- (e) The Hong Kong share registrar is Computershare Hong Kong Investor Services Limited, being the share registrar of and the receiving agent for receiving and processing the acceptance of the Offer, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong.
- (f) This Composite Document is prepared in both English and Chinese. In the event of inconsistency, the English texts shall prevail.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection on the websites of the SFC ([www.sfc.hk](http://www.sfc.hk)) and the Company ([www.irasia.com/listco/hk/chanco/index.htm](http://www.irasia.com/listco/hk/chanco/index.htm)) during the period from the date of despatch of this Composite Document up to and including the Closing Date:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 March 2014 and 2015;
- (c) the letter from the Board, the letter from the Independent Board Committee and the letter from Messis Capital, the texts of which are set out in this Composite Document;
- (d) the report from BDO Limited on Foreign Exchange Loss, the text of which is set out in Appendix IIIA to this Composite Document;
- (e) the report from Messis Capital on the Profit Warning Statement, the text of which is set out in Appendix IIIB to this Composite Document;
- (f) the written consents from BDO Limited and Messis Capital referred to in the section headed “Experts and consents” in this appendix; and

- (g) (i) service agreement dated 18 February 2003 entered into between Mr. Edwin Chan and the Company; (ii) service agreement dated 18 February 2003 entered into between Mr. Stanley Chan and the Company, and (iii) service agreement dated 18 February 2003 entered into between Ms. Rebecca Chan and the Company, as referred to in the section headed "Directors' service contracts" in this appendix.