



CHANCO INTERNATIONAL GROUP LIMITED

卓高國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)

FINANCIAL RESULTS FOR THE YEAR ENDED 31ST MARCH 2003

The board of directors of Chanco International Group Limited (the “Company”) is pleased to present the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st March, 2003, together with the comparative figures for the previous year as follows:

RESULTS

	<i>Note</i>	2003 HK\$'000	2002 <i>HK\$'000</i>
Turnover	2	154,428	150,388
Cost of sales		<u>(100,124)</u>	<u>(91,740)</u>
Gross profit		54,304	58,648
Other revenue		302	274
Selling and distribution costs		(4,657)	(3,670)
Administrative and other operating expenses		<u>(11,877)</u>	<u>(9,650)</u>
Profit before taxation	3	38,072	45,602
Taxation	4	<u>(3,065)</u>	<u>(3,854)</u>
Profit attributable to shareholders		<u>35,007</u>	<u>41,748</u>
Dividends	5	<u>33,577</u>	<u>21,000</u>
Basic earnings per share	6	<u>HK14.2 cents</u>	<u>HK17.3 cents</u>

Notes:

1. GROUP REORGANISATION AND BASIS OF PREPARATION

- (a) The Company was incorporated in the Cayman Islands on 12th April, 2002 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands.
- (b) On 17th February, 2003, pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the ultimate holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the section “Corporate reorganisation” in Appendix V to the prospectus of the Company dated 28th February, 2003. The shares of the Company were listed on the Stock Exchange on 12th March, 2003.

- (c) The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice 2.127 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants (“HKSA”). The consolidated accounts of the Group for the year ended 31st March, 2003, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.
- (d) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA. They have been prepared under the historical cost convention.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in manufacturing and trading of leather accessories. Revenues recognised during the year are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Sales of goods	154,428	150,388
Other revenue		
Interest income	<u>302</u>	<u>274</u>
Total revenues	<u><u>154,730</u></u>	<u><u>150,662</u></u>

Primary reporting format — business segments

	Belts <i>HK\$'000</i>	Small leather goods <i>HK\$'000</i>	Leather <i>HK\$'000</i>	Group <i>HK\$'000</i>
Year ended 31st March, 2003				
Turnover	<u><u>147,788</u></u>	<u><u>4,850</u></u>	<u><u>1,790</u></u>	<u><u>154,428</u></u>
Results				
Segment results	<u><u>47,116</u></u>	<u><u>2,110</u></u>	<u><u>421</u></u>	49,647
Unallocated revenue				302
Unallocated costs				<u>(11,877)</u>
Profit before taxation				38,072
Taxation				<u>(3,065)</u>
Profit attributable to shareholders				<u><u>35,007</u></u>

	Belts <i>HK\$'000</i>	Small leather goods <i>HK\$'000</i>	Leather <i>HK\$'000</i>	Group <i>HK\$'000</i>
Year ended 31st March, 2002				
Turnover	<u>148,617</u>	<u>847</u>	<u>924</u>	<u>150,388</u>
Results				
Segment results	<u>54,326</u>	<u>400</u>	<u>252</u>	54,978
Unallocated revenue				274
Unallocated costs				<u>(9,650)</u>
Profit before taxation				45,602
Taxation				<u>(3,854)</u>
Profit attributable to shareholders				<u>41,748</u>

Secondary reporting format — geographical segments

	Turnover	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Japan	86,564	92,973
Europe	24,470	17,620
The United States of America (“The US”)	21,553	18,347
Hong Kong	14,998	18,663
The People’s Republic of China, other than Hong Kong (“The PRC”)	344	—
Others	<u>6,499</u>	<u>2,785</u>
	<u>154,428</u>	<u>150,388</u>

No analysis of the contribution to operating profit by geographical segment has been prepared as no contribution to profit from any of the above geographical segment is substantially out of line with the normal ration of profit to turnover.

Sales are based on the countries in which the customers located. There are no sales between the segments.

3. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold		
— material costs	79,315	76,156
— production overheads	20,809	15,584
Depreciation of fixed assets	1,419	807
Loss on disposal of fixed assets	43	—
Operating lease rentals in respect of land and buildings	2,862	1,028
Provision for bad debts	9	202
Provision for obsolete inventories	122	286
Staff costs excluding directors’ emoluments	<u>5,270</u>	<u>3,909</u>

4. TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Current taxation		
— Hong Kong profits tax	2,980	3,706
— (Over)/under provisions in prior years	(42)	52
Deferred taxation	<u>127</u>	<u>96</u>
	<u>3,065</u>	<u>3,854</u>

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profit for the year.

No provision for the PRC income tax has been made in the accounts as the Group has no assessable income during the year (2002: Nil).

5. DIVIDENDS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Final, proposed, of HK\$0.04 per ordinary share (<i>note (a)</i>)	12,577	—
Interim dividend, paid by a subsidiary to its then shareholders prior to the Reorganisation (<i>note (b)</i>)	<u>21,000</u>	<u>21,000</u>
	<u>33,577</u>	<u>21,000</u>

(a) At a board meeting held on 18th July, 2003, the directors proposed a final dividend of HK\$0.04 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st March, 2004.

The amount of proposed final dividend is based on 314,424,000 shares in issue as at 18th July, 2003.

(b) The rate of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of this accounts.

6. EARNINGS PER SHARE

The calculation of basic earning per share are based on the Group's profit attributable to shareholders of HK\$35,007,000 and the weighted average of 245,961,589 ordinary shares in issue during the year.

The basic earnings per share for 31st March, 2002 is based on the Group's profit attributable to shareholders of HK\$41,748,000 and an aggregate of 242,004,000 shares comprising (i) 1,000 shares issued upon incorporation of the Company, (ii) 999,000 shares issued upon completion of the Reorganisation and (iii) 241,004,000 shares issued pursuant to the Capitalisation Issue, which were deemed to have been in issue throughout the year ended 31st March, 2002.

Diluted earning per share was not disclosed as there were no dilutive instruments at 31st March, 2003.

REVIEW OF OPERATIONS

The Group was successfully listed on the main board of the Stock Exchange on 12th March, 2003 and the net proceeds raised was approximately HK\$29.3 million. On behalf of the Board, I would like to express my appreciation to the trust and support for the Group from various sectors. In view of the achievement of the Group's target results for the year, the Board recommends the payment of a final dividend of HK4 cents per share.

For the year ended 31st March, 2003, the Group recorded a turnover of approximately HK\$154 million, representing a 2.7% growth as compared to that of 2002. The surge in the Group's turnover was mainly attributable to the significant increase of sales in Europe and the successful expansion to other markets such as Malaysia, Singapore, the Philippines, Taiwan, Australia and Canada. In addition, the increase in the sales orders of small leather goods from the U.S. was also the driving force to the growth of the Group's turnover for the year ended 31st March, 2003. Profit attributable to shareholders was approximately HK\$35 million, representing a 16.1% decrease as compared to that of 2002, which was, however, 4.5% higher than that of the amount as forecasted by the Company at initial public offering. The reduction in profit was a result of the rise in operating costs and production costs resulted from the relocation of the Group's operation to a larger production plant.

As a leading designer and manufacturer of leather accessories, the Group is dedicated to maintaining its acquired competitive edges in order to provide a broad array of quality products to international fashion apparel retailers. To attain our goal and increase shareholders' values, the Group was managed to accomplish noticeable developments in marketing, technological development and structural integration during the year under review.

During the year under review, in addition to further develop the Group's well-established overseas markets, the Group is devoted to expanding the domestic leather accessories market. Through the extensive sales network of the existing customers, the Group expects that there will be a substantial growth in the number of domestic sales orders in the coming year. In respect of the promotion of its own products under the brand names "**Stranger**" and "**Natalie Creations**", the Group not only utilised Bauhaus's sales network as the local sales channels, in the coming year, the Group is also planning to set up counters in large scale department stores and advertise in various media, and actively participate in large scale trade fairs around the world in order to build up a positive brand image and promote business. The Group firmly believes that effective marketing strategies is vital to the growth of the Group's results and the building of a desirable corporate image.

To well preserve the leading market position, the Group has to improve existing product quality constantly and develop new product categories to accommodate customers' specifications. The Group is working persistently to develop the business of small leather goods, increase its output and pursue innovative strategies in the product design and varieties so as to diversify the Group's business development by providing customers with more choices on top of leather belts.

USE OF PROCEEDS

The proceeds from the Company' issue of new shares at the time of its listing on the Stock Exchange on 12th March, 2003, after deduction of related issuance expenses, amounted to approximately HK\$29.3 million. The directors intended to achieve its business goals through the implementation of the following with the net proceeds raised through the Company's initial public offer:

- as to approximately HK\$7.0 million for vertical integration with leather processing companies and additional resources for research and development on leather processing technology;
- as to approximately HK\$5.8 million for further development of the Group's production facilities in Dongguan;
- as to approximately HK\$5.8 million for strengthening the Group's production development capability and to diversify the Group's product categories;

- as to approximately HK\$5.8 million for promotion of activities and further development of the Group's brand recognition;
- as to approximately HK\$1.0 million for geographical expansion by establishing representative offices in Beijing and Shanghai in the PRC; and
- as to the balance of approximately HK\$3.9 million as additional general working capital of the Group.

As the date of listing is closed to the Company's financial year end date, the Company has not commenced to apply the net proceeds during this reporting year. As at 31st March, 2003, the proceeds from listing was placed on short-term deposits with licensed banks in Hong Kong.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st March, 2003, the Group's cash and bank deposits were approximately HK\$54.3 million (2002: HK\$30.8 million).

The Group recorded total current assets of approximately HK\$87.8 million as at 31st March, 2003 (2002: HK\$54.1 million) and total current liabilities of approximately HK\$8.7 million (2002: HK\$15.3 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities was approximately 10.1 times as at 31st March, 2003 (2002: 3.54 times).

As at 31st March, 2003, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8 million, from which were secured by deposits given by certain executive directors, a substantial shareholder and his wife and were guaranteed by the executive directors jointly and severally.

As at the date of this announcement, the relevant banks had released the above guarantees and securities in exchange for corporate guarantees provided by the Company.

CONTINGENT LIABILITIES

As at 31st March, 2003, the Group did not have any contingent liabilities.

SUBSEQUENT EVENTS

Save as disclose above, the Company granted to certain employees and consultants of the Group to subscribe for an aggregate of 14,352,000 shares of the Company on 26th May 2003, with an exercise price of HK\$0.58 calculated in accordance with provision of the Company's share option scheme. On 19th June 2003, 6,760,000 of share options were exercised, the closing price of the shares of the Company was HK\$0.72 at the date when the options were exercised.

TREASURY POLICY

The Group generally finances its operation with internally generated resources.

Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars.

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi and United States dollars such that the Group does not have significant exposure to foreign exchange fluctuation. As the Group does not engage in any hedging contracts, the Group's exposure to foreign exchange risk is minimal.

EMPLOYEE INFORMATION

As at 31st March, 2003, the Group had 29 full-time employees in Hong Kong and 68 in the PRC. The Group remunerated its employee mainly based on their individual performance. Apart from basic salaries, discretionary bonus and contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 18th February, 2003. The written terms of reference which disclose the authority and duties of the Audit Committee were prepared and accepted with reference to "A Guide from the Foundation of an Audit Committee" published by the HKSA and in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Audit Committee provides an important link between the Board and the company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and internal controls and risk evaluation. The Audit Committee comprises two independent non-executive directors, namely, Ms. Chau Cynthia Sin Ha and Mr. Fong Pui Sheung David. The Audit Committee has met once since its establishment with the management to discuss and review the Group's various issues with a view to further improve the Group's corporate governance.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the information of the annual results of the Group for the year ended 31st March, 2003 required by paragraph 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

Chan King Hong Edwin
Chairman

Hong Kong 18th July, 2003

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Chanco International Group Limited (the “Company”) will be held at 3rd Floor, Victory Industrial Building, Nos. 151–157 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong, at 10:00 a.m. on 26th August, 2003 for the following purposes:

1. To receive and consider the audited accounts and the reports of the directors and the auditors for the year ended 31st March, 2003.
2. To declare a final dividend for the year ended 31st March, 2003.
3. To re-elect directors and to authorize the board of directors to fix their remuneration.
4. To re-appoint auditors and to authorize the board of directors to fix their remuneration.
5. As special business, to consider, and if thought fit, pass the following resolutions as ordinary resolutions:

A. **“THAT:**

- (a) subject to paragraph (c), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue (as hereinafter defined) or (ii) the exercise of the subscription rights under the share option scheme of the Company or (iii) an issue of shares as scrip dividends pursuant to the memorandum and articles of association of the Company from time to time shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval shall be limited accordingly; and

- (d) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company or any applicable law of the Cayman Islands to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as

the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the law of, or the requirements of any recognized regulatory body or any stock exchange in any territory applicable to the Company).”

B. “THAT:

- (a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this resolution and the said approval be limited accordingly; and
- (c) for the purposes of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company or any applicable law of the Cayman Islands to be held; and
- (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

- C. “THAT** conditional upon resolution no. 5B above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors as mentioned in resolution no. 5B above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to resolution no. 5A above.”

By Order of the Board
Lau Wai Hung
Company Secretary

Hong Kong, 18th July, 2003

Notes:

- (1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited at the Company’s Hong Kong branch share registrars, Computershare Hong Kong Investor Services Limited of Rooms 1901-05, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.
- (2) The Register of Members of the Company will be closed from 20th August, 2003 to 26th August, 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the forthcoming Annual General Meeting, all transfers

accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Computershare Hong Kong Investor Services Limited of Rooms 1901-05, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 19th August, 2003.

- (3) In order to qualify for the final dividend payable on 29th August, 2003, all transfers, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's Hong Kong branch share registrars, Computershare Hong Kong Investor Services Limited of Rooms 1901-05, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 19th August, 2003.