

2004 ANNUAL REPORT



CHANCO INTERNATIONAL GROUP LIMITED

卓高國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)



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DIRECTORS

Executive Directors

Chan King Hong Edwin (*Chairman*)
Chan King Yuen Stanley
Chan Wai Po Rebecca

Independent Non-executive Directors

Chau Cynthia Sin Ha *JP*
Fong Pui Sheung David
Or Kam Chung Janson

COMPANY SECRETARY

Lau Wai Hung *ACCA AHKSA*

AUDIT COMMITTEE

Chau Cynthia Sin Ha *JP*
Fong Pui Sheung David
Or Kam Chung Janson

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3rd Floor, Victory Industrial Building
Nos. 151-157 Wo Yi Hop Road
Kwai Chung
New Territories
Hong Kong

PRINCIPAL BANKERS

Nanyang Commercial Bank Limited
Wing Hang Bank Limited

AUDITORS

KLL Associates CPA Ltd.

LEGAL ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong
Investor Services Limited
Rooms 1901-5
19th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.chancogroup.com

STOCK CODE

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Dear Shareholders,

On behalf of the Board of Directors (the "Board" or the "Directors") of Chanco International Group Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively refer to the "Group") for the year ended 31st March, 2004.

For the year ended 31st March, 2004, the Group recorded a turnover of approximately HK\$154.6 million. Profit attributable to shareholders was approximately HK\$31.6 million, representing approximately 9.7% decrease as compared to that of 2003. The decrease in net profit is due to the decrease of gross profit margin and the increase of administrative and other operating expenses. As the Group has sufficient cash for business operation and expansion, the Board recommend the payment of a final dividend of HK\$0.018 per share for the year ended 31st March, 2004.

Fiscal year 2004 is a year of challenge. The outbreak of Severe Acute Respiratory Syndrome ("SARS") adversely affected the Group's export sales to the US and Europe. The recovery after SARS was not as good as we expected. In spite of the weak market condition, the Group still attained a stable performance of sales. During the period under review, the Group achieved a significant sales growth in the PRC, Australia and Malaysia. The remarkable growth was mainly due to the new orders secured from a number of famous brand customers through the Group's successful marketing strategies and the Group's reputation of making quality products in leatherware industry.

PROSPECTS

As the core of our business, the sales of OEM and ODM product to Japan, the U.S. and Europe remained as our largest export markets and accounted for approximately 54%, 10% and 14% respectively during the year under review. Looking forward, the Group will endeavor to seek for more potential OEM and ODM customers by ways of comprehensive marketing campaign and leverage on our strength in the overseas market in order to capture for a larger market share. Recently, the Group has received an initial order from a new famous brand customer who has more than 5,000 sales outlets worldwide. The customer has shown great appreciation and satisfaction with our products and services. Additionally, our major customer in Japan that sold men belts only before, has now placed orders for ladies belts as well. Being the sole supplier for this customer, the Group believes that it would be the key potential growth in Japan in the future.

In line with the Group's market expansion strategies in the PRC, the Group actively sought for potential customers in especial of renowned domestic brands so as to increase the sales in this blooming market. In September 2003, the Group participated in *The 15th Dalian International Garment Fair* in which our OEM and ODM products had been successfully presented to our prospective clients. In the long run, the Group will continue to participate in trade fairs and exhibitions in order to expose our products to more potential customers.

With an aim to sustain the leading position in the international leather accessories design and manufacturing industry, the Group devotes to provide a wide range of leather products to young customers. Leveraging on the extensive sales network of our retail agent — Bauhaus, the Group will not only carry wallets and belts, but will expand the selection of leather goods to include backpacks and handbags in July 2004. The Group will continue to diversify our product line and launch more fashion clothing and accessories, including jeans, T-shirts and watches so as to deepen market penetration and to broaden market share. In addition, the Group will strive to maintain the good quality of products by strengthening the design and production teams and enhancing the quality assurance measures.

The retail business in Hong Kong and other Asian countries will be another focus of development of the Group in the coming year. The breakthrough is our first store of our brand *Stranger* is going to be opened in Hong Kong in October 2004 in Langham Place. The Group believes that the first outlet of *Stranger* inside Langham Place — the becoming most prestigious 5-star shopping and business complex in Kowloon, will bring customers a refreshing touch to the brand.

Geographically, the Group has extended the sales network to Singapore through an exclusive retail distributor by placing *Stranger* products in its retail chain stores in July 2004. The retail business establishment in Singapore will be essentially regarded as a stepping stone for the further retail business extension of the Group in the PRC, Japan, Korea, Taiwan, Malaysia, and other Asia regions in the coming future. With the competitive strengths in overseas market accumulated over the previous years and to take advantages of the flourishing sales markets in the PRC, the Group strongly believes that the two-way development of OEM and ODM business and retail business can fully realize our growing strengths in an ultimate attempt to provide a better return to our shareholders.

APPRECIATION

Last but not least, on behalf of the Board, I shall take this opportunity to express our gratitude towards our business partners, customers, staffs and shareholders. Without your support and dedication, the Group would not be so successful in the market. In the future, we look forward for your continuous support. The Board, the management and all staff will keep on dedicating to achieve a greater success for the Group.

Chan King Hong, Edwin

Chairman

9th July, 2004

FINANCIAL REVIEW

(All the analysis below is based on the results of the Group for the year ended 31st March, 2004 and the year ended 31st March, 2003 for comparison purpose only)

For the year ended 31st March, 2004, the Group's turnover recorded approximately HK\$154.6 million, which remained constant when compared with last year. During the year under review, the Group's sales performance in overseas markets was weak. The export sales to the US market recorded a marked decrease of approximately 25%, while other major overseas markets such as Japan and Europe had also performed below expectation during the year under review. The Group's overall export sales were dropped by approximately 4% from approximately HK\$139 million to HK\$133 million. Despite the unfavorable performance in the overseas markets, on the favorable side, the Group achieved strong sales in the PRC market which had significantly offset the reduction in sales in the overseas markets.

As a result of the decrease of export sales, the Group had to suffer a high fixed overhead cost in Sze Cheik factory which is operated solely for export and Hong Kong market due to the production volume shrunk. During the fiscal year under review, the gross profit margin of the Group was reduced from approximately 35% to 33.6%. The thinning of gross profit margin had essentially resulted from the increase in the price of leather during the year under review.

Profit attributable to shareholders dropped by approximately 9.7% and recorded nearly HK\$31.6 million in 2004. The reduction in profit was mainly attributable to the decrease in gross profit margin as well as the increase in administrative and other operating expenses. The administrative and other operating expenses such as directors' remuneration, staff salaries and other listing compliance expenses were increased since the Group had listed on 12th March, 2003. Compared with last year, the expenses increased by 20% to approximately HK\$14.3 million. The Group believes that with a stringent budget control policy implemented, the cost of production and operation is expected to be minimized in the following years. The basic earnings per share was approximately 10.2 HK cents as compared to 14.23 HK cents recorded in 2003.

Geographical analysis

Geographically, Japan continued to contribute the largest portion of sales amongst the overseas markets, accounting for approximately 54% of the Group's total sales. The sales order from the Group's major retail store customers in Japan remained steady during the year under review. Fluctuating orders from small trading companies led to a mild drop of sales in Japan.

Sales in the US recorded an unsatisfactory result in the year ended 31st March, 2004. Compared with last year, sales in the US was decreased by approximately 25%. Both sales in the US and Europe markets were adversely affected by the outbreak of SARS in the first half of the year under review. Sales to Europe were recovered more quickly in the second half of the financial year and thus, the drop of sales had been narrow down to approximately 13.7%.

Sales in Hong Kong, which were declined by approximately 8%, suffered from a setback following the outbreak of SARS. The volume of sales order placed by the Group's major retail customers in Hong Kong after SARS was below the management's expectation. Sales of belts and wallets under the Group's owned brand — Stranger, contributed to the Group's turnover of approximately HK\$1 million.

During the year under review, the Group has devoted to expanding the sales in the PRC market. Sales in the PRC recorded an encouraging result for the year ended 31st March, 2004 amounting to approximately HK\$7.4 million, which accounting for approximately 4.8% of the Group's total turnover. The management considered that it marked a successful start for the Group's penetration into the PRC market. The Group anticipates the market share in the PRC will be further enlarged and make up a larger proportion of the Group's total turnover in the foreseeable future.

The Group's export sales to other countries such as Canada, Australia, Taiwan, the Philippines, Singapore and Malaysia etc. continued to grow. Sales to other countries for the year ended 31st March, 2004 surged 83% to approximately HK\$11.9 million. The growth was mainly attributable to the increased orders from the customers in Australia and Malaysia and new orders secured from a number of famous brand customers from Australia. Sales in Australia and Malaysia recorded approximately HK\$4.4 million and HK\$3.1 million respectively.

BUSINESS ANALYSIS

Market Expansion in the PRC

In March 2003, the Group has stepped into the PRC market with effective marketing strategies. Since the new market establishment, the Group has recorded a remarkable performance. Riding on the strong economic growth in the PRC, retailers, especially our major clients, exploit aggressive marketing strategies to capture more market share through their strong sales network. Currently, the sales orders received by the Group mainly came from the Group's existing customers, who had extensive sales networks accessing to numerous sales points in the major cities in the PRC. During the year under review, the Group successfully engaged a customer which is a renowned domestic fashion and accessories enterprise with significant market presence in the PRC. In line with the Group's market expansion strategies in the PRC, the Group participated in *The 15th Dalian International Garment Fair* in September 2003 in which our OEM and ODM products had been successfully presented to our prospective clients. In the long run, the Group will continue to participate in different trade fairs and exhibitions in order to expose our products to more potential customers and to ultimately increase the sales in this blooming market.

Continuity of Brand Building — Stranger

During the year under review, the Group applied various marketing and promotional strategies in order to sustain and promote the Group's own brand name — *Stranger*. Through our sole retail agent — Bauhaus, a well-known young fashion apparel retailer in Hong Kong, *Stranger* was firstly introduced into the market in November 2002 with the introductory leather products — wallets and belts. Leveraging on Bauhaus's extensive sales network, *Stranger* will further introduce new products such as backpacks and handbags to the Hong Kong market in July 2004. In the future, not limited to leather products, the Group will diversify *Stranger's* product into fashion clothing and accessories, including jeans, T-shirts and fashionable watches so as to deepen *Stranger's* market penetration. The other important breakthrough of the Group is the first *Stranger's store* in Hong Kong will be opened in Langham Place in October 2004. Located in the heart of the Mongkok District, Langham Place will become the most prestigious 5-star shopping and business complex in Kowloon. The first *Stranger Store* in Langham Place will not only sell *Stranger's* products but will incorporate various trendy and popular brands introduced from Japan and Europe which will bring customers a refreshing touch to the brand.

Geographically, the Group has extended the sales network to Singapore through an exclusive retail distributor and placing *Stranger* products in its retail chain stores in July 2004. The retail business establishment in Singapore will be essentially regarded as a stepping stone for the further retail business extension of the Group in the PRC, Japan, Korea, Taiwan, Malaysia and other Asia regions in the coming future.

Widen Product Range and Product Diversification

Aiming to conquer the leading position in the international leather accessories design and manufacturing industry, the Group committed to providing customers with a wide range of leather products. During the year under review, number of sale orders on wallets and other small leather goods placed from different customers was more than last year but the volume of order was comparatively lower. Despite the revenue contribution on small leather goods was not as good as last year, the Group was widely recognized its strong product development ability. Backing up by a team of experienced and innovative design and product development professionals, the Group has developed a variety range of leather products, including wallets, belts, backpacks, and handbags to the Group's OEM and ODM customers so as to increase market penetration and to broaden the market share.

Strategic Alliance and Vertical Integration Plans

The Group intends to become an integrated manufacturer of leather accessories by vertical expansion so as to include the raw material supply of the production process business. In August 2003, the Group signed a Memorandum of Understanding ("MOU") with a Hong Kong leather processing company whose production facilities are located in Dongguan, the PRC. Pursuant to the MOU, the Group proposes to form a joint venture company ("JV") with that leather processing

company. As of the date of annual results announcement, the plan was on hold due to the renewal of environmental license for the Dongguan production facilities that granted by the local authority was uncertain. For this reason, the agreement has not been compromised by both parties. Experiencing the cost increase in leather, the Group believed that vertical integration would be one of the best solutions to control the production cost efficiently. In future, the Group will continue to seek for other possible partners and strategic alliances in order to enhance competitive strengths, to enlarge product mix and to cater the customers' needs in this ever-changing fashion industry.

Use of Proceeds

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on the Listing Date, after deduction of related issuance expenses, amounted to approximately HK\$29.3 million. The use of the proceeds since its Listing Date and up to 31st March, 2004 was as follows:

- as to approximately HK\$469,000 for further development of the Group's production facilities in Dongguan;
- as to approximately HK\$350,000 for strengthening the Group's production development capability and to diversify the Group's product categories;
- as to approximately HK\$280,000 for promotion of activities and further development of the Group's brand recognition; and
- as to approximately HK\$5 million as general working capital of the Group.

As at 31st March, 2004, the balance of the proceeds of approximately HK\$23.2 million was placed on short-term deposits with licensed banks in Hong Kong.

Liquidity, Financial Resources and Capital Structure

As at 31st March, 2004, the Group's cash and bank deposits were approximately HK\$67 million (2003: HK\$54.3 million).

As at 31st March, 2004, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8 million were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$113 million as at 31st March, 2004 (2003: HK\$87.8 million) and total current liabilities of approximately HK\$13.8 million (2003: HK\$8.7 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 8.2 times as at 31st March, 2004 (2003: 10.1 times).

Supported by its strong financial position, the Group had not raised any bank loan during the year.

The Group recorded an increase in shareholders' funds from approximately HK\$86.3 million as at 31st March, 2003 to approximately HK\$105.7 million at 31st March, 2004. The increase was mainly attributable to the proceeds from exercise of share options of the Company and operating profit generated during the year.

Treasury Policy

The Group generally finances its operation with internally generated resources.

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

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi or United States dollars such that the Group does not have significant exposure to foreign exchange fluctuation.

Though the Group does not engage in any hedging contract, the Group's exposure in foreign exchange risk is minimal.

Charges on Assets

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

Material Acquisitions/Disposal

The Group had no material acquisition/disposals for the year ended 31st March, 2004.

Employee Information

As at 31st March, 2004, the Group had 29 full time employees in Hong Kong and 56 in the PRC. The Group remunerated its employee mainly based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company.

Contingent Liabilities

At the balance sheet date, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st March, 2004 amounted to approximately HK\$1 million (2003: Nil).

EXECUTIVE DIRECTORS

Mr. CHAN King Hong Edwin, aged 46, is the chairman and the managing director of the Company who joined the Group in around 1980. Mr. Chan is responsible for the development of corporate strategies, overseas sales and marketing strategic planning and overall management of the Group. He has over 21 years of experience in the manufacturing and sales of leather goods, corporate management and strategic planning. Mr. Chan graduated from the University of Toronto in Canada with a bachelor's degree in arts in 1980. Mr. Edwin Chan is the brother of Mr. Stanley Chan, Ms. Rebecca Chan and Ms. Chan Wai Foon.

Mr. CHAN King Yuen Stanley, aged 43, is the managing director of the Company who joined the Group in around 1980. Mr. Chan is responsible for the design and product development, local sales and marketing strategic planning and overall management of the Group. He has over 21 years of experience in the manufacturing and sales of leather goods, product development and sampling designed training. Mr. Stanley Chan is the brother of Mr. Edwin Chan, Ms. Rebecca Chan and Ms. Chan Wai Foon.

Ms. CHAN Wai Po Rebecca, aged 40, is the production director of the Company who joined the Group in 1986. Ms. Chan is responsible for production planning and control, labour training and overall management of the Group's production facilities in Dongguan, the PRC. She has over 16 years of experience in the manufacturing of leather goods, production system design and quality assurance system management. She graduated from Tunghai University in Taiwan with a bachelor's degree in business administration in 1986. Ms. Rebecca Chan is the sister of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Chan Wai Foon.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. CHAU Cynthia Sin Ha JP, aged 64, is an independent non-executive director of the Company. Ms. Chau has been appointed as a Non-official Justice of the Peace for Hong Kong since 17th July, 1996. She holds a diploma in arts from Chung Chi College in Hong Kong in 1961 and a master's degree of social welfare from the Regents of the University of California in the U.S. in 1967. Ms. Chau had served as the Welfare Superintendent of Po Leung Kuk for 26 years until her retirement in March 2001. As Welfare Superintendent, Ms. Chau was head of the Welfare Department and responsible for developing and improving the welfare services provided by Po Leung Kuk. Ms. Chau was appointed as the independent non-executive director of the Company in February 2003.

Mr. FONG Pui Sheung David, aged 61, is an independent non-executive director of the Company. Mr. Fong was granted a Badge of Honour by Hong Kong Government in January 1989 and a Medal of Honour by the Government of Hong Kong Special Administrative Region for his contribution to the society in July 2000. He holds a diploma in Chinese Literature from the Chinese University of Hong Kong in 1970. Mr. Fong has served as the principal of Tung Koon District Society Fong Shu Chuen School since 1970. Mr. Fong is also a manager of Fong Shu Fook Tong Foundation Fong Shu Chuen Primary School. Mr. Fong had been actively participating in the Community works in Ho Man Tin

Area Committee since 1973. Mr. Fong was acted as Councilor of Urban Council from 1989 to 1991. Mr. Fong was appointed as the independent non-executive director of the Company in February 2003.

Mr. OR Kam Chung, Janson, aged 34, is an independent non-executive director of the Company. Mr. Or is a practising Certified Public Accountant in Hong Kong. Mr. Or is also an associate member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Society of Accountants. Mr. Or obtained a Higher Diploma in Accountancy from the City University of Hong Kong in 1995. Mr. Or has over 8 years of experience in auditing, accounting, taxation and company secretary with public accounting firms. Mr. Or is the co-founder of a public accounting firm, KCPS & Partners Certified Public Accountants, and is now a practising partner of the firm. Mr. Or was appointed as the independent non-executive director of the Company in June 2004.

SENIOR MANAGEMENT

Ms. LI Shuk Han, aged 39, is the general manager of the Group. Ms. Li is responsible for the personnel and general management of the Group's operation in Hong Kong. She has over 16 years of experience in general administration including staff performance analysis and office system innovation. She is the wife of Mr. Edwin Chan. She joined the Group in 1984.

Mr. LAU Wai Hung, aged 28, is the financial controller and the company secretary of the Company. Mr. Lau is responsible for overseeing the financial and the company secretarial functions of the Company. Mr. Lau obtained a bachelor's degree in business administration from the Chinese University of Hong Kong in 1997. Mr. Lau is an associate member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Society of Accountants. Mr. Lau has over 6 years of experience in auditing, finance, taxation and corporate development advisory. Prior to joining the Group, Mr. Lau worked for a consulting firm which provides business advisory services to clients. Mr. Lau joined the Group in July 2002.

Ms. CHAN Wai Foon, aged 48, is the accounting manager of the Group. Ms. Chan is responsible for the financial and management accounting of the Group. She holds a diploma in accounting from Centennial College in Canada in 1980. She has over 21 years of experience in accounting and finance. Prior to joining the Group, Ms. Chan had worked as an accountant of a system integration company. She is the sister of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan. She joined the Group in 1997.

Mr. CHAN Chi Hung, aged 40, is the operation manager of the Group. Mr. Chan is responsible for production planning and operation, shipping management and inventory control of the Group. Mr. Chan has over 7 years of experience in the leather industry. He joined the Group in 1995.

Mr. WU Wai Luk, aged 36, is the merchandising manager of the Group. Mr. Wu is responsible for sales and marketing and business development of the Group. Mr. Wu has over 6 years of experience in the leather industry. He joined the Group in 1997.

Mr. FUNG Kin, aged 39, is the administration manager of the Group. Mr. Fung is responsible for the general administration and human resource management of the Group's factories in Dongguan, the PRC. Mr. Fung has over 6 years of experience in general administration and team management. Prior to joining the Group, Mr. Fung had worked for a watch hands and parts manufacturing company as general manager for 6 years. He joined the Group in August 2001.

Mr. CHEUNG Yiu Fai, aged 40, is the production manager of the Group. Mr. Cheung is responsible for the manufacturing operation and technical control of the Group's production facilities in Dongguan, the PRC. He has over 12 years of experience in manufacturing of leather goods and production planning. He joined the Group in 1991.

Mr. HUI Kwok Fai, aged 33, is the product development manager of the Group. Mr. Hui is responsible for product design and retail business operation of the Group. Mr. Hui has over 11 years of experience in product development and brand building. Prior to joining the Group, Mr. Hui had worked as product designer of Tough Jeans Ltd. and had successfully built up the distribution network for TOUGH bags and other accessories products to Japan, Singapore, Malaysia, Thailand, Germany, Italy, Spain and Australia. He joined the Group in October 2003.

The directors (the "Directors") are pleased to present their report together with the audited financial statements of Chanco International Group Limited (the "Company") and its subsidiaries (collectively refer to the "Group") for the year ended 31st March, 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 13 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March, 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 53.

The Directors recommended the payment of a final dividend of HK1.8 cents per ordinary share to shareholders whose names appear in the register of members of the Company on 10th August, 2004. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about 12th August, 2004.

RESERVES

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

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March, 2004, amounted to HK\$86.6 million. Under the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the memorandum and articles of association of the

Company and no distribution or dividend may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in ordinary course of business.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's memorandum and articles of association and there was no restriction against such rights under the laws of the Cayman Islands.

BANK LOANS AND OVERDRAFTS

The Group did not have bank loans and overdraft at 31st March, 2004.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 54.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Chan King Hong Edwin
Mr. Chan King Yuen Stanley
Ms. Chan Wai Po Rebecca

Independent non-executive directors

Ms. Chau Cynthia Sin Ha
Mr. Fong Pui Sheung David
Mr. Or Kam Chung Janson (appointed on 16th June, 2004)

In accordance with Article 87 of the Company's Articles of Association, Mr. Fong Pui Sheung David shall retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer himself for re-election. In accordance with Article 86(3) of the Company's Articles of Association, Mr. Or Kam Chung Janson shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service agreements with all the Directors of the Company for the provision of management services to the Group, details are as follow:

Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca entered into service contracts with the Company for an initial term of two years commencing from 1st March, 2003 which will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other.

Ms. Chau Cynthia Sin Ha and Mr. Fong Pui Sheung David are independent non-executive directors and were appointed for a two-year term expiring on 28th February, 2005.

Mr. Or Kam Chung Janson is an independent non-executive director and was appointed for a two-year term expiring on 15th June, 2006.

Save as aforesaid, none of the directors has entered or is preparing to enter into a service contract with the Company or its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31st March, 2004, the interests and short positions of the Directors in the shares and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept pursuant to section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions

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

<u>Name</u>	<u>Capacity</u>	<u>Number of issued ordinary shares held</u>	<u>Approximate % of the issued share capital</u>
Chan King Hong Edwin	Interest of a controlled corporation	47,727,352 (Note 1(a))	14.99
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 (Note 2)	14.99
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 (Note 3)	12.31

(b) *Share Options*

<u>Name</u>	<u>Capacity</u>	<u>Number of options held</u>	<u>Number of underlying shares</u>
Chan King Hong Edwin	Beneficial owner	3,181,200 (Note 4)	3,181,200
	Interest of spouse	3,181,200 (Note 1(b))	3,181,200
Chan King Yuen Stanley	Beneficial owner	3,181,200 (Note 4)	3,181,200
Chan Wai Po Rebecca	Beneficial owner	3,181,200 (Note 4)	3,181,200

Notes:

- 1(a) 47,727,352 shares are held by Leopard Worldwide Inc., a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Hong Edwin.
- 1(b) An option to subscribe for 3,181,200 shares of the Company was granted to Ms. Li Shuk Han on 24th September, 2003, who is the spouse of Mr. Chan King Hong Edwin. By virtue of the SFO, Mr. Chan King Hong Edwin is taken to be interested in these 3,181,200 long positions held by Ms. Li Shuk Han.
2. 47,727,352 shares are held by New Paramount Profits Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Yuen Stanley.
3. 39,204,648 shares are held by Prevail Assets Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Ms. Chan Wai Po Rebecca.
4. On 24th September, 2003, each of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca was granted an option to subscribe for 3,181,200 shares of the Company. Details of the options are stated under section headed "Share Option" below.

Save as disclosed above, no other interest or short position in the shares, underlying shares or debentures of the Company or any associated corporations as at 31st March, 2004 were recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2004, the parties which had interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, were as follows:

Long positions

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

Name	Capacity	Number of issued ordinary shares held	Approximate % of the issued share capital
Leopark Worldwide Inc.	Beneficial owner	47,727,352 (Note i)	14.99
New Paramount Profits Limited	Beneficial owner	47,727,352 (Note i)	14.99
Prevail Assets Limited	Beneficial owner	39,204,648 (Note i)	12.31
Smarty Worldwide Limited	Beneficial owner	39,204,648 (Note ii)	12.31
Chan Woon Man	Interest of a controlled corporation	39,204,648 (Note ii)	12.31
Li Shuk Han	Interest of spouse	47,727,352 (Note iii)	14.99

(b) *Share Options*

Name	Capacity	Number of options held	Number of underlying shares
Li Shuk Han	Beneficial owner and interest of spouse	6,362,400 (Note iv)	6,362,400
Chan Woon Man	Beneficial owner	3,181,200 (Note ii)	3,181,200

Notes:

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors interests in Shares and Share Options" above.
- (ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man. In addition, an option to subscribe for 3,181,200 shares of the Company was granted to Mr. Chan Woon Man on 24th September, 2003.
- (iii) These shares are held by a company controlled by Mr. Chan King Hong Edwin. By virtue of the SFO, Ms. Li Shuk Han, who is the spouse of Mr. Chan King Hong Edwin, is taken to be interested in these long positions.
- (iv) Being an option to subscribe for 3,181,200 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 3,181,200 shares of the Company granted to Ms. Li Shuk Han on 24th September, 2003.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31st March, 2004.

SHARE OPTION

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

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentive or rewards for their contributions to the Group.

The Share Option Scheme is available to, at the discretion of the Directors, any employee (whether full time or part time, including any executive directors) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds any equity interest; any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiary or any Invested Entity; any supplier of goods or services to any member of the Group or

any Invested Entity; any customer of the Group or any Invested Entity; and any consultants, advisers, managers, officers or entities that provide research, development or other technological support to the Group or any Invested Entity.

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised at any time under the Share Option Scheme and any other share option scheme of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not exceed 10% of the shares of the Company in issue on 12th March, 2003, the date of the Company being listed on the Main Board of the Stock Exchange.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Company to each participants in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to shareholders' approval at general meeting of the Company with such participant and his associates abstaining from voting.

An option may be accepted by a participant at a nominal consideration of HK\$1 within 28 days from the date of the offer of grant of the options. The subscription price for shares under the Share Option Scheme will be a price determined by the Directors but shall not be less than the highest of (i) the nominal value of shares; (ii) the closing price of one share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of option, which shall be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of acceptance of the offer of the grant of the options but shall end and in any event not later than ten years from the date on which the offer for grant of the option is made subject to the provisions of early termination thereof.

Details of the movements in share options during the year ended 31st March, 2004 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1st April, 2003	Number of share options				Outstanding as at 31st March, 2004	Exercisable period	Exercise price per share
			Granted	Exercised	Cancelled	Lapsed			
(a) Executive directors									
Chan King Hong Edwin	24th Sept, 2003	—	3,181,200 (Note ii)	—	—	—	3,181,200	24th Sept, 2003– 23rd Sept, 2013	0.830
Chan King Yuen Stanley	24th Sept, 2003	—	3,181,200 (Note ii)	—	—	—	3,181,200	24th Sept, 2003– 23rd Sept, 2013	0.830
Chan Wai Po Rebecca	24th Sept, 2003	—	3,181,200 (Note ii)	—	—	—	3,181,200	24th Sept, 2003– 23rd Sept, 2013	0.830
(b) Employees, in aggregate									
	26th May, 2003	—	8,352,000 (Note i)	7,836,000	—	—	516,000	26th May, 2003– 25th May, 2013	0.580
	24th Sept, 2003	—	6,362,400 (Note ii)	—	—	—	6,362,400	24th Sept, 2003– 23rd Sept, 2013	0.830
(c) Others, in aggregate									
	26th May, 2003	—	6,000,000 (Note i)	3,000,000	—	—	3,000,000	26th May, 2003– 25th May, 2013	0.580
Total			30,258,000	10,836,000	—	—	19,422,000		

Notes:

- (i) The closing price of the shares of the Company immediately before 26th May, 2003 at which the share options were granted was HK\$0.580.
- (ii) The closing price of the shares of the Company immediately before 24th September, 2003 at which the shares options were granted was HK\$0.800.
- (iii) The weighted average of the closing prices of the shares immediately before the dates on which the options were exercised was approximately HK\$0.73.
- (iv) All the options were immediately vested upon granted.
- (v) The share options granted under the Share Option Scheme are not recognised in the financial statements until they are exercised.

The Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

- | | |
|-----------------------------------|-----|
| — the largest supplier | 12% |
| — five largest suppliers combined | 45% |

Sales

- | | |
|-----------------------------------|-----|
| — the largest customer | 44% |
| — five largest customers combined | 64% |

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers stated above.

CONNECTED TRANSACTIONS

No significant connected transactions were entered into by the Group during the year ended 31st March, 2004, which constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied throughout the year ended 31st March, 2004 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

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 Hong Kong Society of Accountants and in compliance with the Code of Best Practice set out in Appendix 14 of 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 of internal controls and risk evaluation. The Audit Committee comprises three independent non-executive directors, namely, Ms. Chau Cynthia Sin Ha, Mr. Fong Pui Sheung David and Mr. Or Kam Chung Janson.

AUDITORS

PricewaterhouseCoopers, being one of the joint auditors of the Company, resigned on 26th April, 2004. KLL Associates CPA Limited, being the remaining joint auditors of the Company, remained in office.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint KLL Associates CPA Limited as auditors of the Company.

On behalf of the Board
Chan King Hong Edwin
Chairman

Hong Kong, 9th July, 2004



Suite 1303
Shanghai Industrial Investment Building
60 Hennessy Road
Wanchai
Hong Kong

**TO THE SHAREHOLDERS OF
CHANCO INTERNATIONAL GROUP LIMITED**
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, 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

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 9th July, 2004

Consolidated Income Statement

For the Year Ended 31st March, 2004

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	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	4	154,599	154,428
Cost of sales		(102,671)	(100,124)
Gross profit		51,928	54,304
Other revenue		524	302
Selling and distribution costs		(3,622)	(4,657)
Administrative and other operating expenses		(14,305)	(11,877)
Profit before taxation	6	34,525	38,072
Taxation	8	(2,912)	(3,065)
Profit attributable to shareholders		31,613	35,007
Dividends	9	11,466	33,577
Earnings per share	10		
Basic		HK10.02 cents	HK14.23 cents
Diluted		HK10.00 cents	N/A

At 31st March, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment	11	6,716	7,432
Current assets			
Inventories	12	17,733	18,785
Trade receivables	14	19,116	12,155
Other receivables, deposits and prepayments		905	1,632
Other investment	15	7,940	—
Amounts due from shareholders	17	—	909
Taxation recoverable		295	—
Bank balances and cash		67,093	54,315
		113,082	87,796
Current liabilities			
Trade payables	18	8,516	4,415
Other payables and accrued charges		5,318	4,032
Taxation payable		—	263
		13,834	8,710
Net current assets			
		99,248	79,086
Total assets less current liabilities			
		105,964	86,518
Non-current liabilities			
Deferred taxation	19	229	223
		105,735	86,295
Capital and reserves			
Share capital	20	3,185	3,077
Reserves		96,817	70,641
Proposed final dividend		5,733	12,577
		105,735	86,295

The financial statements on pages 25 to 53 were approved and authorised for issue by the board of directors on 9th July, 2004 and are signed on its behalf by:

Chan King Hong Edwin
Director

Chan King Yuen Stanley
Director

Balance Sheet

At 31st March, 2004

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	Notes	2004 HK\$'000	2003 HK\$'000
Non-current asset			
Investments in subsidiaries	13	48,181	48,181
Current assets			
Other receivables		109	634
Other investment	15	7,940	—
Amounts due from subsidiaries	16	33,003	40,781
Amounts due from shareholders	17	—	909
Bank balances and cash		590	—
		41,642	42,324
Current liabilities			
Accruals		10	12
Net current assets			
		41,632	42,312
		89,813	90,493
Capital and reserves			
Share capital	20	3,185	3,077
Reserves	22	80,895	74,839
Proposed final dividend	22	5,733	12,577
		89,813	90,493

Chan King Hong Edwin
Director

Chan King Yuen Stanley
Director

	Share capital	Share premium	Share issuance costs	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2002	—	—	(1,610)	42,953	41,343
Issue of shares	10	—	—	—	10
Profit attributable to shareholders	—	—	—	35,007	35,007
Interim dividend, paid by a subsidiary before Reorganisation	—	—	—	(21,000)	(21,000)
Capitalisation Issue	2,410	(2,410)	—	—	—
Issue of shares upon placing and public offer	657	38,739	—	—	39,396
Share issuance costs	—	(10,071)	1,610	—	(8,461)
As 31st March, 2003	3,077	26,258	—	56,960	86,295
Profit attributable to shareholders	—	—	—	31,613	31,613
2003 final dividend paid	—	—	—	(12,725)	(12,725)
Interim dividend paid	—	—	—	(5,733)	(5,733)
Exercise of share options	108	6,177	—	—	6,285
At 31st March, 2004	3,185	32,435	—	70,115	105,735

Representing:

Share Capital	3,077
Reserves	70,641
2003 final dividend proposed	<u>12,577</u>
At 31st March, 2003	<u><u>86,295</u></u>
Share Capital	3,185
Reserves	96,817
2004 final dividend proposed	<u>5,733</u>
At 31st March, 2004	<u><u>105,735</u></u>

Consolidated Cash Flow Statement

For the Year Ended 31st March, 2004

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	2004 HK\$'000	2003 HK\$'000
Operating activities		
Profit before taxation	34,525	38,072
Adjustments for:		
Interest income	(403)	(302)
Depreciation of property, plant and equipment	1,578	1,419
Loss on disposal of property, plant and equipment	—	43
Unrealised holding gain on other investment	(121)	—
Operating profit before working capital changes	35,579	39,232
Decrease/(increase) in inventories	1,052	(6,275)
Increase in trade and other receivables, deposits and prepayments	(6,234)	(2,489)
Decrease/(increase) in amounts due from shareholders	909	(909)
Increase/(decrease) in trade payables, other payables, and accrued charges	5,387	(1,182)
Decrease in amounts due to directors	—	(3,038)
Net cash generated from operations	36,693	25,339
Hong Kong Profits Tax paid	(3,464)	(5,266)
Net cash inflow from operating activities	33,229	20,073
Investing activities		
Acquisition of property, plant and equipment	(862)	(6,787)
Interest received	403	302
Purchase of other investment	(7,819)	—
Net cash outflow from investing activities	(8,278)	(6,485)
Financing activities		
Dividends paid	(18,458)	(21,000)
Issue of shares upon exercise of share options	6,285	—
Issue of shares upon placing and public offer	—	39,396
Share issuance costs	—	(8,461)
Net cash (outflow)/inflow from financing activities	(12,173)	9,935
Increase in cash and cash equivalents	12,778	23,523
Cash and cash equivalents at the beginning of the year	54,315	30,792
Cash and cash equivalents at the end of the year	67,093	54,315
Analysis of balances of cash and cash equivalents		
Bank balances and cash	67,093	54,315

1. GENERAL

The Company was incorporated in the Cayman Islands on 12th April, 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 17th February, 2003. Details of the Reorganisation are set out in the prospectus issued by the Company dated 28th February, 2003. The shares of the Company were listed on the Stock Exchange on 12th March, 2003.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31st March, 2003 have been prepared on a merger accounting basis in accordance with Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants ("HKSA").

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 13.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKSA, the term of HKFRS is inclusive of SSAP and Interpretations approved by the HKSA.

Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this standard has had no material effect on the results for the prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received or receivable.

Property, plant and equipment

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

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Leasehold improvements	Shorter of expected useful life or over the unexpired period of the leases
Plant and machinery	30%
Furniture and fixtures	20%
Motor vehicles	30%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as revaluation increase under that SSAP.

Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises raw materials, direct labour, subcontracting costs and an appropriate proportion of all production overhead expenditure. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years. And it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and 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. Such assets and liabilities are not recognised if the temporary differences arises from goodwill or negative goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Retirement benefit scheme contributions

Payments to retirement benefit schemes are charged as an expense as they fall due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of overseas operations which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

Revenue recognition

Sales of goods

Sales of goods are recognised when the goods are delivered to the customers and the title has passed.

Interest income

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowance for the year.

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three major operating divisions — belts, small leather goods and leather. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Belts	—	manufacture and distribution of belts
Small leather goods	—	manufacture and distribution of small leather goods
Leather	—	trading of leather

5. SEGMENT INFORMATION (Continued)**Business segments (Continued)**

Segment information about these businesses is presented below:

	Belts HK\$'000	Small leather goods HK\$'000	Leather HK\$'000	Unallocated HK\$'000	Group HK\$'000
Year ended 31st March, 2004					
Turnover	149,535	4,340	724	—	154,599
Results					
Segment results	46,071	2,026	209	—	48,306
Unallocated revenue					524
Unallocated costs					(14,305)
Profit before taxation					34,525
Taxation					(2,912)
Profit attributable to shareholders					31,613
At 31st March, 2004					
Assets					
Segment assets	42,487	1,078	—	—	43,565
Unallocated assets					76,233
Total assets					119,798
Liabilities					
Segment liabilities	8,516	—	—	—	8,516
Unallocated liabilities					5,547
Total liabilities					14,063
Other information					
Capital expenditure	151	—	—	711	862
Depreciation	812	—	—	766	1,578

Notes to the Financial Statements

Year Ended 31st March, 2004

5. SEGMENT INFORMATION (Continued)**Business segments (Continued)**

	Belts HK\$'000	Small leather goods HK\$'000	Leather HK\$'000	Unallocated HK\$'000	Group HK\$'000
Year ended 31st March, 2003					
Turnover	147,788	4,850	1,790	—	154,428
Results					
Segment results	47,116	2,110	421	—	49,647
Unallocated revenue					302
Unallocated costs					(11,877)
Profit before taxation					38,072
Taxation					(3,065)
Profit attributable to shareholders					35,007
At 31st March, 2003					
Assets					
Segment assets	33,453	168	—	—	33,621
Unallocated assets					61,607
Total assets					95,228
Liabilities					
Segment liabilities	4,415	—	—	—	4,415
Unallocated liabilities					4,518
Total liabilities					8,933
Other information					
Capital expenditure	2,544	—	—	4,243	6,787
Depreciation	621	—	—	798	1,419

5. SEGMENT INFORMATION (Continued)

Geographical segments

The Group's operations are principally located in Hong Kong and the PRC. Group administration is carried out in Hong Kong and the manufacturing function is carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market and analysis of total assets and capital expenditure by the geographical area in which the assets are located.

	Year ended 31st March, 2004		
	Turnover HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Japan	84,234	—	—
Europe	21,122	—	—
The United States of America ("USA")	16,187	—	—
Hong Kong	13,772	86,930	272
The People's Republic of China, other than Hong Kong ("PRC")	7,376	22,648	590
Others	11,908	10,220	—
	154,599	119,798	862

	Year ended 31st March, 2003		
	Turnover HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Japan	86,564	—	—
Europe	24,470	—	—
USA	21,553	—	—
Hong Kong	14,998	76,969	411
PRC	344	18,259	6,376
Others	6,499	—	—
	154,428	95,228	6,787

6. PROFIT BEFORE TAXATION

	The Group	
	2004 HK\$'000	2003 HK\$'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	250	600
Cost of inventories sold		
— material costs	81,049	79,315
— production overheads	21,622	20,809
Depreciation of property, plant and equipment	1,578	1,419
Loss on disposal of property, plant and equipment	—	43
Operating lease rentals in respect of land and buildings	3,465	2,862
Provision for bad debts	42	9
Provision for obsolete inventories	467	122
Staff costs, excluding directors' emoluments		
— Wages, salaries and allowances	5,794	5,030
— Retirement benefit scheme contributions	239	240
and after crediting		
Unrealised holding gain on other investment	121	—

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' emoluments**

	2004 HK\$'000	2003 HK\$'000
Directors' fees	100	8
Other emoluments:		
— Basic salaries and allowances	2,760	1,518
— Retirement benefit scheme contributions	60	60
	2,920	1,586

Directors' emoluments disclosed above include HK\$100,000 (2003: HK\$8,000) paid to independent non-executive directors.

The emoluments received by each of the five directors were below HK\$1,000,000 for each of the two years ended 31st March, 2004.

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2003: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2003: two) individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries and allowances	644	653
Bonuses	15	15
Retirement benefit scheme contributions	24	24
	683	692

The emoluments of each remaining individual were below HK\$1,000,000 for each of the two years ended 31st March, 2004.

- (c) During the year, no emoluments (2003: Nil) have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8. TAXATION

	2004 HK\$'000	2003 HK\$'000
Current tax		
— Hong Kong Profits Tax	2,906	2,980
Overprovision in prior years	—	(42)
Deferred tax (note 19)		
— Current year	(15)	127
— Attributable to change in tax rate	21	—
	2,912	3,065

Hong Kong Profits Tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year.

8. TAXATION (Continued)

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary is entitled to exemption from PRC income tax for two years commencing from their first profit-making year of operation and entitled to a 50% relief from the PRC income tax for the following three years.

No provision for the PRC income tax has been made for the Group's PRC subsidiary as it was exempt from the income tax for its first profitable year of operation.

The taxation for the year is reconciled to the profit before taxation per income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	34,525	38,072
Tax at the domestic income tax rate of 17.5% (2003: 16%)	6,042	6,092
Tax effect of expenses that are not deductible in determining taxable profit	(11,876)	(12,163)
Tax effect of income that is not taxable in determining taxable profit	8,725	9,178
Overprovision in prior years	—	(42)
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	21	—
Taxation for the year	2,912	3,065

9. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Final, proposed, of HK\$0.018 (2003: HK\$0.04) per ordinary share (note (a))	5,733	12,577
2004 interim dividend of HK\$0.018 per ordinary share (2003: note (b))	5,733	21,000
	11,466	33,577

9. DIVIDENDS (Continued)

- (a) At a board meeting held on 9th July, 2004, the directors proposed a final dividend of HK\$0.018 per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31st March, 2005.

The amount of proposed final dividend is based on 318,500,000 shares in issue as at 9th July, 2004.

- (b) The rate of dividend and the number of shares ranking for 2003 interim dividends are not presented as such information is not meaningful for the purpose of this financial statements.

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$31,613,000 (2003: HK\$35,007,000) and the weighted average of 315,534,907 (2003: 245,961,589) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year is based on the Group's profit attributable to shareholders of HK\$31,613,000 and the weighted average number of 316,148,574 ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 315,534,907 ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 613,667 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

Diluted earnings per share for the year ended 31st March, 2003 has not been presented as there were no dilutive instrument at 31st March, 2003.

11. PROPERTY, PLANT AND EQUIPMENT**The Group**

	Plant and machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1st April, 2003	4,258	2,752	3,644	450	11,104
Additions	151	260	451	—	862
At 31st March, 2004	4,409	3,012	4,095	450	11,966
Depreciation					
At 1st April, 2003	1,577	1,122	677	296	3,672
Provided for the year	812	378	342	46	1,578
At 31st March, 2004	2,389	1,500	1,019	342	5,250
Net book value					
At 31st March, 2004	2,020	1,512	3,076	108	6,716
At 31st March, 2003	2,681	1,630	2,967	154	7,432

12. INVENTORIES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Raw materials	13,905	16,498
Work in progress	3,172	1,872
Finished goods	656	415
	17,733	18,785

At 31st March, 2004 and 2003, all the inventories were carried at cost.

13. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	48,181	48,181

Details of the Company's subsidiaries at 31st March, 2004 are as follows:

Name	Place of incorporation and form of legal entity	Principal activities and place of operation	Particulars of issued share capital and registered capital	Interest held
Directly held:				
Chanco International Holding Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	Ordinary shares US\$1,000	100%
Indirectly held:				
Sun Ray Manufactory, Limited	Hong Kong, limited liability company	Manufacturing and trading of leather accessories in Hong Kong	Non-voting deferred shares HK\$6 Ordinary shares HK\$2	100%
Elite Leatherware Company Limited	Hong Kong, limited liability company	Trading of leather accessories in Hong Kong	Ordinary shares HK\$10,000	100%
Talent Union Development Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	Ordinary shares US\$8	100%
Dongguan Ngai Luen Leather Goods Company Limited	PRC, wholly foreign owned enterprise with limited liability	Manufacturing and trading of leather accessories in the PRC	Registered capital HK\$2,000,000	100%

Notes to the Financial Statements

Year Ended 31st March, 2004

14. TRADE RECEIVABLES

Customers are generally granted with credit terms of 30 to 90 days. Longer payment terms might grant to those customers which have good payment history and long-term business relationship with the Group. Details of the ageing analysis are as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Current to 30 days	15,746	10,078
31–60 days	1,760	1,394
61–90 days	1,136	340
91–120 days	208	12
121–365 days	98	331
Over 365 days	168	—
	19,116	12,155

15. OTHER INVESTMENT

	The Group and the Company	
	2004	2003
	HK\$'000	HK\$'000
Open-ended mutual funds with guaranteed return, stated at quoted market price	7,940	—

16. AMOUNTS DUE FROM SUBSIDIARIES

The amounts were unsecured, interest-free and had no fixed terms of repayment.

17. AMOUNTS DUE FROM SHAREHOLDERS

Particulars of amounts due from shareholders are as follows:

	The Group and the Company		
	Maximum amount outstanding during the year HK\$'000	2004 HK\$'000	2003 HK\$'000
Name of shareholders			
Leopark Worldwide Inc. (note (a) & (b))	420	—	420
New Paramount Profits Limited (note (a) & (c))	489	—	489
		—	909

- (a) The amounts due from shareholders were unsecured, interest-free and had no fixed terms of repayment.
- (b) A director of the Company, Mr. Chan King Hong Edwin, has beneficial interests in Leopark Worldwide Inc.
- (c) A director of the Company, Mr. Chan King Yuen Stanley, has beneficial interests in New Paramount Profits Limited.

18. TRADE PAYABLES

Details of the ageing analysis are as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Current to 30 days	5,320	3,201
31–60 days	2,276	1,152
61–90 days	151	10
91–120 days	424	52
121–365 days	317	—
Over 365 days	28	—
	8,516	4,415

19. DEFERRED TAXATION

The following are the major deferred tax liabilities provided by the Group and movements thereon:

	Accelerated tax depreciation HK\$'000	Others HK\$'000	Total HK\$'000
The Group			
At 1st April, 2002	96	—	96
Charge to the income statement	127	—	127
At 31st March, 2003	223	—	223
Effect of changes in tax rate charge to income statement for the year	21	—	21
(Credit)/charge to the income statement for the year	(49)	34	(15)
At 31st March, 2004	195	34	229

The Group and the Company had no significant unprovided deferred taxation for the year or at the balance sheet date (2003: Nil).

20. SHARE CAPITAL

	The Company	
	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 12th April, 2002 (date of incorporation) (note (a))	38,000,000	380
Increase on 18th February, 2003 (note (d))	1,962,000,000	19,620
At 31st March, 2003 and 2004	2,000,000,000	20,000
Issued and fully paid:		
At 12th April, 2002 (date of incorporation)	—	—
Issue of shares (note (b), (c))	1,000,000	10
Capitalisation Issue (note (e))	241,004,000	2,410
Issue of shares upon placing and public offer (note (f))	65,660,000	657
At 31st March, 2003	307,664,000	3,077
Exercise of share options	10,836,000	108
At 31st March, 2004	318,500,000	3,185

Notes:

- (a) The Company was incorporated in the Cayman Islands on 12th April, 2002 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.
- (b) On 2nd May, 2002, 1,000 shares of HK\$0.01 each were allotted and issued as nil-paid.
- (c) On 17th February, 2003, the Company acquired the entire issued capital of Chanco International Holding Limited ("Chanco") and in consideration thereof (i) an aggregate of 999,000 shares of HK\$0.01 each, credited as fully paid, were allotted and issued to then shareholders of Chanco; and (ii) the aggregate of 1,000 shares allotted and issued as nil-paid were credited as fully-paid up at par (note 20(b)).
- (d) On 18th February, 2003, the authorised share capital of the Company was increased to HK\$20,000,000 by creation of an additional 1,962,000,000 shares of HK\$0.01 each.
- (e) On 18th February, 2003, 241,004,000 shares of HK\$0.01 each were allotted and issued at par, credited as fully paid to the then shareholders in proportion to their respective shareholding on the register of members of the Company at the date of business on 17th February, 2003 by way of the capitalisation of the share premium of the Company (the "Capitalisation Issue").
- (f) On 10th March, 2003, 65,660,000 shares of HK\$0.01 each were issued to the public at HK\$0.6 each for cash totaling HK\$39,396,000. The excess over the par value of the shares issued was credited to the share premium.

21. SHARE OPTIONS

- (a) Under the share option scheme (the "Share Option Scheme") approved by the shareholders on 18th 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 day business days immediately preceding the Offer Date. The options are exercisable within 10 years from the Offer Date.

Details of the movements in share options during the year ended 31st March, 2004 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1st April, 2003	Number of share options				Outstanding as at 31st March, 2004	Exercisable period	Exercise price per share
			Granted	Exercised	Cancelled	Lapsed			
(a) Executive directors									
Chan King Hong Edwin	24th Sept, 2003	—	3,181,200 (Note ii)	—	—	—	3,181,200	24th Sept, 2003– 23rd Sept, 2013	0.830
Chan King Yuen Stanley	24th Sept, 2003	—	3,181,200 (Note ii)	—	—	—	3,181,200	24th Sept, 2003– 23rd Sept, 2013	0.830
Chan Wai Po Rebecca	24th Sept, 2003	—	3,181,200 (Note ii)	—	—	—	3,181,200	24th Sept, 2003– 23rd Sept, 2013	0.830
(b) Employees, in aggregate									
	26th May, 2003	—	8,352,000 (Note i)	7,836,000	—	—	516,000	26th May, 2003– 25th May, 2013	0.580
	24th Sept, 2003	—	6,362,400 (Note ii)	—	—	—	6,362,400	24th Sept, 2003– 23rd Sept, 2013	0.830
(c) Others, in aggregate									
	26th May, 2003	—	6,000,000 (Note i)	3,000,000	—	—	3,000,000	26th May, 2003– 25th May, 2013	0.580
Total			30,258,000	10,836,000	—	—	19,422,000		

21. SHARE OPTIONS (Continued)

Notes:

- (i) The closing price of the shares of the Company immediately before 26th May, 2003 at which the share options were granted was HK\$0.580.
- (ii) The closing price of the shares of the Company immediately before 24th September, 2003 at which the shares options were granted was HK\$0.800.
- (iii) The weighted average of the closing prices of the shares immediately before the dates on which the options were exercised was approximately HK\$0.73.
- (iv) All the options were immediately vested upon granted.
- (v) The share options granted under the Share Option Scheme are not recognised in the financial statements until they are exercised.

The Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

22. RESERVES

	Notes	Share premium HK\$'000	The Company Share issuance costs HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At incorporation 12th April, 2002		—	(1,610)	—	(1,610)
Profit for the period from 12th April, 2002 (date of incorporation) to 31st March, 2003		—	—	12,987	12,987
Surplus on Reorganisation	22(a)	48,171	—	—	48,171
Capitalisation Issue	20(e)	(2,410)	—	—	(2,410)
Premium on issue of shares upon placing and public offer	20(f)	38,739	—	—	38,739
Share issuance costs		—	(8,461)	—	(8,461)
Transfers		(10,071)	10,071	—	—
At 31st March, 2003		74,429	—	12,987	87,416
Profit attributable to shareholders		—	—	11,493	11,493
2003 final dividend paid		—	—	(12,725)	(12,725)
Interim dividend paid		—	—	(5,733)	(5,733)
Exercise of share options		6,177	—	—	6,177
At 31st March, 2004		80,606	—	6,022	86,628
Representing:					
Reserves					74,839
2003 final dividend proposed					12,577
At 31st March, 2003					87,416
Reserves					80,895
2004 final dividend proposed					5,733
At 31st March, 2004					86,628

22. RESERVES (Continued)

- (a) Surplus on Reorganisation represents the difference between the par value of the Company's shares issued in exchange for the aggregate net assets value of the subsidiaries acquired at the time of the Reorganisation. Under the Companies Law, the share premium is available for distribution to shareholders, subject to the provisions of the Articles of Association of the Company and no distribution or dividend may be paid to the shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in ordinary course of business.

23. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31st March, 2004 amounted to approximately HK\$1 million (2003: Nil).

24. CAPITAL COMMITMENTS

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	—	113

The Company had no capital commitment at the balance sheet date.

25. OPERATING LEASES COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	3,102	3,462
In the second to fifth years inclusive	20	260
	3,122	3,722

Operating lease payments represent rental payable by the Group for its offices and production plants. Leases are negotiated and rentals are fixed for an average term of one to two years.

The Company had no operating lease commitments at the balance sheet date.

26. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	240	220

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

Rentals are payable at HK\$20,000 per month in accordance with the terms of the tenancy agreements signed by the Group and the related parties. The directors are of the opinion that the leasing transactions are conducted in the ordinary course of business.

Details of balances with related parties at the balance sheet date are set out in the balance sheets and in notes 16 and 17.

54 Five Year Financial Summary

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

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Results					
Profit attributable to shareholders	31,613	35,007	41,748	12,951	19,700
Assets and liabilities					
Total assets	119,798	95,228	56,712	35,515	30,323
Total liabilities	(14,063)	(8,933)	(15,359)	(13,300)	(7,559)
Shareholders' funds	105,735	86,295	41,353	22,215	22,764

The results, assets and liabilities of the Group for each of the four years ended 31st March, 2003 have been prepared on the basis of merger accounting as if the group structure which became effective on 17th February, 2003, had been in existence throughout the four years then ended.