



CHANCO INTERNATIONAL GROUP LIMITED

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

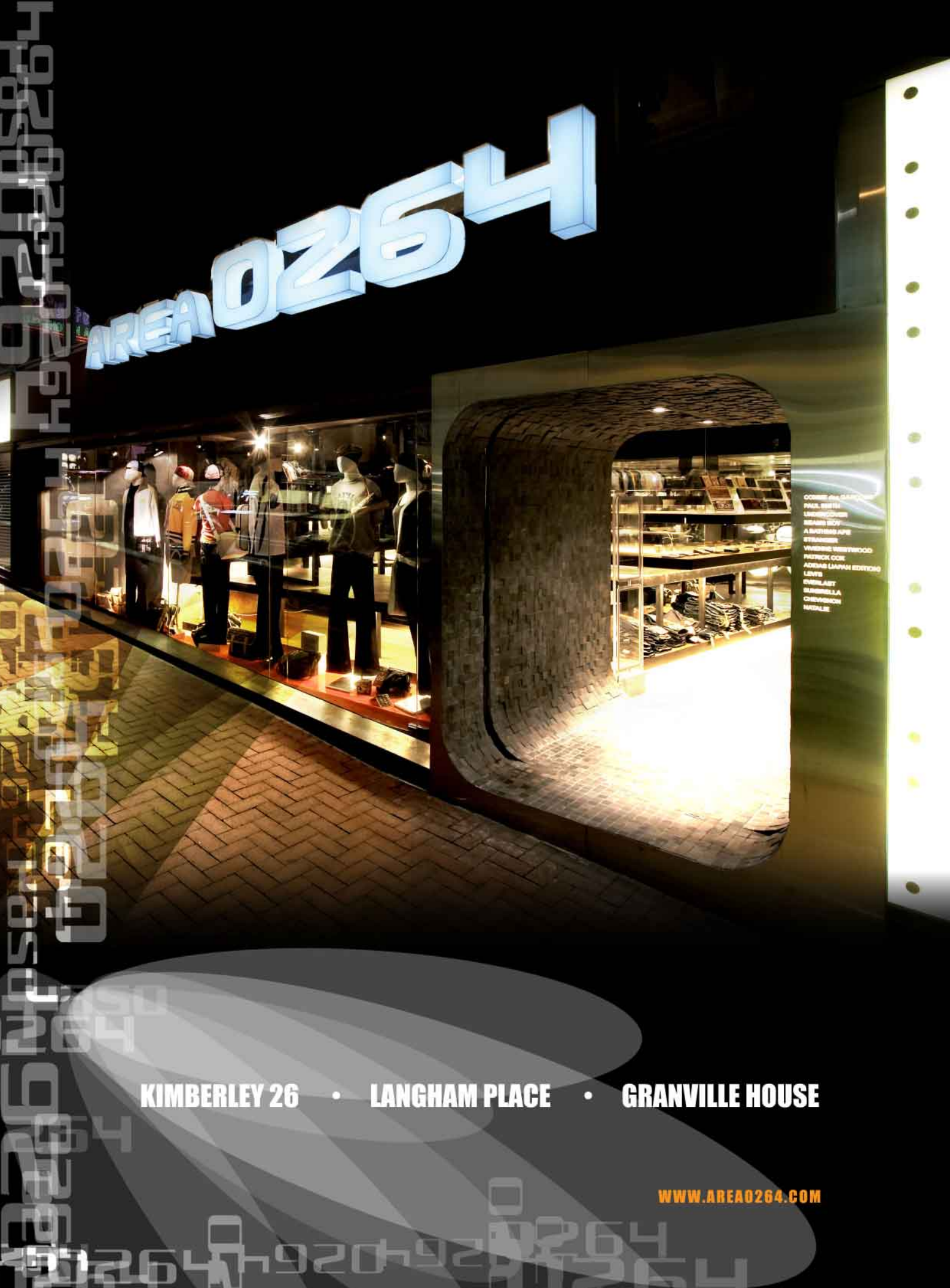


0264

THE PREMIER DESIGNER & MANUFACTURER OF
QUALITY LEATHER ACCESSORIES

ANNUAL REPORT 2005

AREA 0264



COBBE (PA) GARDEN
PAUL SMITH
LACOSTE
REISS BOY
A BURBERRY
FRANCO
VIRGINE MONTWOOD
PATRICK COLE
ADIDAS (LAPPA) EDITION
LEVIS
EVERETT
BURBERRY
CHEVROLET
MIDDLE

KIMBERLEY 26 • LANGHAM PLACE • GRANVILLE HOUSE

WWW.AREA0264.COM

Contents

Corporate information	2
Financial Highlights	3
Chairman's statement	4-5
Management Discussion & Analysis	6-8
Biographical details of directors and senior management	9-11
Directors' report	12-21
Auditors' report	22
Consolidated Income Statement	23
Consolidated Balance Sheet	24
Balance Sheet	25
Consolidated Statement of Changes in Equity	26
Consolidated Cash Flow Statement	27
Notes to the Financial Statements	28-51
Five Year Financial Summary	52

Corporate Information

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

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Lau Wai Hung *ACCA CPA*

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
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

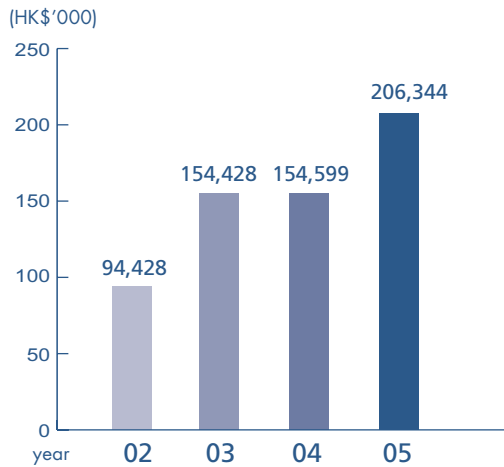
www.chancogroup.com

STOCK CODE

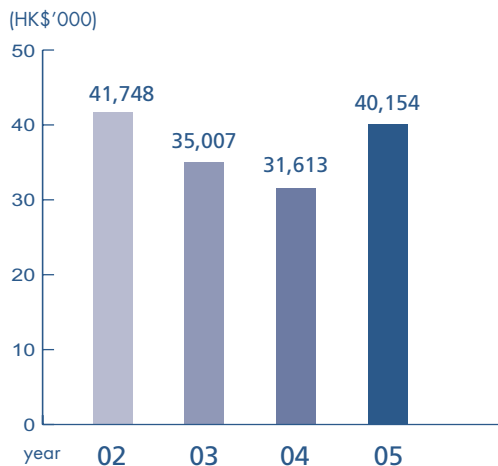
264

Financial Highlights

Turnover

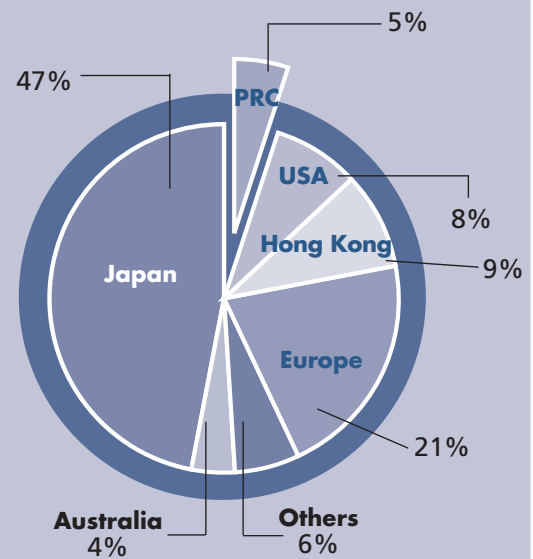


Profit attributable to shareholders



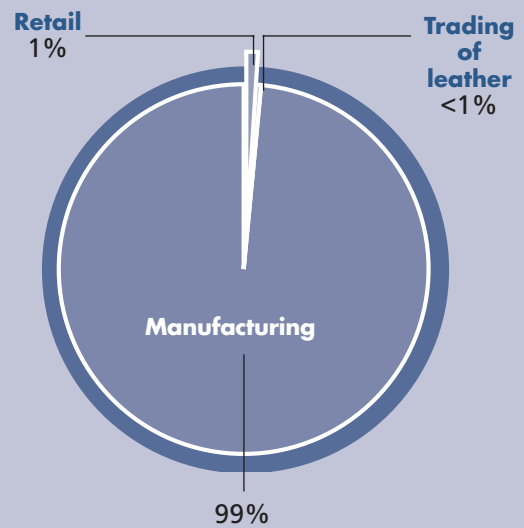
Turnover by geographical segment

For the year ended 31st March, 2005



Turnover by business segment

For the year ended 31st March, 2005



Chairman's Statement

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, 2005.

With the dedicated efforts of our working team and earnest support from our long term customers, in fiscal 2005, the Group recorded a satisfactory growth in turnover for the third consecutive year since its listing in the Hong Kong stock market in 2003 and reached the highest turnover in the Group's history amounted to approximately HK\$206 million (2004: HK\$155 million), representing an upsurge of 33% as compared to that of last year. Profit attributable to shareholders increased by 27% to nearly HK\$40 million. Basic earnings per share was approximately HK12.61 cents as compared to HK10.02 cents recorded in fiscal 2004. Since our listing in 2003, we are proud of being able to reciprocate our shareholders for their committed support by paying dividend to them every year, for the year ended 31 March 2005, the Board recommends the payment of a final dividend of HK2.2 cents per share.

BUSINESS REVIEW

Fiscal 2005 is a remarkable year for the Group. The presentable performance of the Group in fiscal 2005 was a result of the successful implementation of our prudent strategies in expanding the OEM and ODM export. As the global economy has been picking up strongly in the reviewing year, we recorded growth in every of our export market.

OEM and ODM manufacturing remained as the core revenue contributor to the Group in fiscal 2005. As a leading manufacturer of leather accessories in the global market possesses over two decades of history, the Group gained a solid reputation as a premier designer and manufacturer of quality leather accessories and recorded a growth in sales of 33% to HK\$204 million. In fiscal 2005, export sales to Japan, Europe and Australia increased substantially and our second largest export market, Europe, marked the strongest growth in the reviewing year.

In view of the reviving retail market, the Group has commenced its retail business under the strong market condition. The first retail store AREA 0264 opened at Langham Place in Mongkok in November 2004 is a modern and unique image brand store targeting dynamic youth who keen to purchase unusual stylish products. The store not only displaying full collection of the Group's own brand, Stranger, but also various trendy brands from Japan, Europe and the U.S.

FUTURE PROSPECTS

With high standard of quality of our products, Chanco has firmly grasped its competitive place in the global leather accessories market. Looking forward, the management team is optimistic towards the OEM and ODM businesses in the coming year. Initial order placed by new customers with extensive retail network over Europe and the U.S. is satisfactory.

Chairman's Statement

Our export sales are mainly settled in U.S dollars and less than 6% of overall sales was denominated in Euro. The possible impact of Euro depreciation is insignificant to us. On the other hand, the price of genuine leather imported from Italy is likely to have a downward adjustment. Up to now, the labor supply in Dongguan has been back to normal and the rising labor cost is stabilized. To cope with the increasing orders in future, we have to further expand the manpower in our Dongguan factories so as to minimize outsourcing volume as to attain better economies of scale.

As a leading manufacturer of leather accessories, the Group intends to devoted more resources to expand the business of manufacturing of handbags and backpacks. And the Group is going to expand the production plant and establish another production line for making bags. It is anticipated that Stranger's bags will take a part of the market share in the local retail market. In addition, the Group is planning to develop a wholesaling network of Stranger's products in overseas market. Apart from these, the Group is pursuing diversification of OEM and ODM business by way of making bags for our existing international brand's customer.

Chanco is pursuing opportunities for growth on multiple fronts. We believe strong brand will deliver high-margin growth to the top-line. To capture a higher profit margin, we created our own brand and tried to manufacture products through our own production capacity. In May 2005, we opened our flagship store at Kimberley 26, Tsimshatsui that carries more brands and products.

Looking into the second half of 2005 with confidence, Hong Kong, the PRC and even the overseas markets will continue the stable and continuous growth. The opening of Disney and the influx of mainland tourist present the Group with rich business opportunities. Despite the optimistic retail market in Hong Kong, in view of the fast ascending rental price, the management decides to slow down the pace of retail expansion and will carefully select new retail premise which must be of very reasonable rental price, or seek for growth base on our existing market coverage until the rental price slides back to an acceptable level. The strategy of the Group in developing retail business in the initial stage is to focus resources on product design and brand building and in the next stage, launch one or more brands with unique images and different price points to the market in order to enlarge market share.

APPRECIATION

On behalf of the Board, I would like to express my appreciation to our business partner, customers and shareholders for their enduring support and confidence to the Group. Also, I would like to thank our management and every of our staff for their concerted efforts and devoted contribution in pursuing a sustainable growth for the Group.

Chan King Hong Edwin

Chairman

Hong Kong, 18 July, 2005

Management Discussion and Analysis

FINANCIAL REVIEW

(All the analysis below is based on the results of the Group for the year ended 31 March 2005 and the year ended 31 March 2004 for comparison purpose only)

In fiscal 2005, we achieved the highest turnover in our history. The operating result was strong and encouraging. The Group's turnover increased from approximately HK\$155 million to approximately HK\$206 million, representing an increase of 33% as compared to that of last year. Gross profit increased by 31% to HK\$68 million while the gross profit margin maintained at approximately 33% (2004: 34%).

The selling and distribution expenses of the Group for the year ended 31st March 2005 increased to approximately HK\$7 million as a result of the upsurge in selling expenses for retail operation. The administrative and other operating expenses increased by 28% to HK\$18 million compared to approximately HK\$14 million of last year. The rise was mainly attributable to the expanded manpower and increased staff remuneration.

Profit attributable to shareholders increased by 27% to nearly HK\$40 million in fiscal 2005. The basic earnings per share was approximately HK12.61 cents as compared to HK10.02 cents recorded in fiscal 2004.

The Board has recommended the payment of a final dividend of HK2.2 cents per share for the year ended 31st March 2005. An interim dividend of HK2 cents per share was paid by the Company in 2004, making a total dividend payout ratio of around 33 % for the year ended 31 March 2005.

GEOGRAPHICAL REVIEW

Japan continued to be the largest export market of the Group which mainly led by the increasing sales of ladies belts to the key customer in Japan. Despite reduced orders from small trading companies, the total export sales to Japan still rose to approximately HK\$98 million, representing a growth of 16% as compared to that of last year.

In fiscal 2005, the Group reported an encouraging result in the export sales to Europe which accounted for 21% of the Group's total turnover. Export sales to Germany in the reviewing year rose in line with key international brand customer's continuing growth in their local retail business while the growing maturity in the business relationship with some famous brand customers in United Kingdom, Netherlands and France has also become a key driver of sales in Europe.

For U.S. market, the export sales remained constant of about HK\$17 million as compared with that of fiscal 2004.

As one of the best performing market in fiscal 2005, Australia has become a growing market of the Group's OEM and ODM business. Sales to Australia surged from HK\$4 million to HK\$9 million for the year ended 31 March 2005, representing an increase of approximately 125%.

Looking into Hong Kong and the PRC regions, sales in Hong Kong rose to HK\$18 million representing around 31% growth over fiscal 2004. The growth was mainly due to the organic growth of manufacturing business and revenue contribution from the Group's new retail operation in Hong Kong established since November 2004.

Management Discussion and Analysis

Driven by the increased sales orders from reputable brand customers in the second half of fiscal 2005, the sales to the PRC market rose by 29% to HK\$9 million.

Apart from the major export markets and the fast emerging local retail market, sales revenue from other countries including Canada, Taiwan, Philippines, Singapore and Malaysia, etc. rose approximately 64%, to HK\$12 million in fiscal 2005.

BUSINESS REVIEW

Chanco's business is going diversified, consists of OEM and ODM manufacturing of belts and leather accessories targeting international brand customers and the newly developed retail business in Hong Kong which focuses on selling unisex and young fashion items to teenagers.

- **MANUFACTURING BUSINESS**

Manufacturing business remained as the core revenue contributor of the Group. Turnover of the manufacturing business grew by 32% to HK\$204 million (2004: HK\$154 million). The global market condition was better off in fiscal 2005. Sales orders from international brand customers with long-term relationship recorded surge. After over two decades of business expansion, the Group has already established a solid reputation as premier designer and manufacturer of quality leather accessories in the global market which partly reflected in our accumulating referral orders referred by our existing customers.

In the reviewing year, revenue from manufacturing of belts increased from approximately HK\$149 million to approximately HK\$197 million,

representing a growth of 32%. Sales of leather goods recorded a revenue of approximately HK\$7 million in fiscal 2005, representing approximately 62% increase over last year. However, facing the rise in labor cost and outsourcing volume, our gross profit margin could only maintained at approximately 33% in fiscal 2005.

- **RETAIL BUSINESS**

As the Group's maiden step breaking into the local retail market, the Group's first retail store AREA 0264 was successfully opened in November 2004 at Langham Place. Even though the retail shops has recorded a net loss of approximately HK\$820,000 after taken the initial investment into account, the Group has been on the right track of development and is confident towards the large room for growth in the future.

AREA 0264 is a multi-brand store with modern and unique image. AREA 0264 not only displaying full collection of Stranger's products, including jackets, T-shirts, handbags, backpacks, belts and wallets, but also incorporating various trendy and popular brands from Japan, Europe and the U.S. During the year under review, products sold under own brandname – STRANGER accounted for approximately 45% of the Group total retail sales. The retail gross profit margin of own brand products was approximately 69% while the gross profit margins of third-party brands products ranged from 15% – 80%. The Group managed to review the sales mix periodically in order to satisfy the ever-changing needs of dynamic youngsters who seek for unusual stylish products.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st March 2005, the Group's cash and bank deposits were approximately HK\$90 million (2004: HK\$67 million).

As at 31st March 2005, 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\$145 million as at 31st March 2005 (2004: HK\$113 million) and total current liabilities of approximately HK\$20 million (2004: HK\$14 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 7 times as at 31 March 2005 (2004: 8 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\$106 million as at 31st March 2004 to approximately HK\$134 million at 31st March 2005. The increase was mainly attributable to 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 contracts, the Group's exposure to 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 2005.

EMPLOYEE INFORMATION

As at 31st March 2005, the Group had 38 full time employees in Hong Kong and 93 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

As at 31 March 2005, the Group did not have any contingent liabilities.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. CHAN King Hong Edwin, aged 47, 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 44, 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 41, 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 65, 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 62, 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.

Biographical Details of Directors and Senior Management

Mr. OR Kam Chung, Janson, aged 35, 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 Institute of Certified Public Accountant. Mr. Or obtained a Higher Diploma in Accountancy from the City University of Hong Kong in 1995. Mr. Or has over 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 40, 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 29, is the financial controller, qualified accountant and the company secretary of the Company. Mr. Lau is responsible for overseeing the financial and the company secretarial functions of the Group. 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 Institute of Certified Public Accountants. Mr. Lau has over 7 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 49, 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 41, 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 6 years of experience in the leather industry. He joined the Group in 1995.

Mr. WU Wai Luk, aged 37, 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.

Biographical Details of Directors and Senior Management

Mr. FUNG Kin, aged 40, is the administration manager of the Group. Mr. Fung is responsible for the general administration and human resource management of the Group's factory 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. Hui Kwok Fai, aged 34, 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 12 years of experience in product development and brand building. Prior to joining the Group, Mr. Hui had worked as product designer of Tough Jeans Ltd. and had successfully build up the distribution network for TOUGH bags and other accessories product to Japan, Singapore, Malaysia, Thailand, Germany, Italy, Spain and Australia. He joined the Group in October 2003.

Report of the Directors

The directors (the "Directors") are pleased to present their report together with the audited financial statements of Chanco International Group Limited (the "Company") and its subsidiaries (collectively refer to the "Group") for the year ended 31st March, 2005.

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, 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 51.

The Directors recommended the payment of a final dividend of HK2.2 cents per ordinary share to shareholders whose names appear in the register of members of the Company on 25th August, 2005. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about 2nd September, 2005.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 21 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 19 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March, 2005, amounted to HK\$87.7 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 overdrafts at 31st March, 2005.

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 52.

Report of the Directors

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

In accordance with Article 87 of the Company's Articles of Association, Ms. Chan Wai Po Rebecca shall retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer herself 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 and renewable automatically for successive terms of one year, until terminated by not less than six months' notice in writing served by either party on the other.

Ms. Chau Cynthia Siu Ha and Mr. Fong Pui Sheung David are independent non-executive directors. They entered into service contracts with the Company for an initial term of two years commencing from 1st March, 2003. On 26th February, 2005, their contracts were renewed for a two-year term expiring on 28th February, 2007.

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, no directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31st March, 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

LONG POSITIONS

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

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Chan King Hong Edwin	Interest of a controlled corporation	47,727,352 <i>(Note 1 (a))</i>	
	Beneficial owner	<u>4,000,000</u>	
		<u>51,727,352</u>	16.24
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 <i>(Note 2)</i>	
	Beneficial owner	<u>4,620,000</u>	
		<u>52,347,352</u>	16.44
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 <i>(Note 3)</i>	12.31

Report of the Directors

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

(b) Share options

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

Notes:

- 1(a) 47,727,352 shares are held by Leopark Worldwide Inc., a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Hong Edwin.
- 1(b) An option to subscribe for 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, none of the directors, chief executives and their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31st March, 2005.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2005, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 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	Percentage 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	51,727,352 (Note iii)	16.24
Chelverton Dividend Income Fund Limited	Investment manager	16,112,000	5.06

(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

Report of the Directors

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors' interests in shares and underlying shares" above.
- (ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man. 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) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong Edwin and 4,000,000 shares are held 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, 2005.

SHARE OPTIONS

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.

Report of the Directors

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.

Report of the Directors

SHARE OPTIONS *(Continued)*

There were no movements in share options during the year ended 31st March, 2005. Details of share options outstanding at 31st March, 2005 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1st April, 2004 and 31st March, 2005	Exercisable period	Exercise price per share
(a) Executive directors				
Chan King Hong Edwin	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
Chan King Yuen Stanley	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
Chan Wai Po Rebecca	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
(b) Employees, in aggregate				
	26th May, 2003	516,000	26th May, 2003 – 25th May, 2013	0.580
	24th Sept, 2003	6,362,400	26th May, 2003 – 25th May, 2013	0.830
(c) Others, in aggregate				
	26th May, 2003	3,000,000	26th May, 2003 – 25th May, 2013	0.580
Total		<u>19,422,000</u>		

Notes:

- (i) All the options were immediately vested upon granted.
- (ii) The share options granted under the Share Option Scheme are not recognised in the financial statements until they are exercised.

Report of the Directors

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

Purchases

– the largest supplier	11%
– five largest suppliers combined	44%

Sales

– the largest customer	41%
– five largest customers combined	60%

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, 2005, which constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2005 with the Code of Best Practice as set out in Appendix 14 of the Rules.

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the year ended 31st March, 2005.

The Company has received from each of the independent non-executive directors an annual written confirmation of independence pursuant to rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors as independent.

Report of the Directors

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 for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) and in compliance with the Code of Best Practice set out in Appendix 14 to the Listing Rules.

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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year.

AUDITORS

Except for the year ended 31st March, 2003, in which PricewaterhouseCoopers and KLL Associates CPA Limited ("KLL") acted as joint auditors of the Company, KLL have acted as auditors of the Company for the past three years.

KLL will retire as auditors of the Company at the forthcoming annual general meeting (the "AGM"). The practice of KLL will merge with BDO McCabe Lo Limited ("BDO") on 1st August 2005. Accordingly, a resolution for appointing BDO as auditors of the Company will be put at the AGM.

On behalf of the Board

Chan King Hong Edwin

Chairman

Hong Kong, 18th July, 2005

Report of Auditors



KLL ASSOCIATES CPA LTD

華融會計師事務所有限公司

29th Floor, Wing On Centre,
111 Connaught Road Central,
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 23 to 51 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 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 Institute of Certified Public 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 judgments 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, 2005 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.

KLL Associates CPA Limited

Certified Public Accountants (Practising)

Lee Ka Leung, Daniel

Practising Certificate Number P01220

Hong Kong, 18th July, 2005

Consolidated Income Statement

FOR THE YEAR ENDED 31ST MARCH, 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Turnover	4	206,344	154,599
Cost of sales		(138,228)	(102,671)
Gross profit		68,116	51,928
Other income		1,105	524
Selling and distribution costs		(7,143)	(3,622)
Administrative and other operating expenses		(18,287)	(14,305)
Profit before taxation	6	43,791	34,525
Taxation	8	(3,637)	(2,912)
Profit attributable to shareholders		40,154	31,613
Dividends	9	13,377	11,466
Earnings per share	10		
Basic		HK12.61 cents	HK10.02 cents
Diluted		HK12.60 cents	HK10.00 cents

Consolidated Balance Sheet

AT 31ST MARCH, 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Property, plant and equipment	11	<u>8,937</u>	<u>6,716</u>
Current assets			
Inventories	12	30,951	17,733
Trade receivables	14	17,914	19,116
Other receivables, deposits and prepayments		2,854	905
Other investment	15	4,162	7,940
Taxation recoverable		18	295
Bank balances and cash		89,597	67,093
		<u>145,496</u>	<u>113,082</u>
Current liabilities			
Trade payables	17	11,606	8,516
Other payables and accrued charges		8,110	5,318
Taxation payable		727	–
		<u>20,443</u>	<u>13,834</u>
Net current assets		<u>125,053</u>	<u>99,248</u>
Total assets less current liabilities		<u>133,990</u>	<u>105,964</u>
Non-current liabilities			
Deferred taxation	18	<u>204</u>	<u>229</u>
		<u>133,786</u>	<u>105,735</u>
Capital and reserves			
Share capital	19	3,185	3,185
Reserves		123,594	96,817
Proposed final dividend		7,007	5,733
		<u>133,786</u>	<u>105,735</u>

The financial statements on pages 23 to 51 were approved and authorised for issue by the board of directors on 18th July, 2005 and are signed on its behalf by:

Chan King Hong Edwin
Director

Chan King Yuen Stanley
Director

Balance Sheet

AT 31ST MARCH, 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Non-current asset			
Investments in subsidiaries	13	<u>48,181</u>	<u>48,181</u>
Current assets			
Other receivables		109	109
Other investment	15	4,162	7,940
Amounts due from subsidiaries	16	36,900	33,003
Bank balances and cash		<u>1,547</u>	<u>590</u>
		<u>42,718</u>	<u>41,642</u>
Current liabilities			
Accrued charges		<u>16</u>	<u>10</u>
Net current assets			
		<u>42,702</u>	<u>41,632</u>
Capital and reserves			
Share capital	19	3,185	3,185
Reserves	21	80,691	80,895
Proposed final dividend	21	<u>7,007</u>	<u>5,733</u>
		<u>90,883</u>	<u>89,813</u>

Chan King Hong Edwin

Director

Chan King Yuen Stanley

Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31ST MARCH, 2005

	Share capital	Share premium	Retained earnings	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As 1st April, 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
Profit attributable to shareholders	–	–	40,154	40,154
2004 final dividend paid	–	–	(5,733)	(5,733)
Interim dividend paid	–	–	(6,370)	(6,370)
At 31st March, 2005	3,185	32,435	98,166	133,786
Representing:				
Share Capital				3,185
Reserves				96,817
2004 final dividend proposed				5,733
At 31st March, 2004				105,735
Share Capital				3,185
Reserves				123,594
2005 final dividend proposed				7,007
At 31st March, 2005				133,786

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST MARCH, 2005

	2005 HK\$'000	2004 HK\$'000
Operating activities		
Profit before taxation	43,791	34,525
Adjustments for:		
Interest income	(392)	(403)
Depreciation of property, plant and equipment	2,217	1,578
Loss on disposal of property, plant and equipment	462	-
Unrealised holding gain on other investment	(217)	(121)
Realised gain on disposal of other investment	(130)	-
Operating profit before working capital changes	45,731	35,579
(Increase)/decrease in inventories	(13,218)	1,052
Increase in trade and other receivables, deposits and prepayments	(747)	(6,234)
Decrease in amounts due from shareholders	-	909
Increase in trade payables, other payables, and accrued charges	5,882	5,387
Net cash generated from operations	37,648	36,693
Hong Kong Profits Tax paid	(2,658)	(3,464)
Net cash inflow from operating activities	34,990	33,229
Investing activities		
Acquisition of property, plant and equipment	(4,900)	(862)
Interest received	392	403
Purchase of other investment	-	(7,819)
Proceeds on disposal of other investment	4,125	-
Net cash outflow from investing activities	(383)	(8,278)

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST MARCH, 2005

	2005	2004
	HK\$'000	HK\$'000
Financing activities		
Dividends paid	(12,103)	(18,458)
Issue of shares upon exercise of share options	-	6,285
	<hr/>	<hr/>
Net cash outflow from financing activities	(12,103)	(12,173)
	<hr/>	<hr/>
Increase in cash and cash equivalents	22,504	12,778
Cash and cash equivalents at the beginning of the year	67,093	54,315
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	89,597	67,093
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	89,597	67,093
	<hr/>	<hr/>

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

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. The shares of the Company were listed on the Stock Exchange on 12th March, 2003.

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

2. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of other investment. 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.

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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.

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

TAXATION

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

Current tax 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.

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.

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

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

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 than 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 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.

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

5. SEGMENT INFORMATION

BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three major operating divisions – manufacturing business, retail business and trading of leather. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- | | | |
|------------------------|---|---|
| Manufacturing business | – | manufacture and distribution of leather products |
| Retail business | – | retail of fashion apparel and leather accessories |
| Trading of leather | – | trading of leather |

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

5. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

Segment information about these businesses is presented below:

	Manufacturing business HK\$'000	Retail business HK\$'000	Trading of leather HK\$'000	Inter-segment elimination HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Year ended 31st March, 2005						
Revenue						
External	203,911	1,971	462	-	-	206,344
Inter-segment	855	-	-	(855)	-	-
	<u>204,766</u>	<u>1,971</u>	<u>462</u>	<u>(855)</u>	<u>-</u>	<u>206,344</u>
Segment results	<u>44,284</u>	<u>(820)</u>	<u>134</u>	<u>(209)</u>	<u>-</u>	<u>43,389</u>
Unallocated income						1,105
Unallocated expenses						<u>(703)</u>
Profit before taxation						43,791
Taxation						<u>(3,637)</u>
Profit attributable to shareholders						<u>40,154</u>
At 31st March, 2005						
Assets						
Segment assets	54,303	3,837	-	-	-	58,140
Unallocated assets						<u>96,293</u>
Total assets						<u>154,433</u>
Liabilities						
Segment liabilities	19,227	472	-	-	-	19,699
Unallocated liabilities						<u>948</u>
Total liabilities						<u>20,647</u>
Other information						
Capital expenditure	1,613	817	-	-	2,570	5,000
Depreciation	1,577	155	-	-	485	2,217
Loss on disposal of property, plant and equipment	-	-	-	-	462	462
Provision for bad debts	198	-	-	-	-	198
Provision for obsolete inventories	<u>526</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>526</u>

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

5. SEGMENT INFORMATION *(Continued)*

BUSINESS SEGMENTS *(Continued)*

	Manufacturing business HK\$'000	Retail business HK\$'000	Trading of leather HK\$'000	Inter-segment elimination HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Year ended 31st March, 2004						
Revenue						
External	153,875	-	724	-	-	154,599
Inter-segment	-	-	-	-	-	-
	<u>153,875</u>	<u>-</u>	<u>724</u>	<u>-</u>	<u>-</u>	<u>154,599</u>
Segment results	<u>34,559</u>	<u>-</u>	<u>209</u>	<u>-</u>	<u>-</u>	<u>34,768</u>
Unallocated income						524
Unallocated expenses						<u>(767)</u>
Profit before taxation						34,525
Taxation						<u>(2,912)</u>
Profit attributable to shareholders						<u>31,613</u>
At 31st March, 2004						
Assets						
Segment assets	42,299	-	-	-	-	42,294
Unallocated assets						<u>77,504</u>
Total assets						<u>119,798</u>
Liabilities						
Segment liabilities	13,824	-	-	-	-	13,824
Unallocated liabilities						<u>239</u>
Total liabilities						<u>14,063</u>
Other information						
Capital expenditure	151	-	-	-	711	862
Depreciation	812	-	-	-	766	1,578
Provision for bad debts	42	-	-	-	-	42
Provision for obsolete inventories	<u>467</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>467</u>

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

5. SEGMENT INFORMATION *(Continued)*

GEOGRAPHICAL SEGMENTS

The Group's operations are principally located in Hong Kong and the People's Republic of China ("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 revenue 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, 2005		
	Revenue	Total assets	Capital
	HK\$'000	HK\$'000	expenditure
	HK\$'000	HK\$'000	HK\$'000
Japan	98,039	-	-
Europe	42,784	-	-
The United States of America ("USA")	16,727	-	-
Hong Kong	18,097	116,111	3,387
PRC	9,496	32,152	1,613
Australia	8,879	-	-
Others	12,322	6,170	-
	<u>206,344</u>	<u>154,433</u>	<u>5,000</u>
	<u>206,344</u>	<u>154,433</u>	<u>5,000</u>

	Year ended 31st March, 2004		
	Revenue	Total assets	Capital
	HK\$'000	HK\$'000	expenditure
	HK\$'000	HK\$'000	HK\$'000
Japan	84,234	-	-
Europe	21,122	-	-
USA	16,187	-	-
Hong Kong	13,772	86,930	272
PRC	7,376	22,648	590
Australia	4,382	-	-
Others	7,526	10,220	-
	<u>154,599</u>	<u>119,798</u>	<u>862</u>
	<u>154,599</u>	<u>119,798</u>	<u>862</u>

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

6. PROFIT BEFORE TAXATION

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	300	250
Cost of inventories sold		
– material costs	107,569	81,049
– production overheads	30,659	21,622
Depreciation of property, plant and equipment	2,217	1,578
Loss on disposal of property, plant and equipment	462	–
Operating lease rentals in respect of land and buildings	4,226	3,465
Provision for bad debts	198	42
Provision for obsolete inventories	526	467
Staff costs, excluding directors' emoluments		
– Wages, salaries and allowances	7,328	5,794
– Retirement benefit scheme contributions	310	239
and after crediting		
Interest income	392	403
Unrealised holding gain on other investment	217	121
Realised gain on disposal of other investment	130	–

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(A) DIRECTORS' EMOLUMENTS

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Directors' fees	140	100
Other emoluments:		
Basic salaries and allowances	2,760	2,760
Retirement benefit scheme contributions	60	60
	2,960	2,920

Directors' emoluments disclosed above include HK\$140,000 (2004: HK\$100,000) paid to independent non-executive directors.

The emoluments received by each of the six directors were below HK\$1,000,000 for each of the two years ended 31st March, 2005.

(B) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include three (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: two) individuals during the year are as follows:

	2005	2004
	HK\$'000	HK\$'000
Basic salaries and allowances	890	644
Bonuses	25	15
Retirement benefit scheme contributions	24	24
	939	683

The emoluments of each remaining individual were below HK\$1,000,000 for each of the two years ended 31st March, 2005.

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

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

- (c) During the year, no emoluments (2004: 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

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Current tax		
– Hong Kong Profits Tax	3,621	2,906
– Other jurisdictions	35	–
Underprovision in prior years	6	–
Deferred tax <i>(note 18)</i>		
– Current year	(25)	(15)
– Attributable to change in tax rate	–	21
	3,637	2,912

Hong Kong Profits Tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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.

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

8. TAXATION *(Continued)*

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

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Profit before taxation	43,791	34,525
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	7,663	6,042
Tax effect of expenses that are not deductible in determining taxable profit	14,310	8,725
Tax effect of income that is not taxable in determining taxable profit	(18,477)	(11,876)
Underprovision in prior years	6	-
Increase in opening deferred tax liability resulting from an increase in Hong Kong Profits Tax rate	-	21
Effect of different tax rates of a subsidiary operating in other jurisdiction	(15)	-
Tax effect of tax losses not recognised	150	-
Taxation for the year	3,637	2,912

9. DIVIDENDS

	2005	2004
	HK\$'000	HK\$'000
Final, proposed, of HK\$0.022 (2004: HK\$0.018) per ordinary share <i>(note (a))</i>	7,007	5,733
Interim dividend of HK\$0.02 (2004: HK\$0.018) per ordinary share	6,370	5,733
	13,377	11,466

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

9. DIVIDENDS *(Continued)*

- (a) At a board meeting held on 18th July, 2005, the directors proposed a final dividend of HK\$0.022 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, 2006.

The amount of proposed final dividend is based on 318,500,000 shares in issue as at 18th July, 2005

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$40,154,000 (2004: HK\$31,613,000) and the weighted average of 318,500,000 (2004: 315,534,907) 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\$40,154,000 (2004: HK\$31,613,000) and the weighted average number of 318,617,200 (2004: 316,148,574) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,500,000 (2004: 315,534,907) ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 117,200 (2004: 613,667) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

11. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Plant and machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost					
At 1st April, 2004	4,409	3,012	4,095	450	11,966
Additions	1,399	859	2,336	406	5,000
Disposals	–	(321)	(951)	–	(1,272)
	<u>5,808</u>	<u>3,550</u>	<u>5,480</u>	<u>856</u>	<u>15,694</u>
At 31st March, 2005	<u>5,808</u>	<u>3,550</u>	<u>5,480</u>	<u>856</u>	<u>15,694</u>
Depreciation					
At 1st April, 2004	2,389	1,500	1,019	342	5,250
Provided for the year	1,052	459	552	154	2,217
Written back on disposals	–	(251)	(459)	–	(710)
	<u>3,441</u>	<u>1,708</u>	<u>1,112</u>	<u>496</u>	<u>6,757</u>
At 31st March, 2005	<u>3,441</u>	<u>1,708</u>	<u>1,112</u>	<u>496</u>	<u>6,757</u>
Net book value					
At 31st March, 2005	<u>2,367</u>	<u>1,842</u>	<u>4,368</u>	<u>360</u>	<u>8,937</u>
At 31st March, 2004	<u>2,020</u>	<u>1,512</u>	<u>3,076</u>	<u>108</u>	<u>6,716</u>

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

12. INVENTORIES

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Raw materials	23,666	13,905
Work in progress	4,718	3,172
Finished goods	2,567	656
	<u>30,951</u>	<u>17,733</u>

At 31st March, 2005 and 2004, all the inventories were carried at cost.

13. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>48,181</u>	<u>48,181</u>

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

13. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Details of the Company's subsidiaries at 31st March, 2005 are as follows:

Name	Place of incorporation/ establishment and form of legal entity	Principal activities and place of operation	Issued share capital/paid-up registered capital	Interest held
<i>Directly held:</i>				
Chanco International Holding Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	Ordinary shares US\$1,000	100%
<i>Indirectly held:</i>				
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%
Amid Success Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	Ordinary shares US\$1	100%
Urban Stranger Company Limited	Hong Kong, limited liability company	Retail of fashion apparel and leather accessories	Ordinary shares HK\$1	100%

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

14. TRADE RECEIVABLES

Customers are generally granted with credit terms of 30 to 90 days. Longer payment terms might be granted 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	
	2005	2004
	HK\$'000	HK\$'000
Current to 30 days	10,958	15,746
31-60 days	3,501	1,760
61-90 days	1,188	1,136
91-120 days	483	208
121-365 days	1,698	98
Over 365 days	86	168
	<u>17,914</u>	<u>19,116</u>

15. OTHER INVESTMENT

	The Group and the Company	
	2005	2004
	HK\$'000	HK\$'000
Open-ended mutual funds with guaranteed return, stated at quoted market price	<u>4,162</u>	<u>7,940</u>

16. AMOUNTS DUE FROM SUBSIDIARIES

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

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

17. TRADE PAYABLES

Details of the ageing analysis are as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Current to 30 days	6,172	5,320
31-60 days	2,950	2,276
61-90 days	1,775	151
91-120 days	544	424
121-365 days	65	317
Over 365 days	100	28
	11,606	8,516

18. DEFERRED TAXATION

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

	Accelerated tax	Others	Total
	depreciation		
	HK\$'000	HK\$'000	HK\$'000
The Group			
At 1st April, 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
Charge/ (credit) to income statement for the year	61	(86)	(25)
At 31st March, 2005	256	(52)	204

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

18. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group have unused tax losses of HK\$858,000 (2004: Nil) available to offset against future profits. No deferred tax assets have been recognised in respect of the amounts due to unpredictability of future profit streams.

At the balance sheet date, the Company did not have material unprovided deferred tax assets and liabilities (2004: Nil).

19. SHARE CAPITAL

	The Company	
	Number of shares	Amount
		<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31st March, 2004 and 2005	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
At 1st April, 2003	307,664,000	3,077
Exercise of share options	<u>10,836,000</u>	<u>108</u>
At 31st March, 2004 and 2005	<u>318,500,000</u>	<u>3,185</u>

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

20. 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.

There were no movements in share options during the year ended 31st March, 2005. Details of share options outstanding at 31st March, 2005 are as follows:

Name or category of participant	Date of grant	Outstanding as at		Exercise price per share
		1st April, 2004 and 31st March, 2005	Exercisable period	
(a) Executive directors				
Chan King Hong Edwin	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
Chan King Yuen Stanley	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
Chan Wai Po Rebecca	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
(b) Employees, in aggregate				
	26th May, 2003	516,000	26th May, 2003 – 25th May, 2013	0.580
	24th Sept, 2003	6,362,400	26th May, 2003 – 25th May, 2013	0.830
(c) Others, in aggregate				
	26th May, 2003	3,000,000	26th May, 2003 – 25th May, 2013	0.580
Total		<u>19,422,000</u>		

Notes:

- (i) All the options were immediately vested upon granted.
- (ii) The share options granted under the Share Option Scheme are not recognised in the financial statements until they are exercised.

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

21. RESERVES

	Share premium	The Company Retained earnings	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April, 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
	<hr/>	<hr/>	<hr/>
At 31st March, 2004	80,606	6,022	86,628
Profit attributable to shareholders	–	13,173	13,173
2004 final dividend paid	–	(5,733)	(5,733)
Interim dividend paid	–	(6,370)	(6,370)
	<hr/>	<hr/>	<hr/>
At 31st March, 2005	<u>80,606</u>	<u>7,092</u>	<u>87,698</u>
Representing:			
Reserves			80,895
2004 final dividend proposed			<u>5,733</u>
At 31st March, 2004			<u>86,628</u>
Reserves			80,691
2005 final dividend proposed			<u>7,007</u>
At 31st March, 2005			<u>87,698</u>

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

22. 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, 2005 amounted to approximately HK\$1,000,000 (2004: HK\$1,000,000).

23. 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	
	2005	2004
	HK\$'000	HK\$'000
Within one year	1,838	3,102
In the second to fifth years inclusive	846	20
	<u>2,684</u>	<u>3,122</u>

Operating lease payments represent rental payable by the Group for its offices, production plants and retail stores. 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.

Notes to the Financial Statements

YEAR ENDED 31ST MARCH, 2005

24. RELATED PARTY TRANSACTIONS

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

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	240	240

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 note 16.

25. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund scheme ("MPF Scheme") for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group's subsidiary in the PRC are member of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Five Year Financial Summary

YEAR ENDED 31ST MARCH, 2005

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

	2005 HK\$'000	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Results					
Profit attributable to shareholders	40,154	31,613	35,007	41,748	12,951
Assets and liabilities					
Total assets	154,433	119,798	95,228	56,712	35,515
Total liabilities	(20,647)	(14,063)	(8,933)	(15,359)	(13,300)
Shareholders' funds	133,786	105,735	86,295	41,353	22,215

The results, assets and liabilities of the Group for each of the three 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 three years then ended.