

**CHANCO INTERNATIONAL GROUP LIMITED**

卓高國際集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 264)

**FINANCIAL RESULTS FOR THE YEAR ENDED 31ST MARCH 2005**

The board of directors of Chanco International Group Limited (the “Company”) is pleased to present the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st March, 2005, together with the comparative figures for the previous year as follows:

**RESULTS**

	<i>Notes</i>	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Turnover	2	<b>206,344</b>	154,599
Cost of sales		<b>(138,228)</b>	(102,671)
Gross profit		<b>68,116</b>	51,928
Other income		<b>1,105</b>	524
Selling and distribution costs		<b>(7,143)</b>	(3,622)
Administrative and other operating expenses		<b>(18,287)</b>	(14,305)
Profit before taxation	3	<b>43,791</b>	34,525
Taxation	4	<b>(3,637)</b>	(2,912)
Profit attributable to shareholders		<b>40,154</b>	31,613
Dividends	5	<b>13,377</b>	11,466
Earnings per share	6		
Basic		<b>HK12.61 cents</b>	HK10.02 cents
Diluted		<b>HK12.60 cents</b>	HK10.00 cents

*Notes:***1. 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.

## 2. TURNOVER AND SEGMENT INFORMATION

### Primary reporting format - business segments

	Manufacturing business <i>HK\$'000</i>	Retail business <i>HK\$'000</i>	Trading of leather <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Year ended 31st March, 2005</b>					
<b>Revenue</b>					
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>206,344</u>
<b>Segment results</b>	<u>44,284</u>	<u>(820)</u>	<u>134</u>	<u>(209)</u>	43,389
<b>Unallocated income</b>					1,105
<b>Unallocated expenses</b>					<u>(703)</u>
<b>Profit before taxation</b>					43,791
<b>Taxation</b>					<u>(3,637)</u>
<b>Profit attributable to shareholders</b>					<u>40,154</u>
<b>Year ended 31st March, 2004</b>					
<b>Revenue</b>					
External	153,875	–	724	–	154,599
Inter-segment	–	–	–	–	–
	<u>153,875</u>	<u>–</u>	<u>724</u>	<u>–</u>	<u>154,599</u>
<b>Segment results</b>	<u>34,559</u>	<u>–</u>	<u>209</u>	<u>–</u>	34,768
<b>Unallocated income</b>					524
<b>Unallocated expenses</b>					<u>(767)</u>
<b>Profit before taxation</b>					34,525
<b>Taxation</b>					<u>(2,912)</u>
<b>Profit attributable to shareholders</b>					<u>31,613</u>

## Secondary reporting format – geographical segments

	<b>Turnover</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Japan	98,039	84,234
Europe	42,784	21,122
The United States of America	16,727	16,187
Hong Kong	18,097	13,772
The People's Republic of China, other than Hong Kong ("PRC")	9,496	7,376
Australia	8,879	4,382
Others	12,322	7,526
	<u>206,344</u>	<u>154,599</u>
<b>3. PROFIT BEFORE TAXATION</b>		
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>130</u>	<u>–</u>
<b>4. TAXATION</b>		
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax		
– Hong Kong Profits Tax	3,621	2,906
– Other jurisdictions	35	–
Underprovision in prior years	6	–
Deferred tax		
– Current year	(25)	(15)
– Attributable to change in tax rate	–	21
	<u>3,637</u>	<u>2,912</u>

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.

## 5. DIVIDENDS

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

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

## 6. 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.

## REVIEW OF OPERATIONS

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.

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.

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 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.

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.

## **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.

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.

## **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\$11 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, Remenbi or United States dollars such that the Group does not have significance 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 31st March 2005, the Group did not have any contingent liabilities.

## **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.

## **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.

## **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 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.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 23rd August 2005 to 25th August 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the forthcoming Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on 22nd August 2005.

## **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.

## **PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

All the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules of the Stock Exchange in force prior to 31st March 2004, which remain applicable to results announcement in respect of accounting periods commencing before 1st July 2004 under the transitional arrangements, will be published on the Stock Exchange's website in due course.

On behalf of the Board  
**Chan King Hong Edwin**  
*Chairman*

Hong Kong 18th July 2005

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