



2003

ANNUAL REPORT

CHANCO INTERNATIONAL GROUP LIMITED

卓高國際集團有限公司

Incorporated in the Cayman Islands with limited liability





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DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Chau Cynthia Sin Ha *JP*
 Fong Pui Sheung David

COMPANY SECRETARY

Lau Wai Hung *ACCA, AHKSA*

AUDIT COMMITTEE

Chau Cynthia Sin Ha *JP*
 Fong Pui Sheung David

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

PricewaterhouseCoopers
 KLL Associates CPA Ltd.

LEGAL ADVISER

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
 British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.chancogroup.com

STOCK CODE

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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 first annual results of the Company and its subsidiaries (collectively refer to the "Group") for the year ended 31st March, 2003.

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

For the year ended 31st March, 2003, the Group recorded a turnover of approximately HK\$154 million, representing approximately 2.7% growth as compared to that of 2002. The surge in the Group's turnover was mainly attributable to the significant increase of sales in Europe and the successful expansion to other markets such as Malaysia, Singapore, the Philippines, Taiwan, Australia and Canada. In addition, the increase in the sales orders of small leather goods from the U.S. was also the driving force to the growth of the Group's turnover for the year ended 31st March, 2003. Profit attributable to shareholders was approximately HK\$35 million, representing approximately 16% decrease as compared to that of 2002, which was, however, approximately 4.5% higher than that of the amount as forecasted by the Company at initial public offering. The reduction in profit was a result of the rise in operating costs and production costs resulted from the relocation of the Group's operation to a larger production plant.

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

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



The management of the Group always puts great emphasis on the communications and relationships with its staff aiming to reinforce their sense of belongings. This philosophy of management brings a positive effect on the Group's turnover. One of the Group's major U.S. customers has been imposing highly stringent requirements on the human rights conditions, terms of employment and the working conditions in the PRC factories. At present, the Group is one of their domestic suppliers which can fulfill their requirements. It acts as a direct and desirable stimulus for the increase of the Group's sales orders. The Group expects a closer co-operation with that customer in the years ahead along with the establishment of the customer relationship.

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

To ensure the steady supply of leather and enhance the development of leather processing techniques, the Group is actively pursuing the vertical integration of raw materials supply by way of acquiring a domestic leather processing factory. It reduces the overall production cost and expands the leather goods business at the same time.

I am satisfied with the business development of the Group over the year. The Group is highly certain about its future development. I am confident that the Group is set to strive for more prominent results in the years ahead with the united efforts of all staff of the Group. On behalf of the Board I would like to express my gratitude to the shareholders of the Group for their trust and support, as well as my fellow staffs for their continual dedicated efforts.

Chan King Hong Edwin

Chairman

Hong Kong 18th July, 2003





FINANCIAL ANALYSIS

(All the analysis below is based on the results of the Group for the year ended 31st March, 2003 and the year ended 31st March, 2002 for comparison purpose only)

For the year ended 31st March, 2003, the Group recorded a turnover of approximately HK\$154 million, representing approximately 2.7% growth as compared to that of 2002. The surge of Group's turnover was mainly attributable to the significant increase of sales in Europe and the successful expansion to other markets such as Malaysia, Singapore, the Philippines, Taiwan, Australia and Canada. In addition, the increase in the sales orders of small leather goods from the U.S. was also the driving force to the growth of the Group's turnover for the year ended 31st March, 2003. For small leather goods, the Group recorded a turnover of approximately HK\$4.9 million during the year under review, representing approximately 3% of the total turnover, or approximately 473% increase as compared to that of 2002. The overall gross profit margin of the Group was approximately 35% in 2003 while the gross profit margin was approximately 39% in 2002.

Profit attributable to shareholders dropped from approximately HK\$41.7 million in 2002 to approximately HK\$35 million in 2003, which was however, approximately 4.5% higher than the forecast at the initial public offerings. The reduction in profit was a result of the increase in operating costs and production costs after relocation of the Group's main production facilities. To cope with the need for increasing production capacity, the Group relocated its original factory to approximately 2.4 times larger new premises in July 2002. The operating costs including rental, water and electricity expenses increased correspondingly. In addition, hiring more new workers and outsourcing partial procedures of the processing also resulted in the increase in the production costs. The Board considers that the sustainable growth in sales can further enhance the economies of scale of production, thus enabling a gentle turnaround of the gross profit margin. The basic earnings per share of 2003 were approximately HK14.2 cents as compared to approximately HK17.3 cents in 2002.

GEOGRAPHICAL ANALYSIS

The Group's customers are mainly from Japan, the U.S., Europe and Hong Kong. For the year ended 31st March, 2003, the sales in the Japanese market reached approximately HK\$87 million, representing about 56% of the Group's total turnover. The sales in the U.S. market reached approximately HK\$22 million, representing approximately 14% of the Group's total turnover. The sales in the European market was approximately HK\$24 million, representing 16% of the Group's total turnover. For the local market, approximately HK\$15 million of sales was recorded for the year ended 31st March, 2003, representing approximately 9.7% of the Group's total turnover.

The Group has only started its expansion to the PRC market since March 2003. In this single month, approximate HK\$344,000 of sales was recorded, representing approximately 0.2% of the total turnover of the Group. The Group anticipates the proportion of the turnover contributed from the PRC sales to the total turnover will increase in the coming years.



Save for the aforesaid markets, the Group also exported its original design manufacturing (“ODM”) and original equipment manufacturing (“OEM”) products to Canada, Australia, Taiwan, the Philippines, Singapore and Malaysia, etc., in aggregate representing the Group’s total turnover of approximately 4% and approximately 133% increase as compared to that of 2002.

BUSINESS ANALYSIS

Keeness for advancement to the domestic market

The Group has been addressing product sales and marketing and thus a proactive strategy is adopted. In addition to further develop the well-established overseas markets, the Group is devoted to expanding the domestic sales market in the PRC. Currently, the domestic orders received by the Group are primarily from existing Hong Kong customers who have extensive sales network covering over a thousand sales points in the PRC. The Group’s major customer in Japan has already set up branches in the PRC. It is believed that the domestic sales volume will boost and become the principal driving force for the growth of the Group’s turnover in the coming year.

Promotion of own brand name and establishment of desirable corporate image

The Group has been focusing on the development of its own brand names and doing its utmost to promote them. During the year under review, the Group, through utilising the sales network of the young fashion apparel retailer, Bauhaus, as its local sales distribution channels, sold its own brand name products, **Stranger**. The Group’s another own brand name products, **Natalie Creations**, will be launched to the market soon. In the future, the Group and Bauhaus will keep an even closer co-operation.

To uphold an integral advancement to the local market, the Group plans to set up counters in local large scale department stores by the end of 2003. It is anticipated that a distinctive product image can be effectively built among the target customers through the unique design of the counters. Apart from this, the Group will launch widespread promotion activities to quickly lift up the popularity of its brand name products. To advertise in the local mass media, for example, to advertise in some best-selling teenagers’ magazines.

The Group intends to expand the market of the PRC after the establishment of brand awareness in the local market. In order to build a positive product image and raise the awareness, the Group is going to join fashion exhibitions in Dalian, the PRC in October 2003. Products of the Group manufactured on both ODM and OEM basis, on top of its own brand name products, are also being promoted to build a desirable product image to better serve the expansion of the Group’s market in the PRC.





Constant innovation in product styles and the comprehensiveness of business

With a view to meet customers' ever-changing needs and maintain competitiveness, the Group keeps on improving the product quality and pouring resources into the research and development of leather processing technology to refine product styles and multiply its product varieties. Having sophisticatedly mastered the leather processing technology and its development, the Group has set up a department responsible for the expansion of small leather goods' business in order to gradually increase its output volume and to promote it to existing customers. As the scrap leather used in the production of small leather goods is the by-product of the manufacturing process of leather belts, the profit margin of small leather goods is fairly high. It is anticipated that it will generate substantial income to the Group and facilitate the comprehensiveness of business.

Vertical Integration and production cost reduction

To ensure the steady supply of leather and strengthen the development of leather processing technology, the Group intends to carry out vertical integration and acquire a domestic leather processing company. The Group is presently seeking suitable target for acquisition which is targeted to be completed by the end of the next financial year. Such acquisition can reduce the overall production cost as well as enable the expansion of sales of leather.

New factory commencing production to accommodate the business development

The Group relocated its factory in July 2002 so as to accommodate the rapidly-changing development of the Group and the need for increasing production capacity. The operation of the new factory is located in Dongguan, the PRC, which is mainly responsible for export, has been running smoothly since its commencement of full operation in August last year. The production area of the new factory is approximately 13,200 sq. m., which is approximately 2.4 times larger than the old premises. The utilization rate of the new factory is close to 60%. In pace with the development of the Group's overseas sales, it is expected that the utilisation rate will climb.

Potent product quality control team

Product quality is of key concern of the Group. The Group pays great attention in respect of quality control. The quality control team comprises over 80 experienced team members and imposes stringent supervision over every stage of production ranging from the quality of raw materials to finished products to ensure the product quality meets certain standards. The products of the Group have been accredited by the largest casual wear chain stores in Japan with an honorable certificate for its high quality.





Use of Proceeds

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

- as to approximately HK\$7.0 million for vertical integration with leather processing companies and additional resources for research and development on leather processing technology;
- as to approximately HK\$5.8 million for further development of the Group's production facilities in Dongguan;
- as to approximately HK\$5.8 million for strengthening the Group's production development capability and to diversify the Group's product categories;
- as to approximately HK\$5.8 million for promotion of activities and further development of the Group's brand recognition;
- as to approximately HK\$1.0 million for geographical expansion by establishing representative offices in Beijing and Shanghai in the PRC; and
- as to the balance of approximately HK\$3.9 million as additional general working capital of the Group.

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

At the date of this report, the relevant banks had released the above guarantees and securities in exchange for corporate guarantees provided by the Company or a subsidiary of the Company.

The Group recorded total current assets of approximately HK\$87.8 million as at 31st March, 2003 (2002: HK\$54.6 million) and total current liabilities of approximately HK\$8.7 million (2002: HK\$15.3 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 10.1 times at 31st March, 2003 (2002: 3.6 times).

Supported by its strong financial position, the Group did not raise any bank loans during the year.



The Group recorded an increase in shareholders' funds from approximately HK\$41.4 million at 31st March, 2002 to approximately HK\$86.3 million at 31st March, 2003. The increase was mainly attributable to the fund raised from listing and operating profit generated during the year.

TREASURY POLICY

The Group generally finances its operation with internally generated resources.

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

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

CHARGES ON ASSETS

At 31st March, 2003, the Group did not have any assets pledged for general facilities granted by banks.

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals for the year ended 31st March, 2003.

EMPLOYEE INFORMATION

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

CONTINGENT LIABILITIES

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





EXECUTIVE DIRECTORS

Mr. Chan King Hong Edwin, aged 45, is the chairman of the Board 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 20 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 42, 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 20 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 39, 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 15 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 63, 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 60, 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 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.



SENIOR MANAGEMENT

Ms. Li Shuk Han, aged 38, 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 15 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 27, is the financial controller and the company secretary of the Company. Mr. Lau is responsible for overseeing the financial and the company secretarial functions of the Company. Mr. Lau obtained a Bachelor's degree in Business Administration from the Chinese University of Hong Kong in 1997. Mr. Lau is an associate member of the Association of Chartered Certified Accountants in the United Kingdom and the Hong Kong Society of Accountants. Mr. Lau has over 5 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 47, 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 20 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 39, 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 35, 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 5 years of experience in the leather industry. He joined the Group in 1997.

Mr. Fung Kin, aged 38, 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 5 years of experience in general administration and team management. Prior to joining the Group, Mr. Fung had worked for a watch hands and parts manufacturing company as general manager for 6 years. He joined the Group in August 2001.

Mr. Cheung Yiu Fai, aged 39, is the production manager of the Group. Mr. Cheung is responsible for the manufacturing operation and technical control of the Group's production facilities in Dongguan, the PRC. He has over 11 years of experience in manufacturing of leather goods and production planning. He joined the Group in 1991.



The directors (the "Directors") are pleased to present their report together with the audited accounts of Chanco International Group Limited (the "Company") and its subsidiaries (collectively refer to "the Group") for the year ended 31st March, 2003.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 12th April, 2002 as an exempted company with limited liability under the Companies Law (Cap. Law 22 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law").

On 17th February, 2003, pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 28th February, 2003. The shares of the Company have been listed on the Main Board of the Stock Exchange since 12th March, 2003 (the "Listing Date").

The Reorganisation has been reflected in the accounts by regarding the Company as having been the holding company of the Group from the beginning of the earliest period presented. The basis of preparation for the accounts is set out in note 1 to the accounts.

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 accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 21.

The Directors recommended the payment of a final dividend of HK4 cents per ordinary share to shareholders whose names appear in the register of members of the Company on 26th August, 2003. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about 29th August, 2003.

The Company's subsidiary declared and paid interim dividends totalling HK\$21,000,000 to its then shareholders prior to the Reorganisation during the year.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 22 to the accounts.





FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st March, 2003, amounted to approximately HK\$87.4 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 account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in ordinary course of business.

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, 2003.

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 50.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares since the Listing Date. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities since the Listing Date.

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 Group 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 provides 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 Group 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 Group must not exceed 10% of the shares of the Company in issue on the Listing Date.

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 Group 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. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

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.

No share option has been granted under the Share Option Scheme for the year ended 31st March, 2003. On 26th May, 2003, the Directors granted options to certain employees and consultants of the Group to subscribe for an aggregate of 14,352,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the Share Option Scheme at HK\$0.58 per share. The closing price of the Company on the date immediately preceding the offer of grant was HK\$0.58 per share.



Among the grantees in this grant of options, 24 of them are full-time employees of the Group and options to subscribe for an aggregate of 8,352,000 shares were granted to them; 2 of them are consultants of the Company and options to subscribe for an aggregate of 6,000,000 shares were granted to them. All the options were immediately vested upon granted.

Details of the share options as from 26th May, 2003 and up to the date of this report are as follows:

Category of participant	Options granted on 26th May, 2003 (Note 1)	Options exercised (Note 2)	Options cancelled	Options lapsed	Options outstanding as at the date of this report	Exercisable period
Employees, in aggregate	8,352,000	6,760,000	—	—	1,592,000	26th May, 2003 – 25th May, 2013
Others, in aggregate	6,000,000	—	—	—	6,000,000	26th May, 2003 – 25th May, 2013
Total	14,352,000	6,760,000	—	—	7,592,000	

Notes:

- (1) At the date immediately before the options were granted on 23rd May, 2003, the closing price per share was HK\$0.58.
- (2) At the date when the options were exercised on 19th June, 2003, the closing price per share was HK\$0.72.

The share options granted are not recognised in the accounts until they are exercised. The Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders. Thus, it is more appropriate to disclose only the market price and exercise price.

DIRECTORS

The directors during the year were:

Mr. Chan King Hong Edwin	appointed on 2nd May, 2002
Mr. Chan King Yuen Stanley	appointed on 2nd May, 2002
Ms. Chan Wai Po Rebecca	appointed on 2nd May, 2002
Ms. Chau Cynthia Sin Ha	appointed on 18th February, 2003
Mr. Fong Pui Sheung David	appointed on 18th February, 2003
Mr. Neil T. Cox	appointed on 12th April, 2002 and resigned on 2nd May, 2002

In accordance with Article 86(3) of the Company's Articles of Association, all the remaining Directors retire at the forthcoming annual general meeting and, being eligible, offers themselves for re-election.



DIRECTORS' SERVICE CONTRACTS

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

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

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 31st March, 2003, the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under section 29 of the SDI Ordinance or as notified to the Company are as follows:

Ordinary shares of HK\$0.01 each in the Company

	Note	Number of shares			Total
		Personal interests	Family interests	Corporate interests	
Chan King Hong Edwin	(1)	—	—	67,727,352	— 67,727,352
Chan King Yuen Stanley	(2)	—	—	67,727,352	— 67,727,352
Chan Wai Po Rebecca	(3)	—	—	39,204,648	— 39,204,648

Notes:

- (1) 67,727,352 shares are owned by Leopark Worldwide Inc. ("Leopark"). Leopark is a company incorporated in the British Virgin Islands. The entire issued share capital of Leopark is beneficially owned by Mr. Chan King Hong Edwin.



- (2) 67,727,352 shares are owned by New Paramount Profits Limited ("New Paramount"). New Paramount is a company incorporated in the British Virgin Islands. The entire issued share capital of New Paramount is beneficially owned by Mr. Chan King Yuen Stanley.
- (3) 39,204,648 shares are owned by Prevail Assets Limited ("Prevail Assets"). Prevail Assets is a company incorporated in the British Virgin Islands. The entire issued share capital of Prevail Assets is beneficially owned by Ms. Chan Wai Po Rebecca.

At no time during the period from the Listing Date to the date of this report was the Company a party to any arrangement to enable the Directors to acquire benefits by means by acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st March, 2003, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Note	Number of ordinary shares	Percentage of holding
Leopark Worldwide Inc.	(a)	67,727,352	22.01%
New Paramount Profits Limited	(a)	67,727,352	22.01%
Prevail Assets Limited	(a)	39,204,648	12.14%
Smarty Worldwide Limited	(b)	39,204,648	12.14%

- (a) These shareholdings have also been included as corporate interests of Directors as disclosed in the section of "Directors' interests in equity securities" above.
- (b) The entire issued share capital of Smarty Worldwide Limited is beneficially owned by Mr. Chan Woon Man. Mr. Chan Woon Man is the father of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca.

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 19%
- five largest suppliers combined 53%

Sales

- the largest customer 44%
- five largest customers combined 63%



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 noted above.

CONNECTED TRANSACTIONS

No significant connected transactions were entered into by the Group during the year ended 31st March, 2003, which constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules since the shares of the Company were listed on the Stock Exchange on 12th March, 2003.

AUDIT COMMITTEE

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

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

The Group's audited results for the year ended 31st March, 2003 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group have been disclosed in the sections of "Results and appropriations" and "Share options" above.

RETIREMENT SCHEME ARRANGEMENTS

Details of the retirement scheme arrangements of the Group have been set out in note 9 to the accounts.





AUDITORS

The accounts have been audited by PricewaterhouseCoopers and KLL Associates CPA Ltd. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Chan King Hong Edwin
Chairman

Hong Kong, 18th July, 2003





羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong



KLL Associates CPA Ltd
華融會計師事務所有限公司

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

**TO THE SHAREHOLDERS OF
CHANCO INTERNATIONAL GROUP LIMITED**

(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 21 to 49 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 accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st March, 2003 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.

PricewaterhouseCoopers
Certified Public Accountants

KLL Associates CPA Ltd.
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 18th July, 2003





For the Year Ended 31st March, 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	3	154,428	150,388
Cost of sales		(100,124)	(91,740)
Gross profit		54,304	58,648
Other revenue	3	302	274
Selling and distribution costs		(4,657)	(3,670)
Administrative and other operating expenses		(11,877)	(9,650)
Profit before taxation	4	38,072	45,602
Taxation	5	(3,065)	(3,854)
Profit attributable to shareholders	6	35,007	41,748
Dividends	7	33,577	21,000
Basic earnings per share	8	HK14.2 cents	HK17.3 cents



Consolidated Balance Sheet



As at 31st March, 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Fixed assets	11	7,432	2,107
Current assets			
Inventories	12	18,785	12,510
Trade receivables	14	12,155	10,787
Other receivables, deposits and prepayments		1,632	511
Amounts due from shareholders	16	909	—
Taxation recoverable		—	5
Bank balances and cash	17	54,315	30,792
		87,796	54,605
Current liabilities			
Trade payables	18	4,415	6,396
Other payables and accrued charges		4,032	3,233
Amounts due to directors	19	—	3,038
Taxation payable		263	2,596
		8,710	15,263
Net current assets		79,086	39,342
Total assets less current liabilities		86,518	41,449
Financed by:			
Share capital	20	3,077	10
Reserves	22	70,641	41,343
Proposed final dividend	22	12,577	—
Shareholders' funds		86,295	41,353
Deferred taxation	23	223	96
		86,518	41,449

Chan King Hong Edwin
Director

Chan King Yuen Stanley
Director



As at 31st March, 2003

	Note	2003 HK\$'000
Non-current asset		
Investments in subsidiaries	13	48,181
<hr style="border-top: 1px dashed #ccc;"/>		
Current assets		
Other receivables		634
Amounts due from subsidiaries	15	40,781
Amounts due from shareholders	16	909
<hr/>		
		42,324
<hr style="border-top: 1px dashed #ccc;"/>		
Current liabilities		
Accruals		12
<hr/>		
Net current assets		42,312
<hr/>		
Total assets less current liabilities		90,493
<hr/>		
Financed by:		
Share capital	20	3,077
Reserves	22	74,839
Proposed final dividend	22	12,577
<hr/>		
Shareholders' funds		90,493
<hr/>		

Chan King Hong Edwin
Director

Chan King Yuen Stanley
Director



Consolidated Statement of Changes in Equity ○ ○ ○ ○ ○

For the Year Ended 31st March, 2003

	Note	2003 HK\$'000	2002 HK\$'000
Total equity at the beginning of the year		41,353	22,215
Profit attributable to shareholders		35,007	41,748
Dividends	7	(21,000)	(21,000)
Issue of shares upon placing and public offer	20(f)	39,396	—
Share issuance costs	22	(8,461)	(1,610)
Total equity at the end of the year		86,295	41,353



For the Year Ended 31st March, 2003

	Note	2003 HK\$'000	2002 HK\$'000
Operating activities			
Net cash inflow generated from operations	24(a)	25,339	51,859
Hong Kong profits tax paid		(5,266)	(522)
Net cash inflow from operating activities		20,073	51,337
Investing activities			
Purchase of fixed assets		(6,787)	(724)
Interest income received		302	274
Net cash outflow in investing activities		(6,485)	(450)
Net cash inflow before financing		13,588	50,887
Financing activities			
Dividends paid		(21,000)	(21,000)
Issue of shares upon placing and public offer	24(b)	39,396	—
Share issuance costs	24(b)	(8,461)	(1,610)
Net cash inflow/(outflow) in financing activities		9,935	(22,610)
Increase in cash and cash equivalents		23,523	28,277
Cash and cash equivalents at the beginning of the year		30,792	2,515
Cash and cash equivalents at the end of the year		54,315	30,792
Analysis of balances of cash and cash equivalents			
Bank balances and cash		54,315	30,792



1. GROUP REORGANISATION AND BASIS OF PREPARATION

- (a) The Company was incorporated in the Cayman Islands on 12th April, 2002 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”).
- (b) On 17th February, 2003, pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the ultimate holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the section “Corporate reorganisation” in Appendix V to the prospectus of the Company dated 28th February, 2003. The shares of the Company were listed on the Stock Exchange on 12th March, 2003.
- (c) The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice (“SSAP”) 2.127 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants (“HKSA”). The consolidated accounts of the Group for the year ended 31st March, 2003, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.
- (d) No balance sheet of the Company at 31st March, 2002 is presented in the accounts, as the Company was not yet incorporated on that date.
- (e) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA. They have been prepared under the historical cost convention.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Group accounting

(i) Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Group accounting (Continued)

(i) Consolidation (Continued)

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Apart from the Reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. All exchange differences are dealt with as a movement in reserves. Upon disposal of an overseas subsidiary, the related cumulated exchange difference is included in the profit and loss account as part of the gain or loss on disposal.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of fixed assets is calculated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives using reducing balance method. The principal annual rates are as follows:

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%

Major costs incurred in restoring fixed assets to their normal working conditions are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(c) Operating leases

Leases where substantially all the risk and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor, are charged to the profit and loss account on a straight-line over the lease periods.

(d) 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.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(f) Cash and cash equivalents

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

(g) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(h) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement costs*

Contributions to defined contribution retirement scheme are charged to the profit and loss account as and when incurred. The assets of the scheme are held separately from those of the Group in independently administered funds.

(i) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(k) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(l) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of plant and machinery, inventories, and trade receivables. Segment liabilities comprise trading liabilities and exclude items such as taxation and corporate liabilities. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.



3. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

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





3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format — business segments

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



3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	Belts HK\$'000	Small leather goods HK\$'000	Leather HK\$'000	Unallocated HK\$'000	Group HK\$'000
Year ended 31st March, 2002					
Turnover	148,617	847	924	—	150,388
Results					
Segment results	54,326	400	252	—	54,978
Unallocated revenue					274
Unallocated costs					(9,650)
Profit before taxation					45,602
Taxation					(3,854)
Profit attributable to shareholders					41,748
At 31st March, 2002					
Assets					
Segment assets	24,054	—	—	—	24,054
Unallocated assets					32,658
Total assets					56,712
Liabilities					
Segment liabilities	6,396	—	—	—	6,396
Unallocated liabilities					8,963
Total liabilities					15,359
Other information					
Capital expenditure	555	—	—	169	724
Depreciation	324	—	—	483	807



3. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

Secondary reporting format — geographical segments

	Year ended 31st March, 2003		
	Turnover HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Japan	86,564	—	—
Europe	24,470	—	—
The United States of America ("The US")	21,553	—	—
Hong Kong	14,998	76,969	411
The People's Republic of China, other than Hong Kong ("The PRC")	344	18,259	6,376
Others	6,499	—	—
	154,428	95,228	6,787

	Year ended 31st March, 2002		
	Turnover HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Japan	92,973	—	—
Europe	17,620	—	—
The US	18,347	—	—
Hong Kong	18,663	47,703	166
The PRC	—	9,009	558
Others	2,785	—	—
	150,388	56,712	724

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



4. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Auditors' remuneration	600	500
Cost of inventories sold		
— material costs	79,315	76,156
— production overheads	20,809	15,584
Depreciation of fixed assets	1,419	807
Loss on disposal of fixed assets	43	—
Operating lease rentals in respect of land and buildings	2,862	1,028
Provision for bad debts	9	202
Provision for obsolete inventories	122	286
Staff costs excluding directors' emoluments (note 9)	5,270	3,909

5. TAXATION

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current taxation		
— Hong Kong profits tax	2,980	3,706
— (Over)/under provisions in prior years	(42)	52
Deferred taxation (note 23)	127	96
	3,065	3,854

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

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

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the period from 12th April, 2002 (date of incorporation) to 31st March, 2003 is dealt with in the accounts of the Company to the extent of HK\$12,987,000.



7. DIVIDENDS

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

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

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

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

8. EARNINGS PER SHARE

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

The basic earnings per share for 31st March, 2002 is based on the Group's profit attributable to shareholders of HK\$41,748,000 and an aggregate of 242,004,000 shares comprising (i) 1,000 shares issued upon incorporation of the Company, (ii) 999,000 shares issued upon completion of the Reorganisation (note 20(c)) and (iii) 241,004,000 shares issued pursuant to the Capitalisation Issue (note 20(e)), which were deemed to have been in issue throughout the year ended 31st March, 2002.

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



9. STAFF COSTS

	2003 HK\$'000	2002 HK\$'000
Staff costs which exclude directors' emoluments		
Wages, salaries and allowances	5,030	3,746
Retirement benefit costs — defined contribution scheme (see notes below)	240	163
	5,270	3,909

Note: The Group did not operate any retirement scheme for its Hong Kong employees up to 30th November, 2000. With effect from 1st December, 2000, a mandatory provident fund ("MPF") scheme has been set up which is available to all employees in Hong Kong including executive directors. Under the rules of MPF scheme, the employer and its employees in Hong Kong are each required to contribute 5% of employees' salaries with a ceiling of HK\$1,000 per month to the MPF scheme. The only obligation of the Group with respect to the MPF scheme is to make required contributions under the scheme. The assets of the MPF scheme are held separately from those of the Group in independently administered funds.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable by the Group to directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	8	—
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	1,518	1,452
Bonuses	—	—
Retirement benefit costs	60	36
	1,586	1,488

Directors' emoluments disclosed above include HK\$8,000 (2002: Nil) paid to independent non-executive directors.

The emoluments received by each of the three executive directors were below HK\$1,000,000 for each of the two years ended 31st March, 2003.



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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2002: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2002: two) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	653	767
Bonuses	15	15
Retirement benefit costs	24	12
	692	794

The emoluments of employees were below HK\$1,000,000 for each of the two years ended 31st March, 2003.

- (c) During the year, no emoluments (2002: Nil) have been paid by the Group to the directors or any of the five highest individuals as an inducement to join or upon joining the Group or as compensation for loss of office.



11. FIXED ASSETS

	Plant and machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1st April, 2002	1,714	1,299	922	480	4,415
Additions	2,544	1,453	2,790	—	6,787
Disposals	—	—	(68)	(30)	(98)
At 31st March, 2003	4,258	2,752	3,644	450	11,104
Accumulated depreciation					
At 1st April, 2002	956	719	377	256	2,308
Charge for the year	621	403	328	67	1,419
Disposals	—	—	(28)	(27)	(55)
At 31st March, 2003	1,577	1,122	677	296	3,672
Net book value					
At 31st March, 2003	2,681	1,630	2,967	154	7,432
At 31st March, 2002	758	580	545	224	2,107

12. INVENTORIES

	2003 HK\$'000	2002 HK\$'000
Raw materials	16,498	10,933
Work in progress	1,872	1,430
Finished goods	415	147
Total	18,785	12,510

At 31st March, 2003 and 2002, all the inventories were carried at cost.



13. INVESTMENTS IN SUBSIDIARIES

	2003 HK\$'000
Investment at cost:	
Unlisted shares	48,181

The following is a list of the subsidiaries at 31st March, 2003:

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



14. TRADE RECEIVABLES

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 30 days	10,078	8,630
31–60 days	1,394	532
61–90 days	340	1,135
91–120 days	12	261
121–365 days	331	229
	12,155	10,787

15. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed terms of repayment.

16. AMOUNTS DUE FROM SHAREHOLDERS

Particulars of amounts due from shareholders are as follows:

Name of shareholders	Maximum amount outstanding during the year HK\$'000	2003	2002
		HK\$'000	HK\$'000
Leopark Worldwide Inc. (note (a) & (b))	420	420	—
New Paramount Profit Limited (note (a) & (c))	489	489	—
	909	909	—

- (a) The amounts due from shareholders were unsecured, interest-free and had no fixed terms of repayment. The amounts had been settled subsequent to 31st March, 2003. No provision is made for the amounts due from shareholders.



16. AMOUNTS DUE FROM SHAREHOLDERS (Continued)

- (b) A director of the Company, Mr. Chan King Hong Edwin, has beneficial interests in Leopard Worldwide Inc.
- (c) A director of the Company, Mr. Chan King Yuen Stanley, has beneficial interests in New Paramount Profits Limited.

17. BANK BALANCES AND CASH

Included in the balance of the group is an amount of approximately HK\$668,000 (2002: Nil) denominated in Renminbi in the PRC. The conversion of these Renminbi dominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

18. TRADE PAYABLES

Details of the ageing analysis are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 30 days	3,201	4,273
31–60 days	1,152	1,294
61–90 days	10	580
Over 90 days	52	249
	4,415	6,396

19. AMOUNTS DUE TO DIRECTORS

The amounts were unsecured, interest-free and repaid during the year.

20. SHARE CAPITAL

	Company
	2003 HK\$'000
Authorised: 2,000,000,000 ordinary shares of HK\$0.01 each	20,000
Issued and fully paid: 307,664,000 ordinary shares of HK\$0.01 each	3,077



20. SHARE CAPITAL (Continued)

- (a) The Company was incorporated in the Cayman Islands on 12th April, 2002 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.
- (b) On 2nd May, 2002, 1,000 shares of HK\$0.01 each were allotted and issued as nil-paid.
- (c) On 17th February, 2003, the Company acquired the entire issued capital of Chanco International Holding Limited ("Chanco") and in consideration thereof (i) an aggregate of 999,000 shares of HK\$0.01 each, credited as fully paid, were allotted and issued to then shareholders of Chanco; and (ii) the aggregate of 1,000 shares allotted and issued as nil-paid were credited as fully-paid up at par (note 20(b)).
- (d) On 18th February, 2003, the authorised share capital of the Company was increase to HK\$20,000,000 by creation of an additional 1,962,000,000 shares of HK\$0.01 each.
- (e) On 18th February, 2003, 241,004,000 shares of HK\$0.01 each were allotted and issued at par, credited as fully paid to the then shareholders in proportion to their respective shareholding on the register of members of the Company at the date of business on 17th February, 2003 by way of the capitalisation of the share premium account of the Company (the "Capitalisation Issue").
- (f) On 19th March, 2003, 65,660,000 shares of HK\$0.01 each were issued to the public at HK\$0.6 each for cash totaling HK\$39,396,000. The excess over the par value of the shares issued was credited to the share premium account.
- (g) The comparative figures of the Group for the previous year represents the combined total of the issued share capital of the companies comprising the Group as at 31st March, 2002 prior to the Reorganisation.

21. SHARE OPTIONS

- (a) Under the share option scheme (the "Share Options Scheme") approved by the shareholders on 18th February, 2003, the directors of the Company may, at its discretion, invite non-executive directors, employees, suppliers of goods or services, customers, consultants and advisors of the Group or any entity in which any member of the Group holds any equity interest to take up options to subscribe for shares in the Company representing up to a maximum of 30 per cent of the issued share capital of the Company from time to time.

The subscription price for the shares in relation to options to be granted under the Share Option Scheme shall be determined by the board and shall be at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares on the date of grant (the "Offer Date"); and (iii) the average closing price of the shares for the five business days immediately preceding the Offer Date. The options are exercisable within 10 years from the Offer Date.

No share option has been granted under the Share Option Scheme for the year ended 31st March, 2003.



21. SHARE OPTIONS (Continued)

- (b) On 26th May, 2003, the directors granted options to certain employees and consultants of the Group to subscribe for an aggregate of 14,352,000 shares of the Company, with an exercise price calculated in accordance with the provisions of the Share Option Scheme at HK\$0.58 per share.

On 19th June, 2003, share options exercised resulted in 6,760,000 shares being issued at HK\$0.58 each yielding the following proceeds:

	HK\$'000
Ordinary share capital — at par	68
Share premium	3,853
<hr/>	
Proceeds	3,921
<hr/>	
Fair value of shares issued at exercise date of 19th June, 2003	4,867

At the date when the options were exercised on 19th June, 2003, the closing price per share was HK\$0.72.

22. RESERVES

	Note	Share premium HK\$'000	Group Share issuance costs HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st April, 2002		—	(1,610)	42,953	41,343
Profit attributable to shareholders		—	—	35,007	35,007
Interim dividends, paid by a subsidiary before Reorganisation	7	—	—	(21,000)	(21,000)
Capitalisation Issue	20(e)	(2,410)	—	—	(2,410)
Premium on issue of shares upon placing and public offer	20(f)	38,739	—	—	38,739
Share issuance costs		—	(8,461)	—	(8,461)
Transfers		(10,071)	10,071	—	—
<hr/>					
At 31st March, 2003		26,258	—	56,960	83,218
<hr/>					
Representing:—					
Reserves					70,641
2003 final dividend proposed					12,577
<hr/>					
					83,218
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22. RESERVES (Continued)

	Note	Share premium HK\$'000	Group Share issuance costs HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st April, 2001		—	—	22,205	22,205
Profit attributable to shareholders		—	—	41,748	41,748
Interim dividends, paid by a subsidiary before Reorganisation	7	—	—	(21,000)	(21,000)
Share issuance costs		—	(1,610)	—	(1,610)
At 31st March, 2002		—	(1,610)	42,953	41,343
Representing:—					
Reserves					41,343

	Note	Share premium HK\$'000	Company Share issuance costs HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At incorporation 12th April, 2002		—	(1,610)	—	(1,610)
Profit for the period from 12th April, 2002 (date of incorporation) to 31st March, 2003		—	—	12,987	12,987
Surplus on Reorganisation	22(a)	48,171	—	—	48,171
Capitalisation Issue	20(e)	(2,410)	—	—	(2,410)
Premium on issue of shares upon placing and public offer	20(f)	38,739	—	—	38,739
Share issuance costs		—	(8,461)	—	(8,461)
Transfers		(10,071)	10,071	—	—
At 31st March, 2003		74,429	—	12,987	87,416
Representing:—					
Reserves					74,839
2003 Final dividend proposed					12,577
					87,416

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



23. DEFERRED TAXATION

The movement on the deferred tax liabilities account is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
At the beginning of the year	96	—
Charged to the consolidated profit and loss account (note 5)	127	96
At the end of the year	223	96
Provided in the accounts in respect of:		
Accelerated depreciation allowances	223	96

At 31st March, 2003, the Group and the Company have no significant unprovided deferred taxation (2002: Nil).

24. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of consolidated profit before taxation to net cash inflow from operating activities

	2003	2002
	HK\$'000	HK\$'000
Profit before taxation	38,072	45,602
Interest income	(302)	(274)
Depreciation charges	1,419	807
Loss on disposal of fixed assets	43	—
(Increase)/decrease in inventories	(6,275)	7,883
Increase in trade and other receivables, deposits and prepayments	(2,489)	(1,526)
Increase in amounts due from shareholders	(909)	—
(Decrease)/increase in amounts due to directors	(3,038)	2,399
Decrease in trade and other payables, and accrued charges	(1,182)	(1,757)
Decrease in amount due to a related company	—	(1,275)
Net cash inflow generated from operations	25,339	51,859



24. CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital including share premium and share issuance costs	
	2003 HK\$'000	2002 HK\$'000
At the beginning of the year	(1,610)	—
Non-cash flow items:		
Issue of shares upon incorporation and Reorganisation (note 20(c))	10	—
Cash flow items:		
Issue of shares upon placing and public offer (note 20(f))	39,396	—
Share issuance costs	(8,461)	(1,610)
	<hr/>	<hr/>
At the end of the year	29,335	(1,610)

25. CONTINGENT LIABILITIES

The Group and the Company had no material contingent liabilities at 31st March, 2003 (2002: Nil).

26. COMMITMENTS

(a) Capital commitments

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for		
Capital contribution in a subsidiary	—	2,000
Fixed assets	113	1,024
	<hr/>	<hr/>
	113	3,024
Authorised but not contracted for		
Fixed assets	—	1,113
	<hr/>	<hr/>
	113	4,137



26. COMMITMENTS (Continued)

(b) Commitments under operating leases

At 31st March, 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	3,462	360
Later than one year and not later than five years	260	260
Later than five years	—	—
	3,722	620

At 31st March, 2003, the Company has no capital and operating lease commitments.

27. BANKING FACILITIES

At 31st March, 2003, the banking facilities of HK\$8 million provided by two banks to the Group were supported by the following:

- (a) HK\$5 million of the facilities were guaranteed by the executive directors of the Company, Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca, jointly and severally and were secured by bank deposits of HK\$3.7 million given by certain executive directors of the Company Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley, and a substantial shareholder, Mr. Chan Woon Man, and his wife, Ms. Tsang Sau Lin. Mr. Chan Woon Man and Ms. Tsang Sau Lin are parents of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca.
- (b) HK\$3 million of the facilities were secured by bank deposits of HK\$3.3 million given by certain executive directors of the Company, Mr. Chan King Hong Edwin and Mr. Chan King Yuen Stanley.

In June 2003, the Group agreed with its banks that the secured deposits as mentioned above and personal guarantees from the executive directors were replaced by corporate guarantee provided by the Company.



28. RELATED PARTY TRANSACTIONS

Save as disclosed in other notes to the accounts, other significant related party transactions which were carried out are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Rental expenses paid to Charter Score International Limited for directors' quarters (note (a))	—	75
Mr. Chan Woon Man and Ms. Tsang Sau Lin for the office premises (note (b))	220	—

- (a) The rental expenses were paid for executive directors' quarters and have been included as part of the directors' emoluments (note 10). The executive directors were interested in the above transactions to the extent that the executive directors and Mr. Chan Woon Man hold the entire interests of Charter Score International Limited. The directors are of the opinion that the above transactions were conducted in the ordinary course of business.
- (b) The Group has occupied a property owned by Mr. Chan Woon Man and Ms. Tsang Sau Lin. No rental had been paid by the Group to the landlords of the property before 30th April, 2002. Pursuant to a tenancy agreement dated 30th April, 2002 between the landlords and Sun Ray Manufactory, Limited, the Group leases the property at a monthly rental of HK\$20,000 commencing on 1st May, 2002. The directors are of the opinion that the leasing transactions are conducted in the ordinary course of business.

29. SUBSEQUENT EVENTS

Save as disclosed in notes 7(a) and 21(b), the Group did not have any significant events which took place subsequent to the balance sheet date.

30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 18th July, 2003.



FIVE YEAR FINANCIAL SUMMARY

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

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Results					
Profit attributable to shareholders	35,007	41,748	12,951	19,700	2,152
Assets and liabilities					
Total assets	95,228	56,712	35,515	30,323	18,181
Total liabilities	(8,933)	(15,359)	(13,300)	(7,559)	(10,317)
Shareholders' funds	86,295	41,353	22,215	22,764	7,864

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