



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

