



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
<b>Total</b>	<b>14,352,000</b>	<b>6,760,000</b>	<b>—</b>	<b>—</b>	<b>7,592,000</b>	

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	Other 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

