

Chairman's Statement

Dear Shareholders,

On Behalf of the Board of Directors (the "Board" or the "Directors") of Chanco International Group Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively refer to the "Group") for the year ended 31st March, 2005.

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

BUSINESS REVIEW

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

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

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

FUTURE PROSPECTS

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

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

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

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

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

APPRECIATION

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

Chan King Hong Edwin

Chairman

Hong Kong, 18 July, 2005