

## Management Discussion and Analysis

### FINANCIAL REVIEW

(All the analysis below is based on the results of the Group for the year ended 31 March 2005 and the year ended 31 March 2004 for comparison purpose only)

In fiscal 2005, we achieved the highest turnover in our history. The operating result was strong and encouraging. The Group's turnover increased from approximately HK\$155 million to approximately HK\$206 million, representing an increase of 33% as compared to that of last year. Gross profit increased by 31% to HK\$68 million while the gross profit margin maintained at approximately 33% (2004: 34%).

The selling and distribution expenses of the Group for the year ended 31st March 2005 increased to approximately HK\$7 million as a result of the upsurge in selling expenses for retail operation. The administrative and other operating expenses increased by 28% to HK\$18 million compared to approximately HK\$14 million of last year. The rise was mainly attributable to the expanded manpower and increased staff remuneration.

Profit attributable to shareholders increased by 27% to nearly HK\$40 million in fiscal 2005. The basic earnings per share was approximately HK12.61 cents as compared to HK10.02 cents recorded in fiscal 2004.

The Board has recommended the payment of a final dividend of HK2.2 cents per share for the year ended 31st March 2005. An interim dividend of HK2 cents per share was paid by the Company in 2004, making a total dividend payout ratio of around 33 % for the year ended 31 March 2005.

### GEOGRAPHICAL REVIEW

Japan continued to be the largest export market of the Group which mainly led by the increasing sales of ladies belts to the key customer in Japan. Despite reduced orders from small trading companies, the total export sales to Japan still rose to approximately HK\$98 million, representing a growth of 16% as compared to that of last year.

In fiscal 2005, the Group reported an encouraging result in the export sales to Europe which accounted for 21% of the Group's total turnover. Export sales to Germany in the reviewing year rose in line with key international brand customer's continuing growth in their local retail business while the growing maturity in the business relationship with some famous brand customers in United Kingdom, Netherlands and France has also become a key driver of sales in Europe.

For U.S. market, the export sales remained constant of about HK\$17 million as compared with that of fiscal 2004.

As one of the best performing market in fiscal 2005, Australia has become a growing market of the Group's OEM and ODM business. Sales to Australia surged from HK\$4 million to HK\$9 million for the year ended 31 March 2005, representing an increase of approximately 125%.

Looking into Hong Kong and the PRC regions, sales in Hong Kong rose to HK\$18 million representing around 31% growth over fiscal 2004. The growth was mainly due to the organic growth of manufacturing business and revenue contribution from the Group's new retail operation in Hong Kong established since November 2004.

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Driven by the increased sales orders from reputable brand customers in the second half of fiscal 2005, the sales to the PRC market rose by 29% to HK\$9 million.

Apart from the major export markets and the fast emerging local retail market, sales revenue from other countries including Canada, Taiwan, Philippines, Singapore and Malaysia, etc. rose approximately 64%, to HK\$12 million in fiscal 2005.

### BUSINESS REVIEW

Chanco's business is going diversified, consists of OEM and ODM manufacturing of belts and leather accessories targeting international brand customers and the newly developed retail business in Hong Kong which focuses on selling unisex and young fashion items to teenagers.

- **MANUFACTURING BUSINESS**

Manufacturing business remained as the core revenue contributor of the Group. Turnover of the manufacturing business grew by 32% to HK\$204 million (2004: HK\$154 million). The global market condition was better off in fiscal 2005. Sales orders from international brand customers with long-term relationship recorded surge. After over two decades of business expansion, the Group has already established a solid reputation as premier designer and manufacturer of quality leather accessories in the global market which partly reflected in our accumulating referral orders referred by our existing customers.

In the reviewing year, revenue from manufacturing of belts increased from approximately HK\$149 million to approximately HK\$197 million,

representing a growth of 32%. Sales of leather goods recorded a revenue of approximately HK\$7 million in fiscal 2005, representing approximately 62% increase over last year. However, facing the rise in labor cost and outsourcing volume, our gross profit margin could only maintained at approximately 33% in fiscal 2005.

- **RETAIL BUSINESS**

As the Group's maiden step breaking into the local retail market, the Group's first retail store AREA 0264 was successfully opened in November 2004 at Langham Place. Even though the retail shops has recorded a net loss of approximately HK\$820,000 after taken the initial investment into account, the Group has been on the right track of development and is confident towards the large room for growth in the future.

AREA 0264 is a multi-brand store with modern and unique image. AREA 0264 not only displaying full collection of Stranger's products, including jackets, T-shirts, handbags, backpacks, belts and wallets, but also incorporating various trendy and popular brands from Japan, Europe and the U.S. During the year under review, products sold under own brandname – STRANGER accounted for approximately 45% of the Group total retail sales. The retail gross profit margin of own brand products was approximately 69% while the gross profit margins of third-party brands products ranged from 15% – 80%. The Group managed to review the sales mix periodically in order to satisfy the ever-changing needs of dynamic youngsters who seek for unusual stylish products.

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## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 31st March 2005, the Group's cash and bank deposits were approximately HK\$90 million (2004: HK\$67 million).

As at 31st March 2005, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8 million were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$145 million as at 31st March 2005 (2004: HK\$113 million) and total current liabilities of approximately HK\$20 million (2004: HK\$14 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 7 times as at 31 March 2005 (2004: 8 times).

Supported by its strong financial position, the Group had not raised any bank loan during the year.

The Group recorded an increase in shareholders' funds from approximately HK\$106 million as at 31st March 2004 to approximately HK\$134 million at 31st March 2005. The increase was mainly attributable to operating profit generated during the year.

## **TREASURY POLICY**

The Group generally finances its operation with internally generated resources.

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

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi or United States dollars such that the Group does not have significant exposure to foreign exchange fluctuation. Though the Group does not engage in any hedging contracts, the Group's exposure to foreign exchange risk is minimal.

## **CHARGES ON ASSETS**

The Group did not have any assets pledged for general facilities granted by banks.

## **MATERIAL ACQUISITIONS/DISPOSAL**

The Group had no material acquisition/disposals for the year ended 31st March 2005.

## **EMPLOYEE INFORMATION**

As at 31st March 2005, the Group had 38 full time employees in Hong Kong and 93 in the PRC. The Group remunerated its employee mainly based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company.

## **CONTINGENT LIABILITIES**

As at 31 March 2005, the Group did not have any contingent liabilities.