

## Report of the Directors

The directors (the "Directors") are pleased to present their report together with the audited financial statements of Chanco International Group Limited (the "Company") and its subsidiaries (collectively refer to the "Group") for the year ended 31st March, 2005.

### **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 financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31st March, 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 51.

The Directors recommended the payment of a final dividend of HK2.2 cents per ordinary share to shareholders whose names appear in the register of members of the Company on 25th August, 2005. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about 2nd September, 2005.

### **RESERVES**

Details of the movements in the reserves of the Company and the Group during the year are set out in note 21 to the financial statements and in the consolidated statement of changes in equity, respectively.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group are set out in note 11 to the financial statements.

### **SHARE CAPITAL**

Details of the movements in share capital of the Company are set out in note 19 to the financial statements.

### **DISTRIBUTABLE RESERVES**

Distributable reserves of the Company at 31st March, 2005, amounted to HK\$87.7 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 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, 2005.

### **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 52.

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### **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### **DIRECTORS**

The directors of the Company during the year and up to the date of this report were:

#### **EXECUTIVE DIRECTORS**

Mr. Chan King Hong Edwin  
Mr. Chan King Yuen Stanley  
Ms. Chan Wai Po Rebecca

#### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Ms. Chau Cynthia Sin Ha  
Mr. Fong Pui Sheung David  
Mr. Or Kam Chung Janson

In accordance with Article 87 of the Company's Articles of Association, Ms. Chan Wai Po Rebecca shall retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer herself 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 and renewable automatically for successive terms of one year, 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. They entered into service contracts with the Company for an initial term of two years commencing from 1st March, 2003. On 26th February, 2005, their contracts were renewed for a two-year term expiring on 28th February, 2007.

Mr. Or Kam Chung Janson is an independent non-executive director and was appointed for a two-year term expiring on 15th June, 2006.

Save as aforesaid, no directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

### **DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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### DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31st March, 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### LONG POSITIONS

(a) Ordinary shares of HK\$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
Chan King Hong Edwin	Interest of a controlled corporation	47,727,352 <i>(Note 1 (a))</i>	
	Beneficial owner	<u>4,000,000</u>	
		<u>51,727,352</u>	16.24
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 <i>(Note 2)</i>	
	Beneficial owner	<u>4,620,000</u>	
		<u>52,347,352</u>	16.44
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 <i>(Note 3)</i>	12.31

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### DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

(b) Share options

Name	Capacity	Number of options held	Number of underlying shares
Chan King Hong Edwin	Beneficial owner	3,181,200 <i>(Note 4)</i>	3,181,200
	Interest of spouse	3,181,200 <i>(Note 1 (b))</i>	3,181,200
Chan King Yuen Stanley	Beneficial owner	3,181,200 <i>(Note 4)</i>	3,181,200
Chan Wai Po Rebecca	Beneficial owner	3,181,200 <i>(Note 4)</i>	3,181,200

Notes:

- 1(a) 47,727,352 shares are held by Leopark Worldwide Inc., a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Hong Edwin.
- 1(b) An option to subscribe for 3,181,200 shares of the Company was granted to Ms. Li Shuk Han on 24th September, 2003, who is the spouse of Mr. Chan King Hong Edwin. By virtue of the SFO, Mr. Chan King Hong Edwin is taken to be interested in these 3,181,200 long positions held by Ms. Li Shuk Han.
2. 47,727,352 shares are held by New Paramount Profits Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan King Yuen Stanley.
3. 39,204,648 shares are held by Prevail Assets Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Ms. Chan Wai Po Rebecca.
4. On 24th September, 2003, each of Mr. Chan King Hong Edwin, Mr. Chan King Yuen Stanley and Ms. Chan Wai Po Rebecca was granted an option to subscribe for 3,181,200 shares of the Company. Details of the options are stated under section headed "Share Option" below.

Save as disclosed above, none of the directors, chief executives and their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31st March, 2005.

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### SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2005, the interests or short positions of the persons, other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

#### LONG POSITIONS

(a) Ordinary shares of HK\$0.01 each of the Company

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital</b>
Leopark Worldwide Inc.	Beneficial owner	47,727,352 (Note i)	14.99
New Paramount Profits Limited	Beneficial owner	47,727,352 (Note i)	14.99
Prevail Assets Limited	Beneficial owner	39,204,648 (Note i)	12.31
Smarty Worldwide Limited	Beneficial owner	39,204,648 (Note ii)	12.31
Chan Woon Man	Interest of a controlled corporation	39,204,648 (Note ii)	12.31
Li Shuk Han	Interest of spouse	51,727,352 (Note iii)	16.24
Chelverton Dividend Income Fund Limited	Investment manager	16,112,000	5.06

(b) Share Options

<b>Name</b>	<b>Capacity</b>	<b>Number of options held</b>	<b>Number of underlying shares</b>
Li Shuk Han	Beneficial owner and interest of spouse	6,362,400 (Note iv)	6,362,400
Chan Woon Man	Beneficial owner	3,181,200 (Note ii)	3,181,200

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### **SUBSTANTIAL SHAREHOLDERS** *(Continued)*

Notes:

- (i) These shareholdings have also been included as corporate interests of Directors as disclosed under the section headed "Directors' interests in shares and underlying shares" above.
- (ii) 39,204,648 shares are held by Smarty Worldwide Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Chan Woon Man. In addition, an option to subscribe for 3,181,200 shares of the Company was granted to Mr. Chan Woon Man on 24th September, 2003.
- (iii) 47,727,352 shares are held by a company controlled by Mr. Chan King Hong Edwin and 4,000,000 shares are held by Mr. Chan King Hong Edwin. By virtue of the SFO, Ms. Li Shuk Han, who is the spouse of Mr. Chan King Hong Edwin, is taken to be interested in these long positions.
- (iv) Being an option to subscribe for 3,181,200 shares of the Company granted to Mr. Chan King Hong Edwin and an option to subscribe for 3,181,200 shares of the Company granted to Ms. Li Shuk Han on 24th September, 2003.

Other than as disclosed above, the Company has not been notified of any other interests or short position in the issued share capital of the Company as at 31st March, 2005.

### **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 Company 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 provide 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 Company 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 Company must not exceed 10% of the shares of the Company in issue on 12th March, 2003, the date of the Company being listed on the Main Board of the Stock Exchange.

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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 Company 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.

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.



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### SHARE OPTIONS *(Continued)*

There were no movements in share options during the year ended 31st March, 2005. Details of share options outstanding at 31st March, 2005 are as follows:

Name or category of participant	Date of grant	Outstanding as at 1st April, 2004 and 31st March, 2005	Exercisable period	Exercise price per share
<b>(a) Executive directors</b>				
Chan King Hong Edwin	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
Chan King Yuen Stanley	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
Chan Wai Po Rebecca	24th Sept, 2003	3,181,200	24th Sept, 2003 – 23rd Sept, 2013	0.830
<b>(b) Employees, in aggregate</b>				
	26th May, 2003	516,000	26th May, 2003 – 25th May, 2013	0.580
	24th Sept, 2003	6,362,400	26th May, 2003 – 25th May, 2013	0.830
<b>(c) Others, in aggregate</b>				
	26th May, 2003	3,000,000	26th May, 2003 – 25th May, 2013	0.580
Total		<u>19,422,000</u>		

Notes:

- (i) All the options were immediately vested upon granted.
- (ii) The share options granted under the Share Option Scheme are not recognised in the financial statements until they are exercised.



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### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares and underlying shares" and "Share option" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### 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	11%
– five largest suppliers combined	44%

#### Sales

– the largest customer	41%
– five largest customers combined	60%

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 stated above.

### CONNECTED TRANSACTIONS

No significant connected transactions were entered into by the Group during the year ended 31st March, 2005, which constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2005 with the Code of Best Practice as set out in Appendix 14 of the Rules.

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the year ended 31st March, 2005.

The Company has received from each of the independent non-executive directors an annual written confirmation of independence pursuant to rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors as independent.

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### 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 for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) and in compliance with the Code of Best Practice set out in Appendix 14 to the Listing Rules.

The Audit Committee comprises three independent non-executive directors, namely, Ms. Chau Cynthia Sin Ha, Mr. Fong Pui Sheung David and Mr. Or Kam Chung Janson.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year.

### AUDITORS

Except for the year ended 31st March, 2003, in which PricewaterhouseCoopers and KLL Associates CPA Limited ("KLL") acted as joint auditors of the Company, KLL have acted as auditors of the Company for the past three years.

KLL will retire as auditors of the Company at the forthcoming annual general meeting (the "AGM"). The practice of KLL will merge with BDO McCabe Lo Limited ("BDO") on 1st August 2005. Accordingly, a resolution for appointing BDO as auditors of the Company will be put at the AGM.

On behalf of the Board

**Chan King Hong Edwin**

*Chairman*

Hong Kong, 18th July, 2005