CHANCO INTERNATIONAL GROUP LIMITED

卓高國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 0264)

THE PREMIER

Designer & Manufacturer

of Quality Leather Accessories

Annual Report 2007

Contents

Corporate Information

DIRECTORS

Executive Directors

Chan King Hong Edwin
(Chairman & Chief Executive Officer)
Chan King Yuen Stanley *(Vice Chairman)*
Chan Wai Po Rebecca

Independent Non-executive Directors

Chau Cynthia Sin Ha *JP*
Fong Pui Sheung David *MH*
Or Kam Chung Janson *FCCA CPA*

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Lau Wai Hung *FCCA CPA*

AUDIT COMMITTEE

Fong Pui Sheung David *MH (Committee Chairman)*
Chau Cynthia Sin Ha *JP*
Or Kam Chung Janson *FCCA CPA*

REMUNERATION COMMITTEE

Or Kam Chung Janson *FCCA CPA*
(Committee Chairman)
Fong Pui Sheung David *MH*
Chau Cynthia Sin Ha *JP*

NOMINATION COMMITTEE

Chau Cynthia Sin Ha *JP (Committee Chairperson)*
Fong Pui Sheung David *MH*
Or Kam Chung Janson *FCCA CPA*

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3rd Floor, Victory Industrial Building
Nos. 151-157 Wo Yi Hop Road
Kwai Chung
New Territories
Hong Kong

PRINCIPAL BANKERS

Nanyang Commercial Bank Limited
Wing Hang Bank Limited

AUDITORS

BDO McCabe Lo Limited
Certified Public Accountants

LEGAL ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.chancogroup.com
www.irasia.com/listco/hk/chanco/index.htm

STOCK CODE

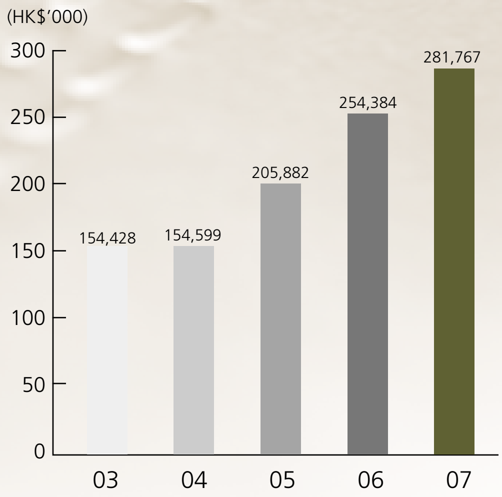
264

Financial Highlights

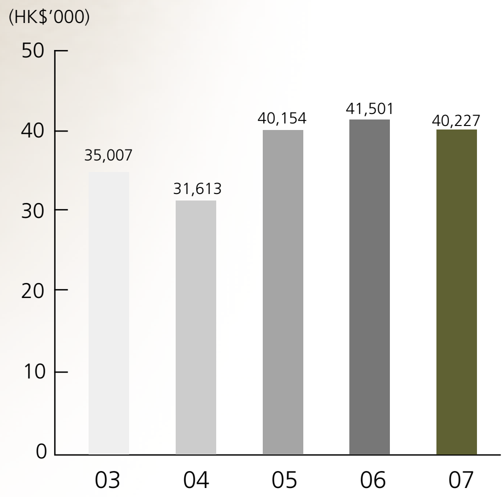
	2007 HK$'000	2006 HK$'000	Change
Operating results			
Turnover	**281,767**	254,384	+10.8%
Gross Profit	**82,911**	82,995	-0.1%
Profit before income tax expense	**43,996**	45,742	-3.8%
Profit for the year	**40,227**	41,501	-3.1%
Business performance ratios			
Gross profit margin	**29.4%**	32.6%	
Net profit margin	**14.3%**	16.3%	
Return on shareholders' equity	**21.4%**	25.8%	
Current ratio	**7.75**	8.00	
Quick ratio	**5.76**	5.41	
Debt ratio	**0.12**	0.12	
Share data (as at year end date)			
Shares in issue ('000)	**318,500**	318,500	
Shares closing price	**HK$0.68**	HK$0.67	
Market capitalization (HK$'000)	**216,580**	213,395	
Basic earnings per share	**HK12.63 cents**	HK13.03 cents	
Price earnings ratio	**5.38**	5.14	
Interim dividend per share	**HK2.3 cents**	HK2.4 cents	
Final dividend per share	**HK1.9 cents**	HK2.0 cents	
Special dividend per share	**HK0.7 cents**	Nil	
Total dividend per share	**HK4.9 cents**	HK4.4 cents	
Dividend payout ratio	**38.8%**	33.8%	
Net asset value per share	**HK$0.59**	HK$0.50	
Price-to-book value ratio	**1.15**	1.34	

Financial Highlights

TURNOVER

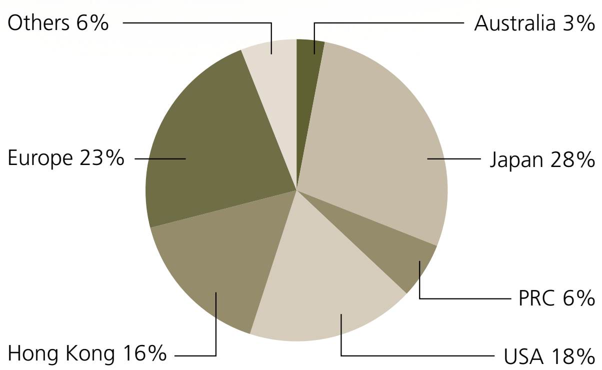


PROFIT FOR THE YEAR

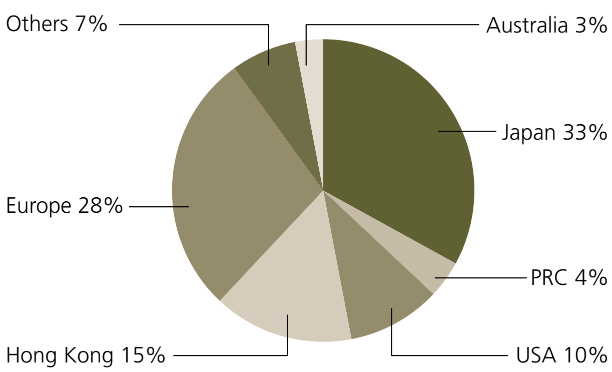


TURNOVER BY GEOGRAPHICAL SEGMENT

Fiscal Year 2007

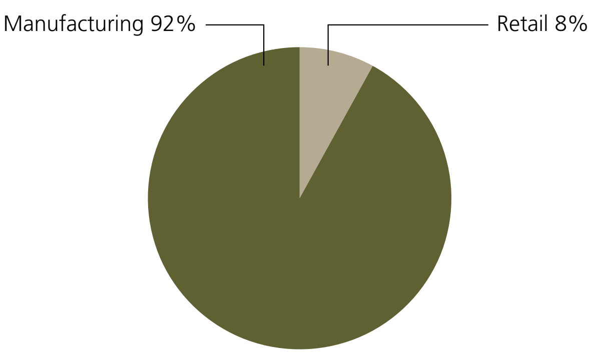


Fiscal Year 2006

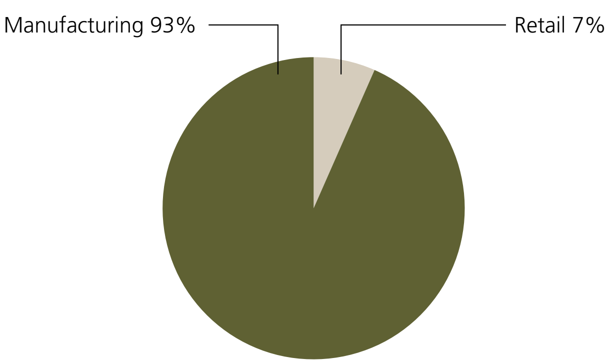


TURNOVER BY BUSINESS SEGMENT

Fiscal Year 2007



Fiscal Year 2006



Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present to you the annual results of the Company and its subsidiaries (collectively refer to the "Group") for the year ended 31 March 2007.

BUSINESS REVIEW

The Group has managed to maintain its business growth through emphasis on quality, and cost competitiveness. The Group's turnover rose from HK$254,384,000 to HK$281,767,000. Steady demand from customers and moderate price adjustment contributed to the turnover growth. To reduce the Group's reliance on any single customer, the Group was actively working to broaden its customer base. Geographically, Japan and Europe continued to be the leading markets. Export sales to the U.S. became the key growth driver of Group in fiscal 2007.

Fiscal 2007 was a year of challenge to the Group. Manufacturing profit margin dropped to around 28%. Increase of labor cost and appreciation of Renminbi had significantly impacted the Group's profit margin. During the review year, the Group raised the average wages of the processing factory in order to retain experienced workers. In the meantime, more workers were hired but the average quality was not up to standard and resulted in lower production efficiency. The pressures on manufacturing margin still exist. Maintaining our profit margins will be our top mission of coming year.

Our retail business was steadily moving forward. With years of development, AREA 0264 becomes a well known label in young fashion market in Hong Kong. In fiscal 2007, our retail performance kept improving and reached closer to the break even level. We understood that our retail margin was still lag behind the key players in the market. To improve our retail margin, we sorted out a number of third party brands with low profit margin and retained few famous brands for marketing purpose. Up to the date of this report, we operate four AREA 0264 stores in Hong Kong. New concept store at MegaBox was just commenced business in June 2007.

Chairman's Statement

PROSPECTS

Looking forward, challenging business conditions are expected to persist in fiscal year 2008. The outlook for the manufacturing business remains positive but profit margin will continue to be affected by the continuing rise in Renminbi and labor cost. We are confident that our manufacturing business will continue its growth momentum. An encouraging sales growth is reported in the first quarter of fiscal 2008. To stay competitive, we have taken steps to shorten the production lead time through increasing manufacturing efficiency. The Group has employed additional experienced production management personnel who are responsible for improving production flow and enhancing workers quality. Once we have optimized our production lines, the Group expects to enjoy greater long term cost benefits.

For retail business, the Group's strategy is to maintain the momentum of growth through adjusting the existing product mix and improving the operational efficiency. The Group will endeavor to increase the sales mix of in-house brand in order to push up the overall retail profit margin. While the rental cost is still high in Hong Kong, we will keep our prudent strategy for retail expansion.

APPRECIATION

In appreciation of the long term support from our shareholders, the Board has proposed the payment of a final dividend and a special dividend of HK1.9 cents and HK0.7 cents per share respectively for the year ended 31 March 2007. Together with the interim dividend of HK2.3 cents per share paid, the total dividend paid and payable for the year will be HK4.9 cents per share, making a total dividend payout ratio of around 39% for the year ended 31 March 2007.

On behalf of the Board, I wish to express my sincere appreciation to all customers, suppliers and shareholders for their enduring support. I would also like to extend my gratitude to the management and all our staff for their commitment, hard work and contribution.

Chan King Hong Edwin
Chairman

Hong Kong, 18 July 2007

Management Discussion and Analysis

FINANCIAL REVIEW

(All the analysis below is based on the results of the Group for the year ended 31 March 2007 and the year ended 31 March 2006 for comparison purpose only)

The Group's turnover for the year ended 31 March 2007 amounted to HK$281,767,000 (2006: approximately HK$254,384,000), representing an increase of 11% as compared with last year. Gross profit was around HK$82,911,000 while the gross profit margin was approximately 29% (2006: 33%).

The selling and distribution expenses of the Group for the year ended 31 March 2007 increased slightly to approximately HK$17,091,000. Administrative and other operating expenses increased by 11%, to HK$26,320,000 which was mainly attributed to the increase of staff remuneration and bonus paid to the executive directors of the Company.

Profit attributable to shareholders decreased by approximately 3% to around HK$40,227,000. The basic earnings per share was HK12.63 cents as compared to HK13.03 cents of last year. The Board has recommended the payment of a final dividend and a special dividend of HK1.9 cents per share and HK0.7 cents per share for the year ended 31 March 2007. An interim dividend of HK2.3 cents per share was paid by the Company in January 2007, making a total dividend payout ratio of around 39% for the year ended 31 March 2007.

BUSINESS REVIEW

- ### Manufacturing Business

Manufacturing business recorded 10% increase in sales to HK$260,050,000. Geographically, Japan remained the Group's largest export market. The decrease of sales of 39% reported in the interim results was narrow down to 6% for full fiscal year. Strong order placed by the major customer in Japan in the second half of fiscal 2007 had nearly offset the reduction of sales in the first half of fiscal year. Overall export sales to Japan decreased by 6% which was mainly attributed to fluctuating orders from small trading companies.

Export sales to Europe decreased to approximately HK$63,553,000. During the review year, the Group tried to adjust the customer mix of export market in Europe. With limited production capacity, the Group was strategically to retain customers with better profit margin and long term potential. In the reviewing year, sales orders placed by new customers were satisfactory. Europe continued to be the second largest export market of the Group.

Due to strong demand from our customers, export sales to the U.S. recorded a historical high of the Group. Sales grew by approximately 105% to HK$51,292,000. The encouraging results reflected the effort endeavored by the Group in actively working to minimize the reliance on single market.

Domestic sales to the PRC market surged by 88% to HK$17,107,000. It was mainly attributable to revenue contribution from new customers and more aggressive expansion strategy adopted by the international brand customer.

Revenue from manufacturing of belts increased from approximately HK$229,939,000 to approximately HK$249,856,000. Sales of leather goods and other accessories was approximately HK$10,194,000. Gross profit decreased to HK$74,048,000 and gross margin dropped to around 28%. The decrease of gross margin was due to the rise of labor cost and outsourcing jobs, appreciation of Renminbi and additional rental for expanded production floor and dormitory for labor. The Group raised the average wages of the processing factory in order to retain experienced workers. In the meantime, more new workers were hired but the average quality was not up to standard. The overall production efficiency was relatively lower than last year. To maintain our profit margins, the Group had selectively made a moderate price adjustment to our customers.

- **Retail Business**

Retail sales for the year ended 31 March 2007 was approximately HK$21,717,000, representing around 8% of the Group's total turnover. Same store sales growth was around 16% over the same period of last year. The retail performance kept improving and the operating loss reduced to HK$743,000 compared to HK$1,540,000 of last year. The overall shop rental to turnover ratio decreased because of strong top-line growth. However, the retail gross margin was still not up to target. The Group had to enhance the sales mix of in-house brand and more resources would be put on product development and promotion.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2007, the Group's cash and bank deposits were approximately HK$119,573,000 (2006: HK$90,999,000).

As at 31 March 2007, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK$8,000,000 which were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK$204,292,000 on as at 31 March 2007 (2006: HK$172,226,000) and total current liabilities of approximately HK$26,358,000 (2006: HK$21,516,000). The current ratio of the Group, calculated by dividing the total currents assets by the total current liabilities, was approximately 8 times as at 31 March 2007 (2006: 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$160,853,000 as at 31 March 2006 to approximately HK$187,827,000 at 31 March 2007. 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, US dollars and Renminbi.

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi or US dollars such that the Group does not have significant exposure to foreign exchange fluctuation save for the gradual appreciation of Renminbi. Though the Group does not engage in any hedging contracts, the Group's exposure to foreign exchange risk is relatively limited.

CHARGES ON ASSETS

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

MATERIAL ACQUISITIONS/DISPOSALS

The Group had no material acquisitions/disposals for the year ended 31 March 2007.

EMPLOYEE INFORMATION

As at 31 March 2007, the Group had 262 full times employees in Hong Kong and the PRC and the processing factory had around 1,850 workers. The Group remunerated its employees 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 2007, the Group did not have any contingent liabilities.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. CHAN King Hong Edwin, aged 49, is the chairman and chief executive officer of the Company who joined the Group in around 1980. Mr. Chan is responsible for the development of corporate strategies, overseas sales and marketing strategic planning and overall management of the Group. He has over 22 years of experience in the manufacturing and sales of leather goods, corporate management and strategic planning. Mr. Chan graduated from the University of Toronto in Canada with a bachelor's degree in arts in 1980. Mr. Edwin Chan is the brother of Mr. Stanley Chan, Ms. Rebecca Chan and Ms. Chan Wai Foon and the hushand of Ms. Li Shuk Han.

Mr. CHAN King Yuen Stanley, aged 46, is the vice chairman of the Company who joined the Group in around 1980. Mr Chan is responsible for the design and product development, local sales and marketing strategic planning and overall management of the Group. He has over 22 years of experience in the manufacturing and sales of leather goods, product development and sampling designed training. Mr. Stanley Chan is the brother of Mr. Edwin Chan, Ms. Rebecca Chan and Ms. Chan Wai Foon.

Ms. CHAN Wai Po Rebecca, aged 43, is the production director of the Company who joined the Group in 1986. Ms. Chan is responsible for production planning and control, labour training and overall management of the Group's production facilities in Dongguan, the PRC. She has over 17 years of experience in the manufacturing of leather goods, production system design and quality assurance system management. She graduated from Tunghai University in Taiwan with a Bachelor's degree in Business Administration in 1986. Ms. Rebecca Chan is the sister of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Chan Wai Foon.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. CHAU Cynthia Sin Ha *JP*, aged 67, is an independent non-executive director of the Company. Ms. Chau has been appointed as a Non-official Justice of the Peace for Hong Kong since 17 July 1996. She holds a diploma in Arts from Chung Chi College in Hong Kong in 1961 and a master's degree of social welfare from the Regents of the University of California in the U.S. in 1967. Ms. Chau had served as the Welfare Superintendent of Po Leung Kuk for 26 years until her retirement in March 2001. As Welfare Superintendent, Ms. Chau was head of the Welfare Department and responsible for developing and improving the welfare services provided by Po Leung Kuk. Ms. Chau was appointed as the independent non-executive director of the Company in February 2003.

Biographical Details of Directors and Senior Management

Mr. FONG Pui Sheung David, *MH* aged 64, is an independent non-executive director of the Company. Mr. Fong was granted a Badge of Honour by Hong Kong Government in January 1989 and a Medal of Honour by the Government of Hong Kong Special Administrative Region for his contribution to the society in July 2000. He holds a diploma in Chinese Literature from the Chinese University of Hong Kong in 1970. Mr. Fong is a school manager of Fong Shu Fook Tong Foundation Fong Shu Chuen Primary School. Mr. Fong had served as the principal of Tung Koon District Society Fong Shu Chuen School from 1970 to 2003. Mr. Fong had been actively participating in the Community works in Kowloon City and Ho Man Tin Area Committee since 1973 and was appointed as Appointed Member of Kowloon City District Board from 1985 to 1991. Mr. Fong was acted as Councilor of Urban Council from 1989 to 1991. From 1992 to 2003, Mr. Fong was appointed as member of Board of Control, Hong Kong Subsidized Schools Provident Fund and participated in the administration over HK$30 billion Hong Kong Subsidized Schools Provident Fund. Mr. Fong was appointed as the independent non-executive director of the Company in February 2003.

Mr. OR Kam Chung, Janson, aged 37, is an independent non-executive director of the Company. Mr. Or is a practising Certified Public Accountant in Hong Kong. Mr. Or is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountant. Mr. Or obtained a Higher Diploma in Accountancy from the City University of Hong Kong in 1995. Mr. Or has over 9 years of experience in auditing, accounting, taxation and company secretary with public accounting firms. Mr. Or is the co-founder of a public accounting firm, KCPS & Partners Certified Public Accountants, and is now a practising partner of the firm. Mr. Or was appointed as the independent non-executive director of the Company in June 2004.

SENIOR MANAGEMENT

Ms. LI Shuk Han, aged 42, is the general manager of the Group. Ms. Li is responsible for the personnel and general management of the Group's operation in Hong Kong. She has over 18 years of experience in general administration including staff performance analysis and office system innovation. She is the wife of Mr. Edwin Chan. She joined the Group in 1984.

Mr. LAU Wai Hung, aged 31, is the financial controller, qualified accountant and the company secretary of the Company. Mr. Lau is responsible for overseeing the financial and the company secretarial functions of the Company. Mr. Lau obtained a Bachelor's degree in Business Administration from the Chinese University of Hong Kong in 1997. Mr. Lau is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lau has over 9 years of experience in auditing, finance, taxation and corporate development advisory. Prior to joining the Group, Mr. Lau worked for a consulting firm which provides business advisory services to clients. Mr. Lau joined the Group in July 2002.

Biographical Details of Directors and Senior Management

Ms. CHAN Wai Foon, aged 51, is the accounting manager of the Group. Ms. Chan is responsible for the financial and management accounting of the Group. She holds a diploma in accounting from Centennial College in Canada in 1980. She has over 23 years of experience in accounting and finance. Prior to joining the Group, Ms Chan had worked as an accountant of a system integration company. She is the sister of Mr. Edwin Chan, Mr. Stanley Chan and Ms. Rebecca Chan. She joined the Group in 1997.

Mr. CHO Sau Man, aged 43, is the deputy general manager of the Group's processing factory in Dongguan, the PRC. Mr. Cho is responsible for overseeing the overall factory administration and handling regulatory compliance in the PRC. Mr. Cao is also a director of Elite Leatherware Company Limited, a subsidiary of the Company. Mr. Cho has over 10 years of experience in factory administration. Prior to joining the Group, Mr. Cho had worked as deputy general manager of an electric motor company located in Shenzhen. He joined the Group in April 2007.

Mr. CHAN Chi Hung, aged 43, is the operation manager of the Group. Mr. Chan is responsible for production planning and operation, shipping management and inventory control of the Group. Mr. Chan has over 8 years of experience in the leather industry. He joined the Group in 1995.

Mr. WU Wai Luk, aged 39, is the merchandising manager of the Group. Mr. Wu is responsible for sales and marketing and business development of the Group. Mr. Wu has over 8 years of experience in the leather industry. He joined the Group in 1997.

Mr. HUI Kwok Fai, aged 36, is the product development manager of the Group. Mr. Hui is responsible for product design and retail business operation of the Group. Mr. Hui has over 14 years of experience in product development and brand building. Prior to joining the Group, Mr. Hui had worked as product designer of Tough Jeans Ltd. and had successfully build up the distribution network for TOUGH bags and other accessories product to Japan, Singapore, Malaysia, Thailand, Germany, Italy, Spain and Australia. He joined the Group in October 2003.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of the Company believes that good corporate governance is importance to the success of the Company. The Company is committed to attaining good standard of corporate governance practices in order to enhance shareholders' value and safeguard the interests of shareholders.

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 March 2007 except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer.

DIRECTOR'S SECURITIES TRANSACTIONS

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 the Listing Rules during the year ended 31 March 2007.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic directions and financial performance. The management was delegated authority and responsibility by the Board for the day-to-day management of the Group. In addition, the Board has also delegated various responsibilities to the Remuneration Committee, Audit Committee and Nomination Committee.

The Board currently consists of 3 executive directors and 3 independent non-executive directors. Their brief biographical details and the relationships among the members of the Board are set out in the "Biographical details of directors and senior management" on pages 10 to 12 of this Annual Report.

The Board holds four regular meetings a year to review the financial and operating performance of the Company. Apart from the regular Board meetings, the Board will meet on other occasion when required.

Corporate Governance Report

During the financial year ended 31 March 2007, eight board meetings were held by the Company. The individual attendance record of each Director at the meetings of the Board during the year ended 31 March 2007 is as follows:

	Number of board meetings attended
Executive Directors	
Mr. Chan King Hong, Edwin *(Chairman and Chief Executive Officer)*	8/8
Mr. Chan King Yuen, Stanley	8/8
Mr. Chan Wai Po, Rebecca	5/8
Independent non-executive directors	
Mr. Fong Pui Sheung, David	5/8
Ms. Chau Cynthia Sin Ha	5/8
Mr. Or Kam Chung, Janson	5/8

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.

All independent non-executive Directors of the Company are appointed for a specific term not exceeding three years and are subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with Company's articles of associations.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provision stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Due to the small size of the existing management team, both the roles of the Chairman and Chief Executive Officer of the Company are currently played by Mr. Chan King Hong, Edwin. The Board is of the view that Mr. Chan King Hong, Edwin has considerable experience in manufacturing industry and is the person most knowledgeable about the business of the Group. The Board believes that the current structure will enable us to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of the Group.

OTHER COMMITTEES

There are three committees established under the Board, namely Audit Committee, Remuneration Committee and Nomination Committee.

AUDIT COMMITTEE

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

During the financial year ended 31 March 2007, four audit committee meetings were held by the Company. Individual attendance of each committee member at the meeting is as follows:

	Number of meetings attended
Independent non-executive directors	
Mr. Fong Pui Sheung, David *(Committee Chairman)*	4/4
Ms. Chau Cynthia Sin Ha	4/4
Mr. Or Kam Chung, Janson	4/4

The major roles and functions of the Audit Committee are as follow:

- To consider the appointment of the external auditor, the audit fee and any question of resignation or dismissal;
- To review the interim and annual results of the Group;
- To discuss with external auditor before and audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- To review the external auditor's management letter and management's response;
- To consider the major findings of internal investigations and management's response;
- To ensure that the Board will provide a timely response to the issue raised in the external auditor's management letter.

The Audit Committee has reviewed the Group's management the principles and practices adopted by the Group and discussed internal control and financial reporting matters, including a review of the unaudited financial statements and results of the Group for the six months ended 30 September 2006 and audited financial statements and results of the Group for the year ended 31 March 2007.

Corporate Governance Report

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by BDO McCabe Lo Limited to the Group during the year ended 31 March 2007 was as follow:

Nature of services	Amount HK$'000
Audit Services	420
Non-audit services	40
Total:	460

REMUNERATION COMMITTEE

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

The Remuneration Committee meets at least once a year and the Committee will meet on other occasion when required.

During the financial year ended 31 March 2007, one remuneration committee meetings were held by the Company. Individual attendance of each committee member at the meeting is as follows:

	Number of meetings attended
Independent non-executive directors	
Mr. Or Kam Chung, Janson *(Committee Chairman)*	1/1
Ms. Chau Cynthia Sin Ha	1/1
Mr. Fong Pui Sheung, David	1/1

The major roles and functions of the Remuneration Committee are as follow:

- to make recommendations to the board on the issuer's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

- to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the group and desirability of performance-based remuneration;

- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

- to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the issuer;

- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

- to ensure that no director or any of his associates is involved in deciding his own remuneration.

NOMINATION COMMITTEE

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

The Nomination Committee meets at least once a year and the Committee will meet on other occasion when required.

During the financial year ended 31 March 2007, two nomination committee meeting was held by the Company. Individual attendance of each committee member at the meeting is as follows:

	Number of meetings attended
Independent non-executive directors	
Ms. Chau Cynthia Sin Ha *(Committee Chairperson)*	2/2
Mr. Fong Pui Sheung, David	2/2
Mr. Or Kam Chung, Janson	2/2

The major roles and functions of the Nomination Committee are as follow:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board when requested by the Chairman of the Company and to make recommendations to the Board after such review;
- to assess the suitability and qualification of candidates put forward by the chief executive officer and to become new board members and to report to the Board on their assessment;
- to assess the independence of Independent Non-Executive Directors, having regard to the requirements under the Listing Rules; and
- to make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure that financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors have also ensured the timely publication of the financial statements of the Group.

The Directors' responsibilities in preparing financial statements and auditors' responsibilities are set out in the Auditors' Report on page 31 of this Annual Report.

INTERNAL CONTROL

The Board is responsible for maintaining an effective system of internal control to safeguard shareholders' investment and the Company's assets. The internal control system is designed to provide reasonable assurance on the effectiveness and efficiency of operations, to safeguard assets against unauthorized use or disposition; to maintain proper accounting records for producing reliable financial information.

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 March 2007. No material weaknesses were found.

CORPORATE COMMUNICATION

The Company communicates with its shareholders through publication of interim report and annual report in accordance with the Listing Rules. The Company welcomes shareholders to attend the general meetings and express their view. All directors are encouraged to attend the general meetings to have personal communication with shareholders. The external auditors are also required to be present to assist the directors in addressing any relevant queries by shareholders.

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 31 March 2007.

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 31 March 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 71.

An interim dividend of HK$2.3 cents per share amounting to HK$7,325,000 was paid to shareholders during the year. The Directors now recommend the payment of a final dividend and a special dividend of HK1.9 cents and HK0.7 cents per ordinary share, amounting to HK$6,051,000 and HK$2,230,000 respectively to shareholders, whose names appear in the register of members of the Company on 6 September 2007. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about 20 September 2007.

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 12 to the financial statements.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2007, amounted to approximately HK$89 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 is 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 31 March 2007.

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 72.

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.

Report of the Directors

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, Mr. Chan King Hong Edwin and Mr. Fong Pui Sheung David shall retire from office by rotation in the forthcoming annual general meeting and, being eligible, offer 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 1 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 1 March 2003. On 26 February 2005 their contracts were renewed for a two year term expiring on 28 February 2007. On 19 December 2006 their contracts were renewed for another two year term expiring on 28 February 2009.

Mr. Or Kam Chung, Janson is independent non-executive director of the Company. He entered into service contracts with the Company for an initial term of two years commencing from 16 June 2004. On 4 May 2006, his contract was renewed for a two year term expiring on 15 June 2008.

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.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2007, the interests and short positions of the directors and chief executive 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 *(Note 1(a))*	
	Beneficial owner	4,460,000	
		52,187,352	16.39
Chan King Yuen Stanley	Interest of a controlled corporation	47,727,352 *(Note 2)*	
	Beneficial owner	5,200,000	
		52,927,352	16.62
Chan Wai Po Rebecca	Interest of a controlled corporation	39,204,648 *(Note 3)*	12.31

(b) Share options

Name	Capacity	Number of options held	Number of underlying shares
Chan King Hong Edwin	Beneficial owner	3,181,200 *(Note 4)*	3,181,200
	Interest of spouse	3,181,200 *(Note 1(b))*	3,181,200
Chan King Yuen Stanley	Beneficial owner	3,181,200 *(Note 4)*	3,181,200
Chan Wai Po Rebecca	Beneficial owner	3,181,200 *(Note 4)*	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 24 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 24 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 31 March 2007.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, 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

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital
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	52,187,352 *(Note iii)*	16.39
CIM Dividend Income Fund Limited (Formerly known as Chelverton Dividend Income Fund Limited)	Investment manager	28,692,000	9.01
Yeoman Capital Management Pte Ltd	Investment manager	19,308,000	6.06

(b) Share Options

Name	Capacity	Number of options held	Number of underlying shares
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

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 24 September 2003.

(iii) These shares are held by a company controlled 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 24 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 31 March 2007.

SHARE OPTIONS

Pursuant to the written resolutions of all the shareholders of the Company passed on 18 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 12 March 2003, the date of the Company being listed on the Main Board of the Stock Exchange.

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.

The following table discloses movement in the Company's share options during the year.

Name or category of participant	Date of grant	Outstanding as at 1 April 2006	Options lapsed	Outstanding as at 31 March 2007	Exercisable period	Exercise price per share
(a) Executive directors						
Chan King Hong Edwin	24 Sept 2003	3,181,200	–	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
Chan King Yuen Stanley	24 Sept 2003	3,181,200	–	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
Chan Wai Po Rebecca	24 Sept 2003	3,181,200	–	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
(b) Employees, in aggregate	26 May 2003	516,000	152,000	364,000	26 May 2003 – 25 May 2013	0.580
	24 Sept 2003	6,362,400	–	6,362,400	24 Sept 2003 – 23 Sept 2013	0.830
(c) Others, in aggregate	26 May 2003	3,000,000	–	3,000,000	26 May 2003 – 25 May 2013	0.580
Total		19,422,000	152,000	19,270,000		

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.

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	25%
– five largest suppliers combined	45%
Sales	
– the largest customer	24%
– five largest customers combined	43%

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 31 March 2007, which constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Report of the Directors

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

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint the auditors, BDO McCabe Lo Limited.

On behalf of the Board

Chan King Hong Edwin
Chairman

Hong Kong, 18 July 2007

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Certified Public Accountants
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Hong Kong
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TO THE SHAREHOLDERS OF CHANCO INTERNATIONAL GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Chanco International Group Limited set out on pages 33 to 71, which comprise the consolidated and company balance sheet as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclose requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements, based on our audit. This is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO McCabe Lo Limited
Certified Public Accountants

Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, 18 July 2007

Consolidated Income Statement

For the year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	*4*	**281,767**	254,384
Cost of sales		**(198,856)**	(171,389)
Gross profit		**82,911**	82,995
Other income and gains		**4,496**	2,644
Selling and distribution costs		**(17,091)**	(16,155)
Administrative and other operating expenses		**(26,320)**	(23,742)
Profit before income tax expense	*6*	**43,996**	45,742
Income tax expense	*9*	**(3,769)**	(4,241)
Profit for the year		**40,227**	41,501
Dividends	*10*	**15,606**	14,014
Earnings per share	*11*		
– Basic		**HK12.63 cents**	HK13.03 cents
– Diluted		**HK12.61 cents**	HK13.01 cents

Consolidated Balance Sheet

As at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Assets			
Non-current asset			
Property, plant and equipment	*12*	**10,176**	10,409
Current assets			
Inventories	*14*	**52,480**	55,811
Trade and bills receivables	*15*	**27,266**	20,935
Other receivables, deposits and prepayments		**4,267**	4,463
Tax recoverable		**706**	18
Cash and cash equivalents		**119,573**	90,999
Total current assets		**204,292**	172,226
Total assets		**214,468**	182,635
Liabilities			
Current liabilities			
Trade and bills payables	*17*	**11,631**	9,203
Other payables and accrued charges		**14,456**	11,022
Tax payable		**271**	1,291
Total current liabilities		**26,358**	21,516
Non-current liabilities			
Deferred tax liabilities	*18*	**283**	266
Total liabilities		**26,641**	21,782
TOTAL NET ASSETS		**187,827**	160,853
Capital and reserves			
Share capital	*19*	**3,185**	3,185
Reserves		**184,642**	157,668
TOTAL EQUITY		**187,827**	160,853

On behalf of the Board

Chan King Hong Edwin
Executive Director

Chan King Yuen Stanley
Executive Director

Balance Sheet

As at 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
Assets			
Non-current asset			
Investments in subsidiaries	13	**48,181**	48,181
Current assets			
Other receivables		**126**	109
Amounts due from subsidiaries	16	**32,309**	35,200
Cash and cash equivalents		**11,742**	8,866
Total current assets		**44,177**	44,175
Total assets		**92,358**	92,356
Liabilities			
Current liabilities			
Accrued charges		**54**	16
TOTAL NET ASSETS		**92,304**	92,340
Capital and reserves			
Share capital	19	**3,185**	3,185
Reserves	21	**89,119**	89,155
TOTAL EQUITY		**92,304**	92,340

On behalf of the Board

Chan King Hong Edwin
Executive Director

Chan King Yuen Stanley
Executive Director

Consolidated Statement of Changes in Equity

As at 31 March 2007

	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Statutory surplus reserve HK$'000 (Note)	Retained earnings HK$'000	Proposed dividends HK$'000	Total HK$'000
At 1 April 2005	3,185	32,435	–	–	91,159	7,007	133,786
Profit for the year	–	–	–	–	41,501	–	41,501
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	217	–	–	–	217
Total recognised income and expense for the year	–	–	217	–	41,501	–	41,718
Transfer of retained earnings	–	–	–	888	(888)	–	–
2005 final dividend paid	–	–	–	–	–	(7,007)	(7,007)
2006 interim dividend paid	–	–	–	–	(7,644)	–	(7,644)
2006 proposed final dividend	–	–	–	–	(6,370)	6,370	–
At 31 March 2006	3,185	32,435	217	888	117,758	6,370	160,853
Profit for the year	–	–	–	–	40,227	–	40,227
Exchange differences arising on translation of financial statements of operations outside Hong Kong	–	–	442	–	–	–	442
Total recognised income and expense for the year	–	–	442	–	40,227	–	40,669
2006 final dividend paid	–	–	–	–	–	(6,370)	(6,370)
2007 interim dividend paid	–	–	–	–	(7,325)	–	(7,325)
2007 proposed final dividend	–	–	–	–	(6,051)	6,051	–
2007 proposed special dividend	–	–	–	–	(2,230)	2,230	–
At 31 March 2007	3,185	32,435	659	888	142,379	8,281	187,827

Note:

As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the PRC subsidiary of the Group is required to maintain a statutory surplus reserve which is not distributable. Appropriation to the reserve is made out of profit for the year as per the statutory financial statements of the PRC subsidiary and the amount and allocation basis are decided by its board of directors annually.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	2007	2006
	HK$'000	HK$'000
Operating activities		
Profit before income tax expense	**43,996**	45,742
Adjustments for:		
Interest income	**(4,049)**	(1,673)
Depreciation of property, plant and equipment	**2,620**	3,024
Loss on disposal of property, plant and equipment	**–**	128
Gain on disposal of financial asset at fair value through profit or loss	**–**	(241)
Operating profit before working capital changes	**42,567**	46,980
Decrease/(increase) in inventories	**3,331**	(24,860)
Increase in trade and bills receivables	**(6,331)**	(3,021)
Decrease/(increase) in other receivables, deposits and prepayments	**196**	(1,609)
Increase/(decrease) in trade and bills payables	**2,428**	(2,403)
Increase in other payables and accrued charges	**3,434**	2,912
Cash generated from operations	**45,625**	17,999
Hong Kong Profits Tax paid	**(4,811)**	(3,429)
Overseas tax paid	**(649)**	(186)
Net cash from operating activities	**40,165**	14,384
Investing activities		
Acquisition of property, plant and equipment	**(2,368)**	(4,609)
Interest received	**4,049**	1,673
Proceeds from disposal of financial asset at fair value through profit or loss	**–**	4,403
Net cash from investing activities	**1,681**	1,467
Net cash used in financing activities		
Dividends paid	**(13,695)**	(14,651)
Net increase in cash and cash equivalents	**28,151**	1,200
Cash and cash equivalents at beginning of year	**90,999**	89,597
Effect of foreign exchange rate changes	**423**	202
Cash and cash equivalents at end of year, representing bank balances and cash	**119,573**	90,999

Notes to the Financial Statements

31 March 2007

1. GENERAL

Chanco International Group Limited ("the Company") is incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The financial statements are presented in Hong Kong dollars ("HKD"), which is the same as the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in Note 13.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) In the current year, the Group has applied all the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are relevant to its operation and effective for accounting period beginning on or after 1 April 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

(b) Potential impact arising on the new accounting standards not yet effective

The Group has not yet applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) Potential impact arising on the new accounting standards not yet effective (*Continued)*

HKAS 1 (Amendment)	Capital Disclosures [4]
HKAS 23 (Revised)	Borrowing Costs [1]
HKFRS 7	Financial Instruments: Disclosures [4]
HKFRS 8	Operating Segments [1]
HK (IFRIC) – Interpretation 8	Scope of HKFRS 2 [7]
HK (IFRIC) – Interpretation 9	Reassessment of Embedded Derivatives [6]
HK (IFRIC) – Interpretation 10	Interim Financial Reporting and Impairment [5]
HK (IFRIC) – Interpretation 11	Group and Treasury Share Transactions [3]
HK (IFRIC) – Interpretation 12	Service Concession Arrangements [2]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 January 2008.
3 Effective for annual periods beginning on or after 1 March 2007.
4 Effective for annual periods beginning on or after 1 January 2007.
5 Effective for annual periods beginning on or after 1 November 2006.
6 Effective for annual periods beginning on or after 1 June 2006.
7 Effective for annual periods beginning on or after 1 May 2006.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation

The financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values or revalued amounts as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 28.

(c) Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full in preparing the consolidated financial statements.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss, if any.

(d) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives using reducing balance method. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Plant and machinery	–	30%
Furniture and fixtures	–	20%
Leasehold improvements	–	Shorter of expected useful life or over the unexpired period of the leases
Motor vehicles	–	30%

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenances costs are charged to the consolidated income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in the consolidated income statement on disposal.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Financial assets at fair value through profit or loss: include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the consolidated income statement.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial instruments *(Continued)*

(i) ***Financial assets*** *(Continued)*

An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, subsidiaries or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the consolidated income statement.

Any impairment losses on available-for-sale financial assets are recognised in the consolidated income statement on available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial instruments *(Continued)*

(ii) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities were incurred. The Group's accounting policy for each category is as follows:

Financial liabilities at fair value through profit or loss: Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on liabilities held for trading are recognised in the income statement.

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instruments. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Financial instruments *(Continued)*

(iv) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(g) Impairment of other assets

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investments in subsidiaries

If the recoverable amount (i.e. the greater of the net selling price and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

(i) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the consolidated income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(j) Leasing

The Group as lessee

Where substantially all of the risks and rewards incidental to ownership of a leased asset are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Foreign currency

Transactions entered into by Group entities in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences is also recognised directly in equity.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rate approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "exchange reserve"). Exchange differences recognised in the consolidated income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Employee benefits

(i) Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognised as an expense in the consolidated income statement when the services are rendered by the employees.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated income statement over the vesting period with a corresponding increase in the employee share based compensation reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Share based payments *(Continued)*

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods or services received unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For each-settled share based payments, a liability is recognised at the fair value of the goods or services received.

(o) Revenue recognition

Revenue from goods sold is recognised when title of goods sold has passed to the purchaser, which is at the time of delivery.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(p) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowance for the year.

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into two major operating divisions – manufacturing business and retail business. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing business	–	Manufacture and distribution of leather products
Retail business	–	Retail of fashion apparel and leather accessories

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Segment information about these business is presented below:

	Manufacturing business HK$'000	Retail business HK$'000	Inter-segment elimination HK$'000	Unallocated HK$'000	Consolidated HK$'000
Year ended 31 March 2007					
Revenue					
External sales	260,050	21,717	–	–	281,767
Inter-segment sales	1,680	–	(1,680)	–	–
Total	261,730	21,717	(1,680)	–	281,767
Segment results	40,964	(743)	(18)	–	40,203
Unallocated income					4,496
Unallocated expenses					(703)
Profit before income tax expense					43,996
Income tax expense					(3,769)
Profit for the year					40,227
At 31 March 2007					
Assets					
Segment assets	83,437	8,438	–	–	91,875
Unallocated assets					122,593
Total assets					214,468
Liabilities					
Segment liabilities	25,286	747	–	–	26,033
Unallocated liabilities					608
Total liabilities					26,641
Other information					
Capital expenditure	2,208	112	–	48	2,368
Depreciation of property, plant and equipment	1,780	476	–	364	2,620
Impairment loss on trade receivables	119	–	–	–	119
Write down of inventories	431	318	–	–	749

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Manufacturing business HK$'000	Retail business HK$'000	Inter-segment elimination HK$'000	Unallocated HK$'000	Consolidated HK$'000
Year ended 31 March 2006					
Revenue					
External sales	236,814	17,570	–	–	254,384
Inter-segment sales	1,347	3	(1,350)	–	–
Total	238,161	17,573	(1,350)	–	254,384
Segment results	45,411	(1,540)	(28)	–	43,843
Unallocated income					2,644
Unallocated expenses					(745)
Profit before income tax expense					45,742
Income tax expense					(4,241)
Profit for the year					41,501
At 31 March 2006					
Assets					
Segment assets	79,863	9,333	–	–	89,196
Unallocated assets					93,439
Total assets					182,635
Liabilities					
Segment liabilities	19,733	477	–	–	20,210
Unallocated liabilities					1,572
Total liabilities					21,782
Other information					
Capital expenditure	3,054	1,239	–	316	4,609
Depreciation of property, plant and equipment	1,779	811	–	434	3,024
Loss on disposal of property, plant and equipment	–	128	–	–	128
Impairment loss on trade receivables	330	–	–	–	330
Write down of inventories	1,062	–	–	–	1,062

5. SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's operations are principally located in Hong Kong and the PRC. Group administration is carried out in Hong Kong and the manufacturing function is carried out in the PRC.

The following table provides an analysis of the Group's revenue by geographical market and analysis of the carrying amount of total assets and capital expenditure by the geographical area in which the assets are located.

	Revenue 2007 HK$'000	**Total assets 2007 HK$'000**	**Capital expenditure 2007 HK$'000**
Japan	**79,980**	**–**	**–**
Europe	**63,553**	**–**	**–**
The United States of America ("USA")	**51,292**	**–**	**–**
Hong Kong	**44,500**	**162,108**	**2,208**
PRC	**17,107**	**51,290**	**160**
Australia	**8,502**	**–**	**–**
Others	**16,833**	**1,070**	**–**
	281,767	**214,468**	**2,368**

	Revenue 2006 HK$'000	Total assets 2006 HK$'000	Capital expenditure 2006 HK$'000
Japan	85,037	–	–
Europe	71,529	–	–
USA	24,972	–	–
Hong Kong	38,778	138,107	1,555
PRC	9,100	43,741	3,054
Australia	7,824	–	–
Others	17,144	787	–
	254,384	182,635	4,609

6. PROFIT BEFORE INCOME TAX EXPENSE

	The Group	
	2007	2006
	HK$'000	HK$'000
Profit before income tax expense is arrived at after charging:		
Auditor's remuneration	**420**	390
Cost of inventories sold	**198,856**	171,389
Depreciation of property, plant and equipment	**2,620**	3,024
Loss on disposal of property, plant and equipment	**–**	128
Operating lease rentals in respect of leasehold land and buildings	**9,808**	8,447
Impairment loss on trade receivables	**119**	330
Write down of inventories	**749**	1,062
Foreign exchange losses, net	**–**	479
Staff costs, excluding directors' emoluments (Note 7)	**13,078**	11,453
and after crediting:		
Interest income	**4,049**	1,673
Foreign exchange gains, net	**119**	–
Gain on disposal of financial asset at fair value through profit or loss	**–**	241

7. STAFF COSTS, EXCLUDING DIRECTORS' EMOLUMENTS

	The Group	
	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	**12,393**	10,965
Retirement benefits scheme contributions	**685**	488
	13,078	11,453

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	The Group	
	2007	2006
	HK$'000	HK$'000
Directors' fees	**150**	150
Other emoluments:		
Salaries and other benefits	**3,300**	3,120
Discretionary bonuses	**1,800**	1,200
Retirement benefits scheme contributions	**60**	60
	5,310	4,530

Details of directors' emoluments for the year ended 31 March 2007 are as follows:

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:					
Chan King Hong Edwin	–	1,140	900	24	2,064
Chan King Yuen Stanley	–	1,140	900	24	2,064
Chan Wai Po Rebecca	–	1,020	–	12	1,032
Independent non-executive directors:					
Chau Cynthia Sin Ha	50	–	–	–	50
Fong Pui Sheung David	50	–	–	–	50
Or Kam Chung Janson	50	–	–	–	50
Total	150	3,300	1,800	60	5,310

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments (*Continued)*

Details of directors' emoluments for the year ended 31 March 2006 are as follows:

	Fees	Salaries and other benefits	Discretionary bonuses	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors:					
Chan King Hong Edwin	–	1,080	400	24	1,504
Chan King Yuen Stanley	–	1,080	400	24	1,504
Chan Wai Po Rebecca	–	960	400	12	1,372
Independent non-executive directors:					
Chau Cynthia Sin Ha	50	–	–	–	50
Fong Pui Sheung David	50	–	–	–	50
Or Kam Chung Janson	50	–	–	–	50
Total	150	3,120	1,200	60	4,530

No directors waived any emoluments in the two years ended 31 March 2007.

The discretionary bonuses are determined by reference to the financial performance of the Group and the performance of the individual director for the two years ended 31 March 2007.

8. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are as follows:

	2007 **HK$'000**	2006 HK$'000
Salaries and other benefits	**1,041**	982
Discretionary bonuses	**97**	35
Retirement benefits scheme contributions	**24**	24
	1,162	1,041

The emoluments of each remaining individual were below HK$1,000,000 for the years ended 31 March 2006 and 2007.

During the years ended 31 March 2006 and 2007, no emolument was paid to the directors or any of the five highest paid individuals as an inducement to join or upon joining by the Group or as compensation for loss of office.

9. INCOME TAX EXPENSE

	The Group	
	2007 **HK$'000**	2006 HK$'000
Current tax		
– Hong Kong Profits Tax	**3,216**	3,908
– Other jurisdictions	**812**	258
(Over)/underprovision in respect of prior years	**(276)**	13
Deferred tax	**17**	62
	3,769	4,241

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profits for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

9. INCOME TAX EXPENSE *(Continued)*

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary is entitled to exemption from PRC income tax for two years commencing from their first profit-making year of operation and entitled to a 50% relief from the PRC income tax for the following three years.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("the New Corporate Income Tax Law") which will take effect on 1 January 2008. The applicable income tax rate of the Group's PRC subsidiary is 27%. From 1 January 2008, the income tax rate is expected to gradually decrease to the standard rate of 25% over a five-year transition period. However, the New Corporate Income Tax Law has not set out the details as to how the existing tax rate will gradually decrease to the standard rate of 25%. Consequently, the Group is not able to make an estimate of the expected financial effect of the New Corporate Income Tax Law on its deferred tax assets and liabilities. The expected financial effect of the New Corporate Income Tax Law, if any, will be reflected in the Group's financial statements for the year ended 31 March 2008. The enactment of the New Corporate Income Tax Law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

The tax charge for the year can be reconciled to the profit before income tax expense per the consolidated income statement as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Profit before income tax expense	**43,996**	45,742
Tax at the domestic tax rate of 17.5% (2006: 17.5%)	**7,699**	8,005
Tax effect of expenses not deductible for tax purpose	**18,322**	16,524
Tax effect of income not taxable for tax purpose	**(21,688)**	(20,295)
Tax effect of utilisation of tax loss not previously recognised	**–**	(17)
(Over)/underprovision in respect of prior years	**(276)**	13
Effect of tax concession of a subsidiary	**(1,005)**	(322)
Effect of different tax rates of a subsidiary operating in other jurisdiction	**636**	204
Tax effect of tax losses not recognised	**81**	129
Income tax expense	**3,769**	4,241

10. DIVIDENDS

	The Group	
	2007	2006
	HK$'000	HK$'000
Interim dividend of HK$0.023 (2006: HK$0.024) per ordinary share	**7,325**	7,644
Proposed final dividend of HK$0.019 (2006: HK$0.02) per ordinary share	**6,051**	6,370
Proposed special dividend of HK$0.007 (2006: Nil) per ordinary share	**2,230**	–
	15,606	14,014

The proposed final dividend of HK$0.019 (2006: HK$0.02) per share and special dividend of HK$0.007 (2006: Nil) per share have been proposed by the directors on 18 July 2007 and are subject to approval by the shareholders in forthcoming annual general meeting.

The amount of proposed final dividend and special dividend are based on 318,500,000 shares in issue as at 18 July 2007.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit for the year of HK$40,227,000 (2006: HK$41,501,000) and weighted average number of 318,500,000 (2006: 318,500,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year is based on the Group's profit for the year of HK$40,227,000 (2006: HK$41,501,000) and the weighted average number of 318,994,706 (2006: 318,972,299) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,500,000 (2006: 318,500,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of 494,706 (2006: 472,299) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

12. PROPERTY, PLANT AND EQUIPMENT

The Group	Plant and machinery	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost					
At 1 April 2006	7,169	4,301	7,689	856	20,015
Additions	953	230	1,185	–	2,368
Disposals	–	(15)	–	–	(15)
Exchange realignment	64	2	–	–	66
At 31 March 2007	8,186	4,518	8,874	856	22,434
Accumulated depreciation					
At 1 April 2006	4,573	2,218	2,211	604	9,606
Provided for the year	1,067	462	1,015	76	2,620
Eliminated on disposals	–	(15)	–	–	(15)
Exchange realignment	46	1	–	–	47
At 31 March 2007	5,686	2,666	3,226	680	12,258
Cost					
At 1 April 2005	5,808	3,550	5,480	856	15,694
Additions	1,325	773	2,511	–	4,609
Disposals	–	(23)	(302)	–	(325)
Exchange realignment	36	1	–	–	37
At 31 March 2006	7,169	4,301	7,689	856	20,015
Accumulated depreciation					
At 1 April 2005	3,441	1,708	1,112	496	6,757
Provided for the year	1,110	521	1,285	108	3,024
Eliminated on disposals	–	(11)	(186)	–	(197)
Exchange realignment	22	–	–	–	22
At 31 March 2006	4,573	2,218	2,211	604	9,606
Net book value					
At 31 March 2007	2,500	1,852	5,648	176	10,176
At 31 March 2006	2,596	2,083	5,478	252	10,409

13. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**48,181**	48,181

Details of the Company's subsidiaries at 31 March 2007 are as follows:

Name	Place of incorporation or establishment/ operations	Issued share capital/paid-up registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Chanco International Holding Limited	British Virgin Islands/ Hong Kong	Ordinary shares US$1,000	100%		Investment holding
Sun Ray Manufactory, Limited	Hong Kong	Non-voting deferred shares HK$6 Ordinary shares HK$2		100%	Manufacturing and trading of leather accessories
Elite Leatherware Company Limited	Hong Kong	Ordinary shares HK$10,000		100%	Trading of leather accessories
Talent Union Development Limited	British Virgin Islands/ Hong Kong	Ordinary shares US$8		100%	Investment holding
Dongguan Ngai Luen Leather Goods Company Limited	PRC *(Note)*	Registered capital HK$2,000,000		100%	Manufacturing and trading of leather accessories
Amid Success Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary shares US$1		100%	Investment holding
Urban Stranger Company Limited	Hong Kong	Ordinary shares HK$1		100%	Retail of fashion apparel and leather assessories

Note:

The subsidiary is a wholly foreign-owned enterprise in the PRC.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

14. INVENTORIES

	The Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**36,462**	42,298
Work in progress	**6,810**	5,633
Finished goods	**9,208**	7,880
	52,480	55,811

15. TRADE AND BILLS RECEIVABLES

Customers are generally granted with credit terms of 30 to 90 days. Longer payment terms might be granted to those customers which have good payment history and long-term business relationship with the Group. Details of the ageing analysis are as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Current to 30 days	**14,036**	14,731
31 – 60 days	**8,159**	3,434
61 – 90 days	**2,084**	1,195
91 – 120 days	**1,052**	554
121 – 365 days	**1,935**	990
Over 365 days	**–**	31
	27,266	20,935

At the balance sheet date, the Group's trade and bills receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2007	2006
	HK$'000	HK$'000
United States dollars	**17,524**	9,286
Euro	**27**	5,056
Renminbi	**6,488**	2,428

16. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

17. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Current to 30 days	**6,902**	5,556
31-60 days	**3,155**	3,318
61-90 days	**1,003**	187
91-120 days	**293**	10
121-365 days	**143**	28
Over 365 days	**135**	104
	11,631	9,203

At the balance sheet date, the Group's trade and bills payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2007	2006
	HK$'000	HK$'000
United States dollars	**1,396**	1,157
Renminbi	**2,430**	2,156

18. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities provided by the Group and movements thereof:

	Accelerated tax depreciation HK$'000	**Others** HK$'000	**Total** HK$'000
At 1 April 2005	256	(52)	204
Charge to consolidated income statement for the year	43	19	62
At 31 March 2006	299	(33)	266
(Credit)/charge to consolidated income statement for the year	(16)	33	17
At 31 March 2007	283	–	283

At the balance sheet date, the Group had unused tax losses of HK$2,772,000 (2006: HK$1,593,000) available to offset against future profits. No deferred tax assets have been recognised in respect of the amounts due to unpredictability of future profit streams.

At the balance sheet date, the Company did not have material unprovided deferred tax assets and liabilities (2006: Nil).

19. SHARE CAPITAL

	The Company	
	Number of share	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 April 2005 and 31 March 2006 and 2007	2,000,000,000	20,000
Issued and fully paid:		
At 1 April 2005 and 31 March 2006 and 2007	318,500,000	3,185

20. SHARE OPTIONS

Under the share option scheme (the "Share Option Scheme") approved by the shareholders on 18 February 2003, the directors of the Company may, at its discretion, invite non-executive directors, employees, invested entities, suppliers of goods of services, customers, consultants and advisors of the Group or any entity in which any member of the Group holds any equity interest to take up options to subscribe for shares in the Company representing up to a maximum of 30 per cent of the issued share capital of the Company from time to time.

The subscription price for the shares in relation to options to be granted under the Share Option Scheme shall be determined by the board and shall be at least the highest of (i) the nominal value of the shares of the Company; (ii) the closing price of the shares on the date of grant (the "Offer Date"); and (iii) the average closing price of the shares for the five business days immediately preceding the Offer Date. The options are exercisable within 10 years from the Offer Date.

20. SHARE OPTIONS *(Continued)*

The following table discloses movements in the Company's share option during the year ended 31 March 2006 and 2007.

Name or category of participant		Date of grant	Outstanding as at 1 April 2005, 31 March 2006 and 1 April 2006	Lapsed during the year	Outstanding as at 31 March 2007	Exercisable period	Exercise price per share HK$
(a)	**Executive directors**						
	Chan King Hong Edwin	24 Sept 2003	3,181,200	–	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
	Chan King Yuen Stanley	24 Sept 2003	3,181,200	–	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
	Chan Wai Po Rebecca	24 Sept 2003	3,181,200	–	3,181,200	24 Sept 2003 – 23 Sept 2013	0.830
(b)	**Employees, in aggregate**	26 May 2003	516,000	152,000	364,000	26 May 2003 – 25 May 2013	0.580
		24 Sept 2003	6,362,400	–	6,362,400	26 May 2003 – 25 May 2013	0.830
(c)	**Others, in aggregate**	26 May 2003	3,000,000	–	3,000,000	26 May 2003 – 25 May 2013	0.580
Total			19,422,000	152,000	19,270,000		
Weighted average exercise price			HK$0.785	HK$0.580	HK$0.786		

Note:

All the options were immediately vested when granted.

21. RESERVES

The Company

	Share premium HK$'000	Retained earnings HK$'000	Proposed dividends HK$'000	Total HK$'000
At 1 April 2005	80,606	85	7,007	87,698
Profit for the year	–	16,108	–	16,108
2005 final dividend paid	–	–	(7,007)	(7,007)
2006 interim dividend paid	–	(7,644)	–	(7,644)
2006 proposed final dividend	–	(6,370)	6,370	–
At 31 March 2006	80,606	2,179	6,370	89,155
Profit for the year	–	13,659	–	13,659
2006 final dividend paid	–	–	(6,370)	(6,370)
2007 interim dividend paid	–	(7,325)	–	(7,325)
2007 proposed final dividend	–	(6,051)	6,051	–
2007 proposed special dividend	–	(2,230)	2,230	–
At 31 March 2007	80,606	232	8,281	89,119

22. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31 March 2007 amounted to approximately HK$1,070,000 (2006: HK$787,000). The fair value of the financial guarantee at date of inception is immaterial.

23. OPERATING LEASES COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Not later than one year	**6,025**	5,245
Later than one year and not later than five years	**4,536**	1,552
	10,561	6,797

Operating lease payments represent rental payable by the Group for its offices, retail outlets and production plants. Leases are negotiated and rentals are fixed for an average term of one to two years.

24. CAPITAL COMMITMENTS

Commitments for the acquisition of property, plant and equipment:

	The Group	
	2007	2006
	HK$'000	HK$'000
– contracted for but not provided	**550**	–

25. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

	The Group	
	2007	2006
	HK$'000	HK$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	**264**	262

Mr. Chan Woon Man is a substantial shareholder of the Company and Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

25. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Details of balances with related parties at the balance sheet date are set out in the note 16 to the financial statements.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	The Group	
	2007	2006
	HK$'000	HK$'000
Short-term benefits	**7,449**	6,201
Post employment benefits	**108**	108
	7,557	6,309

26. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under the scheme.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed through its operations to one or more of the following financial risks:

- Foreign currency risk
- Liquidity risk
- Credit risk
- Fair value

Foreign currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain trade receivables and payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Liquidity risk

Internally generated cash flow are the general sources of funds to finance the operations of the Group. The Group's liquidity risk management includes making available standby banking facilities. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 March 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has policies in place to determine credit limits, credit approval and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spreading over a number of counterparties and customers.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

Fair value

The fair values of financial assets and financial liabilities reported in the balance sheet of the Group and the Company approximate their carrying amounts.

28. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairments

In considering the impairment loss that may be required for certain property, plant and equipment of the Group, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs.

Impairment loss of trade receivables are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibiliy. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses these estimates at each balance sheet date.

Depreciation

Property, plant and equipment are depreciated on a reducing balance method over the estimated useful lives. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 18 July 2007

Five Year Financial Summary

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out as follows:

	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Profit for the year	**40,227**	41,501	40,154	31,613	35,007
Assets and liabilities					
Total assets	**214,468**	182,635	154,433	119,798	95,228
Total liabilities	**(26,641)**	(21,782)	(20,647)	(14,063)	(8,933)
Shareholders funds	**187,827**	160,853	133,786	105,735	86,295

The results, assets and liabilities of the Group for the year ended 31 March 2003 have been prepared on the basis of merger accounting as if the group structure which became effective on 17 February 2003 had been in existence throughout the year then ended.