

Dear Shareholders,

On behalf of the Board of Directors (the "Board" or the "Directors") of Chanco International Group Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively refer to the "Group") for the year ended 31st March, 2004.

For the year ended 31st March, 2004, the Group recorded a turnover of approximately HK\$154.6 million. Profit attributable to shareholders was approximately HK\$31.6 million, representing approximately 9.7% decrease as compared to that of 2003. The decrease in net profit is due to the decrease of gross profit margin and the increase of administrative and other operating expenses. As the Group has sufficient cash for business operation and expansion, the Board recommend the payment of a final dividend of HK\$0.018 per share for the year ended 31st March, 2004.

Fiscal year 2004 is a year of challenge. The outbreak of Severe Acute Respiratory Syndrome ("SARS") adversely affected the Group's export sales to the US and Europe. The recovery after SARS was not as good as we expected. In spite of the weak market condition, the Group still attained a stable performance of sales. During the period under review, the Group achieved a significant sales growth in the PRC, Australia and Malaysia. The remarkable growth was mainly due to the new orders secured from a number of famous brand customers through the Group's successful marketing strategies and the Group's reputation of making quality products in leatherware industry.

PROSPECTS

As the core of our business, the sales of OEM and ODM product to Japan, the U.S. and Europe remained as our largest export markets and accounted for approximately 54%, 10% and 14% respectively during the year under review. Looking forward, the Group will endeavor to seek for more potential OEM and ODM customers by ways of comprehensive marketing campaign and leverage on our strength in the overseas market in order to capture for a larger market share. Recently, the Group has received an initial order from a new famous brand customer who has more than 5,000 sales outlets worldwide. The customer has shown great appreciation and satisfaction with our products and services. Additionally, our major customer in Japan that sold men belts only before, has now placed orders for ladies belts as well. Being the sole supplier for this customer, the Group believes that it would be the key potential growth in Japan in the future.

In line with the Group's market expansion strategies in the PRC, the Group actively sought for potential customers in especial of renowned domestic brands so as to increase the sales in this blooming market. In September 2003, the Group participated in *The 15th Dalian International Garment Fair* in which our OEM and ODM products had been successfully presented to our prospective clients. In the long run, the Group will continue to participate in trade fairs and exhibitions in order to expose our products to more potential customers.

With an aim to sustain the leading position in the international leather accessories design and manufacturing industry, the Group devotes to provide a wide range of leather products to young customers. Leveraging on the extensive sales network of our retail agent — Bauhaus, the Group will not only carry wallets and belts, but will expand the selection of leather goods to include backpacks and handbags in July 2004. The Group will continue to diversify our product line and launch more fashion clothing and accessories, including jeans, T-shirts and watches so as to deepen market penetration and to broaden market share. In addition, the Group will strive to maintain the good quality of products by strengthening the design and production teams and enhancing the quality assurance measures.

The retail business in Hong Kong and other Asian countries will be another focus of development of the Group in the coming year. The breakthrough is our first store of our brand *Stranger* is going to be opened in Hong Kong in October 2004 in Langham Place. The Group believes that the first outlet of *Stranger* inside Langham Place — the becoming most prestigious 5-star shopping and business complex in Kowloon, will bring customers a refreshing touch to the brand.

Geographically, the Group has extended the sales network to Singapore through an exclusive retail distributor by placing *Stranger* products in its retail chain stores in July 2004. The retail business establishment in Singapore will be essentially regarded as a stepping stone for the further retail business extension of the Group in the PRC, Japan, Korea, Taiwan, Malaysia, and other Asia regions in the coming future. With the competitive strengths in overseas market accumulated over the previous years and to take advantages of the flourishing sales markets in the PRC, the Group strongly believes that the two-way development of OEM and ODM business and retail business can fully realize our growing strengths in an ultimate attempt to provide a better return to our shareholders.

APPRECIATION

Last but not least, on behalf of the Board, I shall take this opportunity to express our gratitude towards our business partners, customers, staffs and shareholders. Without your support and dedication, the Group would not be so successful in the market. In the future, we look forward for your continuous support. The Board, the management and all staff will keep on dedicating to achieve a greater success for the Group.

Chan King Hong, Edwin

Chairman

9th July, 2004