

**CHANCO INTERNATIONAL GROUP LIMITED**卓高國際集團有限公司  
(Incorporated in the Cayman Islands with limited liability)**UNAUDITED INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003**

The Board of Directors (the “Directors”) of Chanco International Group Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2003 as follows:

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
*For the six months ended 30th September, 2003*

		<b>Six months ended 30th September,</b>	
		<b>2003</b>	<b>2002</b>
		<b>Unaudited</b>	<b>Unaudited</b>
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>76,768</b>	72,004
Cost of sales		<u><b>(50,470)</b></u>	<u>(46,740)</u>
Gross profit		<u><b>26,298</b></u>	<u>25,264</u>
Other revenue		<b>521</b>	210
Selling and distribution costs		<b>(1,689)</b>	(2,254)
Administrative and other operating expenses		<u><b>(6,597)</b></u>	<u>(5,405)</u>
Profit before taxation	3	<b>18,533</b>	17,815
Taxation	4	<u><b>(1,510)</b></u>	<u>(1,366)</u>
Profit attributable to shareholders		<u><u><b>17,023</b></u></u>	<u><u>16,449</u></u>
Dividends	5	<u><u><b>5,733</b></u></u>	<u><u>21,000</u></u>
Basic earnings per share	6	<u><u><b>HK5.4 cents</b></u></u>	<u><u>HK6.8 cents</u></u>
Diluted earnings per share	6	<u><u><b>HK5.4 cents</b></u></u>	<u><u>N/A</u></u>

# NOTES TO THE ACCOUNTS

## 1. Basis of preparation and accounting policies

The Company was incorporated in the Cayman Islands on 12th April, 2002 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”).

On 17th February, 2003 pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the ultimate holding company of the companies now comprising the Group. Details of the Reorganisation are set out in the section “Corporate reorganisation” in Appendix V to the prospectus of the Company dated 28th February, 2003. The shares of the Company were listed on the Stock Exchange on 12th March, 2003 (the “Listing Date”).

The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice (“SSAP”) 2.127 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants (“HKSA”). The consolidated accounts of the Group for the six months ended 30th September, 2003, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

These unaudited condensed accounts are prepared in accordance with SSAP No. 25 “Interim financial reporting” issued by HKSA. These condensed accounts should be read in conjunction with the 2003 annual accounts. The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March, 2003 except that the Group has changed its accounting policy following its adoption of SSAP 12 “Income Taxes” issued by HKSA which are effective for accounting periods commencing on or after 1st January 2003. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been made.

## 2. Segment information

### *Primary reporting format — business segments*

	Unaudited			
	Six months ended 30th September, 2003			
	Belts	Small leather goods	Leather	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>75,102</u>	<u>1,294</u>	<u>372</u>	<u>76,768</u>
Results				
Segment results	<u>23,951</u>	<u>540</u>	<u>118</u>	<u>24,609</u>
Unallocated revenue				521
Unallocated costs				<u>(6,597)</u>
Profit before taxation				18,533
Taxation				<u>(1,510)</u>
Profit attributable to shareholders				<u><u>17,023</u></u>

	Unaudited			
	Six months ended 30th September, 2002			
	Belts	Small leather goods	Leather	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>70,894</u>	<u>1,025</u>	<u>85</u>	<u>72,004</u>
Results				
Segment results	<u>22,558</u>	<u>432</u>	<u>20</u>	<u>23,010</u>
Unallocated revenue				210
Unallocated costs				<u>(5,405)</u>
Profit before taxation				17,815
Taxation				<u>(1,366)</u>
Profit attributable to shareholders				<u><u>16,449</u></u>

**Secondary reporting format — geographical segments**

	Turnover	
	Six months ended	
	30th September,	
	2003	2002
	Unaudited	Unaudited
	<i>HK\$'000</i>	<i>HK\$'000</i>
Japan	<b>45,070</b>	37,010
Europe	<b>7,722</b>	11,634
The United States of America (“US”)	<b>8,648</b>	14,683
Hong Kong	<b>6,643</b>	6,563
The People’s Republic of China, other than Hong Kong (“PRC”)	<b>4,009</b>	—
Others	<b>4,676</b>	2,114
	<u><b>76,768</b></u>	<u>72,004</u>

Sales are based on the countries in which the customers located. There are no sales between the segments.

### 3. Profit before taxation

Profit before taxation is stated after charging the following:

	Six months ended 30th September,	
	2003	2002
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Bad debts written off and provision for bad debts	42	27
Cost of inventories sold		
— material costs	40,058	36,949
— production overheads	10,412	9,791
Depreciation of fixed assets	769	491
Operating lease rentals in respect of land and buildings	1,740	1,603
Provision for obsolete inventories	613	305
Staff costs (excluding directors' emoluments)	2,623	2,461

### 4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30th September,	
	2003	2002
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
— Hong Kong profits tax	1,515	1,264
Deferred taxation	(5)	102
	<u>1,510</u>	<u>1,366</u>

Pursuant to the relevant laws and regulations in the PRC, the Group's subsidiary is exempted from PRC income tax of two years starting from the first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made in the accounts during the period as it was the first profitable period reported by the Group's subsidiary in the PRC.

### 5. Dividends

At a meeting held on 20th November, 2003, the Directors declared an interim dividend of HK1.8 cents per share aggregating a total of HK\$5,733,000 for the six months ended 30th September, 2003. The amount of proposed interim dividend is based on 318,500,000 shares in issue at 20th November, 2003.

For the period ended 30th September, 2002, an interim dividend of HK\$21,000,000 had been paid by a subsidiary to its then shareholders prior to the Reorganization. The rate of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful for the purpose of these accounts.

### 6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$17,023,000 and the weighted average of 312,610,383 ordinary shares in issue during the period.

The basic earnings per share for six months ended 30th September, 2002 is based on the Group's profit attributable to shareholders of HK\$16,449,000 and an aggregate of 242,004,000 shares comprising 1,000 shares issued upon incorporation of the Company, 999,000 shares issued upon completion of the Reorganization and 241,004,000 shares issued pursuant to the capitalization issue, which were deemed to have been in issue throughout the period ended 30th September, 2002.

The calculation of diluted earnings per share is based on 312,610,383 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 1,169,901 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

Diluted earnings per share for the six months ended 30th September, 2002 has not been calculated as there were no diluting events during that period.

## **INTERIM DIVIDEND**

The Directors have resolved to declare an interim dividend of HK1.8 cents per ordinary share for the six months ended 30th September, 2003. The interim dividend will be paid on Monday, 15th December, 2003 to members whose names appear on the register of members of the Company at the close of business on Monday, 11th December, 2003.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS**

The Group's unaudited turnover for the six months ended 30th September, 2003 was approximately HK\$76.7 million, representing a mild increase of approximately 6.6% compared with that of the same period last year. The growth in turnover was mainly attributable to the preliminary success of the Group's marketing strategy to penetrate into the PRC market during the period. The Group's sales of small leather goods recorded approximately HK\$1.3 million, representing a growth of approximately 26% compared with that of the same period last year. The overall gross profit margin of the Group dropped from approximately 35% for the six months ended 30th September, 2002 to approximately 34.2% for the current period. The decrease in gross profit margin was the result of the increase in the price of leather during the period under review.

Profit attributable to shareholders increased from approximately HK\$16.4 million for six months ended 30th September, 2002 to approximately HK\$17 million for the six months ended 30th September, 2003. Basic earnings per share were approximately HK5.4 cents as compared to approximately HK6.8 cents in 2002.

### **BUSINESS REVIEW**

#### **Market expansion in the PRC**

Since March 2003, the Group has started penetrating into the PRC market. For the six months ended 30th September, 2003, the Group achieved encouraging results from the sales in the PRC and laid down a solid foundation for its future market penetration in the PRC. Currently, the sales orders received by the Group mainly came from the Group's existing customers, who had extensive sales networks accessing to numerous sales points in the major cities in the PRC. In the long run, the Group will actively seek cooperation with more prospective large-scaled chain stores with well-developed sales platform so as to increase the sales in this blooming market.

## **Continual brand building — *Stranger***

The Group has been exerting continuous efforts in promoting its own brand names. During the period under review, the Group has been leveraging on the sales network of the young fashion apparel retailer, *Bauhaus*, to sell its own brand name products, **Stranger**. In addition, the Group will open up sales counters in sizeable department stores in Hong Kong in early 2004 as another distribution channel for selling and promoting its brand name products. The Group will continue to execute various promotional plans, such as placing advertisements in the local mass media and expanding the marketing team so as to enhance its product awareness, explore new target customers, as well as attain further sales boost.

## **Series of products enhancing product diversification**

Recently, the Group has additionally employed experienced personnel specializing in designing and promoting handbags and other leather or non-leather accessories as the head of product design and development department. The product development of backpacks has been underway during the period under review. The Group is dedicated to expanding its product mix and selling its new series of accessories products including backpacks, handbags, bum bags, wallets and T-shirts, etc. in the coming future.

## **Vertical integration and production cost reduction**

The Group intends to become an integrated manufacturer of leather accessories by growing vertically to include the business of raw material supply of the production process. The Group signed a Memorandum of Understanding (“MOU”) with a Hong Kong leather processing company of which the production facilities are located in Dongguan, the PRC. Pursuant to the MOU, the Group proposes to form a joint venture company (the “JV”) with the leather processing company and the JV will principally engage in trading and manufacturing of leather to worldwide market. Through the establishment of the JV, the overall production efficiencies of the Group can be enhanced as a result of better control and supply of leather materials enabling the capability to meet with ad-hoc bulk orders.

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

As at 30th September, 2003, the Group’s cash and bank deposits were approximately HK\$62 million, compared to approximately HK\$54 million as at 31st March, 2003.

As at 30th September, 2003, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK\$8 million were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK\$104.7 million as at 30th September, 2003 (31st March, 2003: HK\$87.8 million) and total current liabilities of approximately HK\$14.7 million (31st March, 2003: HK\$8.7 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 7.1 times as at 30th September, 2003 (31st March, 2003: 10.1 times).

Supported by its strong financial position, the Group did not raise any bank loan during the period.

The Group recorded an increase in shareholders’ funds from approximately HK\$86.3 million as at 31st March, 2003 to approximately HK\$96.8 million as at 30th September, 2003.

## **TREASURY POLICY**

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

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

## **CHARGES ON ASSETS**

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

## **MATERIAL ACQUISITIONS/DISPOSALS**

The Group had no material acquisitions/disposals for the six months ended 30th September, 2003.

## **EMPLOYEE INFORMATION**

As at 30th September, 2003, the Group had 25 full-time employees in Hong Kong and 72 in the PRC. 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.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 8th December, 2003 to Thursday, 11th December, 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Friday, 5th December, 2003.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

The Company has not redeemed any of its shares since its Listing Date. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities since the Listing Date.

## **CODE OF BEST PRACTICE**

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since the shares of the Company were listed on the Stock Exchange on 12th March, 2003.

## **AUDIT COMMITTEE**

The Company established an audit committee (the “Audit Committee”) on 18th February, 2003. The written terms of reference which disclose the authority and duties of the Audit Committee were prepared and accepted with reference to “A Guide from the Foundation of an Audit Committee” published by the Hong Kong Society of Accountants and in compliance with the Code of Best Practice set out in Appendix 14 to the Listing Rules.

The Audit Committee comprises two independent non-executive directors, namely, Ms. Chau Cynthia Sin Ha and Mr. Fong Pui Sheung David. The unaudited interim financial statements for the six months ended 30th September, 2003 have been reviewed by the Audit Committee.

## **PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE’S WEBSITE**

A detailed results announcement containing the information required by paragraph 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

By order of the Board  
**Chan King Hong Edwin**  
*Chairman*

Hong Kong, 20th November, 2003