



**CHANCO INTERNATIONAL GROUP LIMITED**

卓高國際集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 264)

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004**

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, 2004 together with the comparative figures for the corresponding period as follows:–

**CONDENSED CONSOLIDATED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2004**

		<b>Six months ended 30th September,</b>	
		<b>2004</b>	<b>2003</b>
		<b>Unaudited</b>	<b>Unaudited</b>
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>96,231</b>	76,768
Cost of sales		<b>(65,341)</b>	(50,470)
Gross profit		<b>30,890</b>	26,298
Other revenue		<b>265</b>	521
Selling and distribution costs		<b>(2,232)</b>	(1,689)
Administrative and other operating expenses		<b>(7,756)</b>	(6,597)
Profit before taxation	3	<b>21,167</b>	18,533
Taxation	4	<b>(1,721)</b>	(1,510)
Profit attributable to shareholders		<b>19,446</b>	17,023
Dividends	5	<b>6,370</b>	5,733
Basic earnings per share	6	<b>HK6.1 cents</b>	HK5.4 cents
Diluted earnings per share	6	<b>HK6.1 cents</b>	HK5.4 cents

*Notes:*

**1. Basis of preparation and principal accounting policies**

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and is in compliance with the Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation adopted in these condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2004.

## 2. Segment information

Primary reporting format – business segments

	Unaudited				Group HK\$'000
	Six months ended 30th September, 2004				
	Belts HK\$'000	Small leather goods HK\$'000	Bags HK\$'000	Leather HK\$'000	
Turnover	<u>91,900</u>	<u>3,213</u>	<u>764</u>	<u>354</u>	<u>96,231</u>
Results					
Segment results	<u>26,946</u>	<u>1,411</u>	<u>212</u>	<u>89</u>	<u>28,658</u>
Unallocated revenue					265
Unallocated costs					<u>(7,756)</u>
Profit before taxation					21,167
Taxation					<u>(1,721)</u>
Profit attributable to shareholders					<u>19,446</u>

	Unaudited				Group HK\$'000
	Six months ended 30th September, 2003				
	Belts HK\$'000	Small leather goods HK\$'000	Bags HK\$'000	Leather HK\$'000	
Turnover	<u>75,102</u>	<u>1,294</u>	<u>–</u>	<u>372</u>	<u>76,768</u>
Results					
Segment results	<u>23,951</u>	<u>540</u>	<u>–</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>17,023</u>

Secondary reporting format – geographical segments

	Turnover	
	Six months ended 30th September, 2004	2003
	Unaudited HK\$'000	Unaudited HK\$'000
Japan	46,291	45,070
Europe	20,464	7,722
The United States of America (“US”)	7,193	8,648
Hong Kong	7,477	6,643
The People’s Republic of China, other than Hong Kong (“PRC”)	4,647	4,009
Australia	4,943	1,147
Others	5,216	3,529
	<u>96,231</u>	<u>76,768</u>

### 3. Profit before taxation

Profit before taxation has been arrived at after charging:

	Six months ended 30th September,	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Bad debts written off and provision for bad debts	34	42
Cost of inventories sold		
– material costs	50,962	40,058
– production overheads	14,379	10,412
Depreciation of property, plant and equipment	849	769
Operating lease rentals in respect of land and buildings	1,781	1,740
Provision for obsolete inventories	149	613
Staff costs (excluding directors' emoluments)	3,472	2,623

and after crediting:

Unrealised holding gain on other investment	<u>193</u>	<u>–</u>
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### 4. Taxation

	Six months ended 30th September,	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current tax:		
– Hong Kong profits tax	1,656	1,515
Deferred tax	<u>65</u>	<u>(5)</u>
	<u>1,721</u>	<u>1,510</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

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 the first profit-making year, and entitled to a 50% relief from the PRC income tax for the following three years.

No provision for the PRC income tax has been made for the Group's PRC subsidiary as it was exempt from the income tax for its second profitable period of operation.

### 5. Dividends

	Six months ended 30th September,	
	2004	2003
	Unaudited	Unaudited
	HK\$'000	HK\$'000
2004 interim dividend of HK\$0.02 (2003: HK\$0.018) per share	<u>6,370</u>	<u>5,733</u>

At a board meeting held on 9th December, 2004, the directors declared an interim dividend of HK\$0.02 per share, aggregating a total of HK\$6,370,000 for the six months ended 30th September, 2004. The amount of proposed interim dividend is based on 318,500,000 shares in issue at 9th December, 2004.

### 6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$19,446,000 (2003: HK\$17,023,000) and the weighted average of 318,500,000 (2003: 312,610,383) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the Group's profit attributable to shareholders of HK\$19,446,000 (2003: HK\$17,023,000) and the weighted average number of 318,726,839 (2003: 313,780,284) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,500,000 (2003: 312,610,383) ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average of 226,839 (2003: 1,169,901) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

## **INTERIM DIVIDEND**

The Directors has resolved to declare an interim dividend of HK\$0.02 per ordinary share for the six months ended 30th September, 2004. The interim dividend will be paid on or about 10th January, 2005 to members, whose names appear on the register of members of the Company at the close of business on 31st December, 2004.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Review**

For the six months ended 30th September, 2004, the Group recorded a 25.4% growth in turnover over the same period in 2003 to HK\$96.2 million. Gross profit increased by 17.5% to HK\$30.9 million while gross profit margin dropped to 32% for the current period. The decrease in gross profit margin was mainly attributable to the rise in labor cost and the number of outsourcing works during the period under review.

The selling and distribution expenses of the Group for the six months ended 30th September, 2004 increased to approximately HK\$2.2 million. The administrative and other operating expenses increased by approximately 18.2% to HK\$7.8 million compared to approximately HK\$6.6 million for the same period of last year. The rise was mainly attributable to the expanded manpower and increased staff remuneration.

Profit attributable to shareholders for the period under review was HK\$19.4 million, which represented 14.2% increase compared with the corresponding period in last year. Basic earnings per share were approximately HK6.1 cents as compared to approximately HK5.4 cents in 2003.

### **Business review**

#### *Geographical analysis*

Japan continued to be the largest export market for the Group which recorded approximately HK\$46.3 million in turnover representing 2.7% growth over the same period in 2003 accounting for approximately 48.1% of the Group's total turnover. During the period under review, the Group's major customer in Japan, which used to engage in sales of men belts only, started to place orders for lady belts this year, leading to a soar in the sales and offset the unfavourable impact of slow down of orders from other customers in Japan. Being the exclusive supplier for this customer, the Group believes that this major customer will continue to be one of the main driver for growth of sales in Japan.

Sales in Europe had also undergone a substantial increase to approximately HK\$20.5 million in the reviewing period. The Group benefited from the outstanding performance of its key customer's operation in Germany. Sales order from other customers, including some famous brands in United Kingdom, Netherlands and France had experienced an up-surge for the period under review. Total export sales to Europe accounted for 21.3% of the Group's total turnover, representing approximately 165% growth compared with the same period in 2003.

In addition, encouraging results had also been recorded in the Australian market of HK\$4.9 million representing a 331% growth over last year. Market demand from Australian market for causal belts designed by the Group soared as supported by the growth in repeat orders received during the reviewing period.

The U.S. market reported turnover of approximately HK\$7.2 million representing a decrease of approximately 16.8% comparing with the same period in last year.

In view of Hong Kong and the PRC market, a mild increase has been recorded in the sales volume. One of the Group's strategies is to look for quality customers with low credit risk in order to secure the financial position of the Group. However, this strategy also resulted in relative slow expansion in the PRC market. Nevertheless, sales revenue from other countries such as Canada, Taiwan, Philippines, Singapore and Malaysia etc. rose by approximately 47.8%, to HK\$5.2 million.

### *Product Analysis*

In terms of product mix, the sales of belt items remained the core part of the Group's OEM and ODM business. Revenue from the sales of belt items increased from approximately HK\$75.1 million to approximately HK\$91.9 million, representing a growth of 22.4% over the same period in 2003. Sales of small leather goods recorded approximately HK\$3.2 million for the six months ended 30 September, 2004, representing approximately 148.3% increase compared to same period in 2003. The surge was mainly attributable to the widened customer base and the increased demand for wallets and phone straps. During the period under review, the Group generated additional revenue of approximately HK\$764,000 from sales of handbags and backpacks and waist bags.

### **Prospects**

#### *Retail Shop Opening – Area 0264*

The Group has launched new collections, including backpacks, handbags and waist bags of its own label "Stranger" which are sold through the local distribution channels of the young fashion apparel retailer, Bauhaus, to the market in July, 2004. Stranger, as the prime brand of the Group, focuses on the sales of a wide range of unisex trendy products for teens. In November, 2004, the first retail outlet of our Group – Area 0264 opened at Langham Place in Mongkok. Area 0264 is a multi-brand shop not only displaying full collection of Stranger's products, including handbag, backpack, belts and wallets, but also incorporating with various trendy and popular brands from Japan, Europe and the U.S. The second shop will be opened in Tsimshatsui in mid December, 2004. Upon the establishment of new retail outlets, the Group planned to embed more resources on brand building and promotion through a series of advertising campaigns such as advertisements on magazines, billboards and participation in sponsorship in the near future. In order to extend the sales network and build up the unique image for the retail outlets, 3–5 more retail outlets will be opened in the main commercial areas in Hong Kong next year. Backed up by a team of experienced and innovative design and product development professionals, the Group planned to launch more new products, including wallets, belts, backpacks, handbags as well as fashion items and accessories, such as jeans, T-shirts, jackets and watches. The widening of the product range could surely help enhancing the market penetration and increasing the market shares.

### **OEM and ODM Business**

The dedication on high quality designs and products helps further strengthening the confidence of the customers upon our products. In order to accommodate the various and ever-changing requirements of different customers and maintain our competitiveness, the Group will focus on improving the product quality by further enhancing the product development capability. The Group will expand the existing product development team to develop a wider range of leather products for the Group's OEM and ODM customers. In the first half of fiscal year 2004/05, the Group experienced an encouraging growth in OEM and ODM businesses, among which, the export sales to Japan, Europe and Australia are the segments of the most significant growth.

Looking forward, based on our continuous effort on product development and the improved global market sentiment, the management is optimistic towards the Group's business performance for the coming fiscal year.

### **Use of Proceeds**

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 12th March, 2003 (the "Listing Date"), after deduction of related issuance expenses, amounted to approximately HK\$29.3 million. The usage of the proceeds since its Listing Date and up to 30th September, 2004 was as follows:

- as to approximately HK\$1,270,000 for further development of the Group's production facilities in Dongguan;
- as to approximately HK\$700,000 for strengthening the Group's product development capability and diversifying the Group's product categories;
- as to approximately HK\$330,000 for promotion activities and further development of the Group's brand recognition; and

- as to approximately HK\$6,300,000 as general working capital of the Group.

As at 30th September, 2004, the balance of the proceeds of approximately HK\$20.7 million was placed on short-term deposits with licensed banks in Hong Kong.

### **Liquidity, Financial Resources and Capital Structure**

As at 30th September, 2004, the Group's cash and bank deposits were approximately HK\$79.3 million, compared to approximately HK\$67.1 million as at 31st March, 2004.

As at 30th September, 2004, 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\$134.9 million as at 30th September, 2004 (31st March, 2004: HK\$113.1 million) and total current liabilities of approximately HK\$22.4 million (31st March, 2004: HK\$13.8 million). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 6 times as at 30th September, 2004 (31st March, 2004: 8.2 times).

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

The Group recorded an increase in shareholders' funds from approximately HK\$105.7 million as at 31st March, 2004 to approximately HK\$119.4 million as at 30th September, 2004.

### **Treasury Policy**

The Group generally finances its operation with internally generated resources.

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

Transactions of the Group are mainly denominated either in Hong Kong dollars, Renminbi or United States dollars such that the Group does not have 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 charges on its assets.

### **Material Acquisitions/Disposals**

The Group had no material acquisitions/disposals for the six months ended 30th September, 2004.

### **Employee Information**

As at 30th September, 2004, the Group had 31 full-time employees in Hong Kong and 69 full-time employees 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.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30th September, 2004.

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Company has complied throughout the period ended 30th September, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## **AUDIT COMMITTEE**

The Company has established an audit committee (the “Audit Committee”) on 18th February, 2003. The written terms of reference which disclose the authority and duties of the Audit Committee were prepared and accepted with reference to “A Guide from the Foundation of an Audit Committee” published by the Hong Kong Institute of Certified Public Accountants and in compliance with the Code of Best Practice set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive directors, namely Ms. Chau Cynthia Siu Ha, Mr. Fong Pui Sheung, David and Mr. Or Kam Chung, Janson. The unaudited interim financial statements for the six months ended 30th September, 2004 have been reviewed by the Audit Committee.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 29th December, 2004 to Friday, 31st December, 2004, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer 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 46th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, no later than 4:00 p.m. on Tuesday, 28th December, 2004

## **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE’S WEBSITE**

All information of the interim results of the Group for the six months ended 30 September, 2004 required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange’s website in due course.

On behalf of the Board  
**Chan King Hong Edwin**  
*Chairman*

Hong Kong, 9 December, 2004

*As at the date of this announcement, Mr. Chan King Hong, Edwin, Mr. Chan King Yuen, Stanley, Ms. Chan Wai Po, Rebecca are the executive directors of the Company, Mr. Fong Pui Sheung, David, Ms. Chau Cynthia Sin Ha JP and Mr. Or Kam Chung, Janson are the independent non-executive directors of the Company.*