



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 30 SEPTEMBER 2008**

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 30 September 2008 as follows:–

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008**

		Six months ended 30 September	
		2008	2007
		Unaudited	Unaudited
		HK\$'000	HK\$'000
	Notes		
Turnover	4	169,416	170,954
Cost of sales		<u>(122,782)</u>	<u>(116,483)</u>
Gross profit		46,634	54,471
Other income and gains		2,972	2,565
Selling and distribution costs		<u>(8,790)</u>	<u>(8,665)</u>
Administrative and other operating expenses		<u>(17,805)</u>	<u>(15,011)</u>
Profit before income tax expense	5	23,011	33,360
Income tax expense	6	<u>(2,251)</u>	<u>(3,234)</u>
Profit for the period		<u><u>20,760</u></u>	<u><u>30,126</u></u>
Dividends	7	<u><u>4,144</u></u>	<u><u>9,883</u></u>
Basic earnings per share	8	<u><u>HK6.5 cents</u></u>	<u><u>HK9.5 cents</u></u>
Diluted earnings per share	8	<u><u>HK6.5 cents</u></u>	<u><u>HK9.4 cents</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2008

	<i>Notes</i>	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Assets			
Non-current assets			
Property, plant and equipment		10,459	9,987
Available-for-sale investments	9	<u>3,781</u>	<u>–</u>
		14,240	9,987
Current assets			
Inventories		74,212	55,703
Trade and bills receivables	10	30,166	34,452
Other receivables, deposits and prepayments		4,206	5,095
Cash and cash equivalents		<u>154,702</u>	<u>151,867</u>
		263,286	247,117
Current liabilities			
Trade and bills payables	11	22,687	15,317
Other payables and accrued charges		15,147	17,388
Tax payable		<u>2,699</u>	<u>1,094</u>
		40,533	33,799
Net current assets		<u>222,753</u>	<u>213,318</u>
Total assets less current liabilities		<u>236,993</u>	<u>223,305</u>
Non-current liabilities			
Deferred tax liabilities		<u>191</u>	<u>243</u>
Net Assets		<u>236,802</u>	<u>223,062</u>
Capital and reserves			
Share capital	12	3,188	3,188
Reserves		<u>233,614</u>	<u>219,874</u>
Total Equity		<u>236,802</u>	<u>223,062</u>

NOTES :

1. GENERAL

The Company was 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 interim report.

The unaudited condensed interim financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The unaudited condensed interim 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 and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2008.

In the current interim period, the Group adopted the following new interpretations to existing standards that are published and mandatory for the Group’s financial year ending 31 March 2009.

HK(IFRIC) – Interpretation 12 Service Concession Arrangements

HK(IFRIC) – Interpretation 14 HKAS 19 – The Limit on a Defined Benefit Asset,
Minimum Funding Requirements and their Interaction

The adoption of the above new interpretations to existing standards had no material impact on the Group’s condensed interim financial information for the six months ended 30 September 2008.

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.

HKFRSs (Amendments)	Improvement to HKFRSs ¹
Amendments to HKAS 32 and HKAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation ²
Amendment to HKAS 39	Eligible Hedged Items ⁴
Amendments to HKFRS 1 and HKAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
HKFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ⁴
HKFRS 8	Operating Segments ²
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes ³
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation ⁵

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 July 2009

⁵ Effective for annual periods beginning on or after 1 October 2008

4. SEGMENT INFORMATION

Primary reporting format – business segment

Segment information about these business is presented below:

	Manufacturing business		Retail business		Inter-segment elimination		Consolidated	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	Unaudited 2008	Unaudited 2007						
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue								
External sales	156,718	160,814	12,698	10,140	–	–	169,416	170,954
Inter-segment sales	1,458	973	–	–	(1,458)	(973)	–	–
Total	<u>158,176</u>	<u>161,787</u>	<u>12,698</u>	<u>10,140</u>	<u>(1,458)</u>	<u>(973)</u>	<u>169,416</u>	<u>170,954</u>
Segment results	<u>20,190</u>	<u>31,536</u>	<u>1,287</u>	<u>(356)</u>	<u>(98)</u>	<u>15</u>	<u>21,379</u>	<u>31,195</u>
Unallocated income							1,957	2,487
Unallocated expenses							(325)	(322)
Profit before income tax expense							23,011	33,360
Income tax expense							(2,251)	(3,234)
Profit for the period							<u>20,760</u>	<u>30,126</u>

Secondary reporting format – geographical segment

	Turnover	
	Six months ended	
	30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Japan	62,612	52,847
Europe	48,830	48,027
The United States of America	11,729	16,472
Hong Kong	21,991	25,484
The People's Republic of China, other than Hong Kong (the "PRC")	9,867	13,148
Australia	6,265	5,002
Others	8,122	9,974
	<u>169,416</u>	<u>170,954</u>

5. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging:

	Six months ended	
	30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	122,782	116,483
Depreciation of property, plant and equipment	1,142	1,291
Operating lease rentals in respect of land and buildings	5,297	5,201
Write down of inventories	299	860
Staff costs (excluding directors' emoluments)	8,555	8,315
and crediting:		
Interest income	<u>1,935</u>	<u>2,143</u>

6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	1,981	2,530
– Other jurisdictions	322	685
Deferred tax	(52)	19
	<u>2,251</u>	<u>3,234</u>

Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7. DIVIDENDS

	Six months ended 30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interim dividend of HK1.3 cents (2007: HK3.1 cents) per ordinary share	<u>4,144</u>	<u>9,883</u>

At a board meeting held on 17 December 2008, the directors declared an interim dividend of HK1.3 cents per share, aggregating a total of approximately HK\$4,144,000 for the six months ended 30 September 2008. This proposed dividend is not reflected as a dividend payable in the condensed financial statements, but is reflected as an appropriation of retained earnings for the year ending 31 March 2009.

The amount of proposed interim dividend is based on 318,804,000 shares in issue at 17 December 2008.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit for the period of HK\$20,760,000 (2007: HK\$30,126,000) and weighted average number of 318,804,000 (2007: 318,604,656) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period is based on the Group's profit for the period of HK\$20,760,000 (2007: HK\$30,126,000) and the weighted average number of 321,312,000 (2007: 319,558,610) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,804,000 (2007: 318,604,656) ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of 2,508,000 (2007: 953,954) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

9. AVAILABLE-FOR-SALE INVESTMENTS

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Equity securities listed in Hong Kong, stated at quoted market price	<u>3,781</u>	<u>–</u>

During the period, the net increase in fair value of the Group's available-for-sale investments of HK\$51,000 (2007: Nil) were recognised directly in the available-for-sale investments revaluation reserve.

10. TRADE AND BILLS RECEIVABLES

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Trade and bills receivables	30,734	35,088
Less: allowance for doubtful debts	<u>(568)</u>	<u>(636)</u>
	<u>30,166</u>	<u>34,452</u>

Customers are generally granted with credit terms of 30 to 90 days. The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) at the balance sheet date is as follows:

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Current (<i>note a</i>)	<u>11,410</u>	<u>10,624</u>
Less than 30 days past due	16,126	10,031
31-60 days past due	834	7,467
61-90 days past due	516	2,504
91-120 days past due	344	746
121-365 days past due	794	3,062
Over 365 days past due	<u>142</u>	<u>18</u>
Amount past due at balance sheet date but not impaired (<i>note b</i>)	<u>18,756</u>	<u>23,828</u>
	<u>30,166</u>	<u>34,452</u>

- a) The balance that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.
- b) The balance that were past due but not impaired related to a number of customers that have a good repayment track record with the Group. Based on the past experience, the management estimated that the carrying amounts could be fully recovered.

11. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
Current to 30 days	17,032	7,762
31-60 days	2,022	4,382
61-90 days	1,960	1,671
91-120 days	1,299	385
121-365 days	197	706
Over 365 days	177	411
	<u>22,687</u>	<u>15,317</u>

12. SHARE CAPITAL

There was no movement in the share capital of the Company during the period.

13. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2008 (At 31 March 2008: nil).

14. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group had entered into the following transactions with related parties:

	Six months ended 30 September 2008 Unaudited HK\$'000	2007 Unaudited HK\$'000
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	<u>132</u>	<u>132</u>

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

(b) Compensation of key management personnel

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

	Six months ended	
	30 September	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short-term benefits	7,155	5,887
Post employment benefits	60	60
	<u>7,215</u>	<u>5,947</u>

INTERIM DIVIDEND

The Directors has resolved to declare an interim dividend of HK1.3 cents per ordinary share for the six months ended 30 September 2008. The interim dividend will be paid on or about 20 January 2009 to members, whose names appear on the register of members of the Company at the close of business on 9 January 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 September 2008, the Group reported turnover amounting to HK\$169,416,000 (2007: HK\$170,954,000). The decline in turnover was mainly due to the decrease of sales revenue from the Group's manufacturing business. Gross profit was around HK\$46,634,000 while gross profit margin was approximately 28% (2007: 32%). Significant increase of PRC labor cost and appreciation of Renminbi have resulted in a lower gross profit reported.

The rise in selling and distribution costs for the period was mainly related to higher operating cost for retail operation. Administrative and other operating expenses increased by 19%, to HK\$17,805,000 which were primarily attributable to the increase of staff salaries and bonus paid to the executive directors of the Company.

Net profit for the six month ended 30 September 2008 decreased by 31% to HK\$20,760,000. Basic earnings per share were HK6.5 cents (2007: HK9.5 cents).

BUSINESS REVIEW

Manufacturing Business

From the manufacturing business, the Group posted revenue of HK\$156,718,000, a decrease of 3% as compared with HK\$160,814,000 in the same period last year.

Geographically, Japan once again became the largest export market of the Group. Satisfactory growth of export sales to Japan nearly offset the slow down of sales in various market segments such as U.S., Hong Kong and the PRC. Sales to Japan surged by 18% to HK\$62,612,000 which was driven by strong demand from the major customer in Japan. Export sales to Europe increased by 2% to HK\$48,830,000. In view of continuing economy slowdown in the U.S., sales to this market segment plunged by 29% to HK\$11,729,000 compared with HK\$16,472,000 in the same period last year. Facing possible economic downturn, Hong Kong apparel retailers turned conservative and began to tighten inventory control and delayed their order placement. For the PRC market, sales dropped by 25% to HK\$9,867,000 as a result of customer portfolio restructuring. Apart from the major export markets, sales revenue from other countries including Canada, Taiwan, Philippines, Singapore and Malaysia, etc. decreased by 19%, to HK\$8,122,000.

In terms of product mix, sales of belts decreased to HK\$149,982,000 (2007: HK\$152,068,000). Sales of leather goods and other accessories was approximately HK\$6,736,000 (2007: HK\$8,746,000). The gross profit of manufacturing business down to HK\$39,808,000 (2007: HK\$49,609,000). With significant rise of PRC labor cost and appreciation of Renminbi, the gross margin was squeezed to around 25% (2007: 31%).

Retail Business

The Group's retail operation earned a profit of HK\$1,287,000. Retail sales for the reporting period surged 25% to HK\$12,698,000, representing 7% of the Group's turnover. Comparable same store sales grew around 4% against same period of last year. With continuing effort on widening the product range like footwear, shirt, jeans and trendy accessories, sales of in-house brand products doubled over that of last year. Retail gross profit margin increased by 5 percentage points to 53%. The overall shop rental to turnover ratio decreased to around 22% as a result of better sales performance during the reporting period. As at 30 September 2008, the Group operated 4 AREA 0264 stores in Hong Kong.

PROSPECTS

The global economic environment continues to be very challenging. The deteriorating financial conditions in the U.S. and Europe will further accelerate the slow down of global economy. Looking forward to the second half of the fiscal year 2009, sales orders from customers in the U.S. and European markets are declining. Weak consumer confidence slows consumer spending in these market segments. Nevertheless, the Group expects sales to Japan will keep growing as sales orders from major customer remains steadily increasing. Consumers tend to buy popular-priced but good quality products in depressed economic environment.

In the first half of fiscal year 2009, the Group's manufacturing operation was suffered from the impacts of significant rise of labor cost and appreciation of Renminbi. Nevertheless, looking at the recent change of PRC government policy, the Group believes it will partially relieve the huge pressure of labor cost on the manufacturers. Decreasing raw materials cost and stable exchange rate of Renminbi offer favorable conditions for the manufacturers with sound business foundation to overcome current challenges. The Group will continue to focus its efforts to grow new businesses, maintain tight cost control and improve operation efficiency.

In Hong Kong, retail market condition is deteriorating. Consumer confidence will continue to weaken and consumer expenditure will continue to contract due to rising unemployment rate and negative wealth effects amid the slump of stock and property markets. Facing unfavorable business environment, the Group will take every necessary measures to reduce cost and enhance operation efficiency. The Group will adjust the product mix by reducing import of luxury brand products. In additions, the Group will close loss-making store and negotiate with the landlords for rental reduction when renewal of the lease. With relatively small scale of operation, the Group has greater flexibility to overcome the upcoming difficulties. Barring unforeseeable circumstances, the Group expects the retail operation will remain profitable for the full fiscal year 2009.

Despite the very challenging global economic conditions, we remain optimistic about the Group's longer term prospects for sustained revenue and profit growth given our solid business fundamental.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2008, the Group's cash and bank deposits were approximately HK\$154,702,000, compared to approximately HK\$151,867,000 as at 31 March 2008.

As at 30 September 2008, 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\$263,286,000 as at 30 September 2008 (31 March 2008: HK\$247,117,000) and total current liabilities of approximately HK\$40,533,000 (31 March 2008: HK\$33,799,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 6 times as at 30 September 2008 (31 March 2008: 7 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\$223,062,000 as at 31 March 2008 to approximately HK\$236,802,000 as at 30 September 2008.

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 during the period. 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 six months ended 30 September 2008.

Human Resources

As at 30 September 2008, the Group had around 220 employees in Hong Kong and the PRC and the processing factory had around 1,800 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.

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 30 September 2008.

CORPORATE GOVERNANCE

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 to the Listing Rules during the six months ended 30 September 2008, except for the deviations from CG Code provision A2.1 in respect of the separation of roles of the chairman and chief executive officer. 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. Mr. Chan 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 Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the six months ended 30 September 2008.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Mr. Fong Pui Sheung David (Chairman), Ms. Chau Cynthia Sin Ha, and Mr. Or Kam Chung Janson. The Audit Committee has reviewed with Group's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited interim financial statements and the results of the Group for the six months ended 30 September 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 7 January 2009 to Friday, 9 January 2009 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, 6 January 2009.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of the Company (<http://www.irasia.com/listco/hk/chanco/index.htm>) and the Stock Exchange (www.hkex.com.hk). An interim report for the six months ended 30 September 2008 containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

By order of the Board
Chan King Hong, Edwin
Chairman

Hong Kong, 17 December 2008

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 MH, Ms. Chau Cynthia Sin Ha JP and Mr. Or Kam Chung, Janson are the independent non-executive directors of the Company.