



**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, 2006**

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, 2006 as follows:–

**CONDENSED CONSOLIDATED INCOME STATEMENT  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006**

		Six months ended 30th September,	
		2006	2005
		Unaudited	Unaudited
		HK\$'000	HK\$'000
	<i>Notes</i>		
Turnover	4	141,348	129,289
Cost of sales		<u>(97,912)</u>	<u>(86,180)</u>
Gross profit		43,436	43,109
Other income		1,833	905
Selling and distribution costs		(8,043)	(6,606)
Administrative and other operating expenses		<u>(12,772)</u>	<u>(12,085)</u>
Profit before tax	5	24,454	25,323
Income tax expense	6	<u>(2,394)</u>	<u>(2,328)</u>
Profit for the period attributable to shareholders		<u>22,060</u>	<u>22,995</u>
Dividends	7	<u>7,326</u>	<u>7,644</u>
Basic earnings per share	8	<u>HK6.9 cents</u>	<u>HK7.2 cents</u>
Diluted earnings per share	8	<u>HK6.9 cents</u>	<u>HK7.2 cents</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**  
AS AT 30TH SEPTEMBER, 2006

	<i>Notes</i>	<b>30th September, 2006 Unaudited HK\$'000</b>	31st March, 2006 Audited HK\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<u>10,457</u>	<u>10,409</u>
<b>Current assets</b>			
Inventories		51,191	55,811
Trade and bills receivables	9	40,040	20,935
Other receivables, deposits and prepayments		5,546	4,463
Tax recoverable		–	18
Cash and cash equivalents		<u>98,701</u>	<u>90,999</u>
Total current assets		<u>195,478</u>	<u>172,226</u>
<b>Total assets</b>		<u>205,935</u>	<u>182,635</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and bills payables	10	12,371	9,203
Other payables and accrued charges		14,117	11,022
Tax payable		<u>2,391</u>	<u>1,291</u>
Total current liabilities		28,879	21,516
<b>Non-current liabilities</b>			
Deferred tax liabilities		<u>348</u>	<u>266</u>
Total liabilities		<u>29,227</u>	<u>21,782</u>
<b>TOTAL NET ASSETS</b>		<u>176,708</u>	<u>160,853</u>
<b>Capital and reserves</b>			
Share capital		3,185	3,185
Reserves		<u>173,523</u>	<u>157,668</u>
<b>TOTAL EQUITY</b>		<u>176,708</u>	<u>160,853</u>

Notes:

**1. General**

The Company was incorporated in the Cayman Islands on 12th 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 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 31st March, 2006.

In the current interim period, the Group has applied, for the first time, a number of Hong Kong Financial Reporting Standards (“HKFRS”), amendments to Hong Kong Accounting Standards (“HKAS (Amendment(s))”) and Interpretations (HK(IFRIC) – INT(s)) (hereafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st December, 2005, 1st January, 2006 and 1st March, 2006. The application of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The following new standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted. The directors of the Company anticipate that the adoption of the standards and interpretations will not result in substantial changes to the Group’s accounting policies.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – Int 8	Scope of HKFRS 2 “Share-based payment” <sup>2</sup>
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment <sup>4</sup>

1. Effective for annual periods beginning on or after 1st January, 2007

2. Effective for annual periods beginning on or after 1st May, 2006

3. Effective for annual periods beginning on or after 1st June, 2006.

4. Effective for annual periods beginning on or after 1st November, 2006

#### 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 30th September, 2006		Six months ended 30th September, 2005		Six months ended 30th September, 2006		Six months ended 30th September, 2005	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue								
External sales	131,365	123,066	9,983	6,223	-	-	141,348	129,289
Inter-segment sales	833	510	-	-	(833)	(510)	-	-
	<u>132,198</u>	<u>123,576</u>	<u>9,983</u>	<u>6,223</u>	<u>(833)</u>	<u>(510)</u>	<u>141,348</u>	<u>129,289</u>
Segment results	<u>23,765</u>	<u>26,004</u>	<u>(758)</u>	<u>(1,000)</u>	<u>(12)</u>	<u>(178)</u>	<u>22,995</u>	<u>24,826</u>
Unallocated income							1,833	905
Unallocated expenses							(374)	(408)
Profit before tax							24,454	25,323
Income tax expenses							(2,394)	(2,328)
Profit for the period attributable to shareholders							<u>22,060</u>	<u>22,995</u>

##### Secondary reporting format – geographical segment

	Turnover	
	Six months ended 30th September, 2006	2005
	Unaudited HK\$'000	Unaudited HK\$'000
Japan	31,864	52,114
Europe	37,879	29,850
The United States of America (the "U.S.")	27,605	9,213
Hong Kong	23,161	18,739
The People's Republic of China, other than Hong Kong (the "PRC")	8,574	5,423
Australia	4,235	4,486
Others	8,030	9,464
	<u>141,348</u>	<u>129,289</u>

## 5. Profit before tax

Profit before tax is stated after charging:

	Six months ended 30th September,	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	97,912	86,180
Depreciation of property, plant and equipment	1,199	1,247
Operating lease rentals in respect of land and buildings	4,795	3,534
Write down of inventories	258	279
Staff costs (excluding directors' emoluments)	6,948	5,000
and crediting:		
Interest income	1,777	693
Unrealised holding gain on financial assets at fair value through profit or loss	–	143

## 6. Income Tax Expense

	Six months ended 30th September,	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	1,852	2,162
– Other jurisdictions	460	94
Deferred tax	82	72

Hong Kong profits tax is calculated at 17.5% (2005: 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.

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.

## 7. Dividends

	Six months ended 30th September,	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interim dividend of HK2.3 cents (2005: HK2.4 cents) per ordinary share	7,326	7,644

At a board meeting held on 19th December, 2006, the directors declared an interim dividend of HK2.3 cents per share, aggregating a total of approximately HK\$7,326,000 for the six months ended 30th September, 2006. This proposed dividend is not reflected as a dividend payable in the condensed financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31st March, 2007.

The amount of proposed interim dividend is based on 318,500,000 shares in issue at 19th December, 2006.

## 8. Earnings per share

The calculation of basic earnings per share is based on the Group's profit for the period of HK\$22,060,000 (2005: HK\$22,995,000) and weighted average of 318,500,000 (2005: 318,500,000) 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\$22,060,000 (2005: HK\$22,995,000) and the weighted average number of 318,972,299 (2005: 319,017,000) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,500,000 (2005: 318,500,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average of 472,299 (2005: 517,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

#### 9. Trade and bills receivables

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

	<b>30th September, 2006 Unaudited HK\$'000</b>	31st March, 2006 Audited HK\$'000
Current to 30 days	22,383	14,731
31-60 days	8,590	3,434
61-90 days	1,490	1,195
91-120 days	4,033	554
121-365 days	3,491	990
Over 365 days	53	31
	<u>40,040</u>	<u>20,935</u>

#### 10. Trade and bills payables

Details of the ageing analysis are as follows:

	<b>30th September, 2006 Unaudited HK\$'000</b>	31st March, 2006 Audited HK\$'000
Current to 30 days	7,858	5,556
31-60 days	2,508	3,318
61-90 days	1,394	187
91-120 days	462	10
121-365 days	35	28
Over 365 days	114	104
	<u>12,371</u>	<u>9,203</u>

#### INTERIM DIVIDEND

The Directors has resolved to declare an interim dividend of HK2.3 cents per ordinary share for the six months ended 30th September, 2006. The interim dividend will be paid on or about 23rd January, 2007 to members, whose names appear on the register of members of the Company at the close of business on 12th January, 2007.

#### MANAGEMENT DISCUSSION AND ANALYSIS FINANCIAL REVIEW

For the six months ended 30th September, 2006, the Group's turnover increased approximately 9% to HK\$141,348,000. The increase in turnover was mainly attributable to the increase in OEM/ODM sales to the U.S. and Europe and the improving revenue contribution from the Group's retail business during the reporting period. Gross profit was HK\$43,436,000 while gross profit margin dropped to around 31% compared to 33% of the corresponding period last year.

Selling and distribution expenses for the period increased to approximately HK\$8,043,000 as a result of upsurge operating expenses for retail business. Administrative and other operating expenses increased by 6%, to HK\$12,772,000 which was due to the increase of staff remuneration and bonus paid to the executive directors of the Company.

Net profit for the six month ended 30th September, 2006 was down by 4% to HK\$22,060,000. The basic earnings per share was HK6.9 cents as compared to HK7.2 cents for the corresponding period last year.

## **BUSINESS REVIEW**

### **Manufacturing Business**

During the period under review, turnover of manufacturing business grew by approximately 7% to HK\$131,365,000. Sales growth was mainly due to strong orders for fashion belts placed by the customers in Europe and the U.S. The Group reported sales growth of 200% and 27% to the U.S. and Europe respectively. However, sales to Japan reported 39% decline to HK\$31,864,000 which was attributable to the reduction of orders from the Group's major customer in Japan. The customer was adjusting their ordering strategy during the reporting period. In September 2006, orders from Japan were fully recovered and the corresponding sales would be reflected in the second half of fiscal year. For the PRC market, driven by increased orders from reputable brand customers, sales rose by 58% to HK\$8,574,000.

Revenue from manufacturing of belts increased from HK\$118,743,000 to HK\$126,563,000. Sales of leather goods and other accessories was approximately HK\$4,802,000. The gross profit of manufacturing business decreased to HK\$39,372,000 and the gross margin dropped to around 30%. The decrease of gross margin was due to the rise of labor cost and outsourcing jobs, and additional rental for expanded production floor and dormitory for labor. During the review period, 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 corresponding period last year.

### **Retail Business**

Retail sales for the six months ended 30th September, 2006 was approximately HK\$9,983,000, representing around 7% of the Group's total turnover. The retail performance kept improving and the operating loss reduced to HK\$758,000 compared to HK\$1,000,000 in corresponding period last year. The overall shop rental to turnover ratio was lower as compared to the same period last year as a result of improvement in top-line. Nevertheless, the gross margin for retail sales was still far from satisfactory as low proportion of in-house brand sales was made during the reporting period. More resources would be allocated to advertising and promotion activities in order to enhance the brand image and popularity.

## **PROSPECTS**

With years of development, the Group has successfully consolidated its leading position in leather accessories manufacturing. Better sales performance is foreseeable in the second half of fiscal year especially for the recovery of orders from the Group's major customer in Japan. Sales orders placed by new customers with extensive retail network over Europe and the U.S are promising. Nevertheless, the management expects that the pressure on manufacturing margin still exist in the second half of fiscal year. The Group has employed several experienced production management personnel who are responsible for improving production flow and enhancing workers quality. To cope with the increasing orders in future, the Group will strive to improve the production efficiency and increase the production capacity.

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 proportion of in-house brand sales in order to drive up the overall retail profit margin. To fully utilize the competitive strength in leather surface treatment, the Group will focus on developing diversified products with strong rough and raw leather element. For retail network expansion, the Group will open the forth AREA0264 store at a new shopping mall in Kowloon Bay around June 2007.

Looking forward, based on our continuous effort on product development and favorable global market condition, the management is cautiously optimistic towards the Group's performance in the second half of fiscal year 2006/07.

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

As at 30th September, 2006, the Group's cash and bank deposits were approximately HK\$98,701,000, compared to approximately HK\$90,999,000 as at 31st March, 2006.

As at 30th September, 2006, 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\$195,478,000 as at 30th September, 2006 (31st March, 2006: HK\$172,226,000) and total current liabilities of approximately HK\$28,879,000 (31st March, 2006: HK\$21,516,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 7 times as at 30th September, 2006 (31st March, 2006: 8 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\$160,853,000 as at 31st March, 2006 to approximately HK\$176,708,000 as at 30th September, 2006.

### **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 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, 2006.

### **Human Resources**

As at 30th September, 2006, the Group had 202 employees in Hong Kong and the PRC and the processing factory had around 1,500 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 30th September, 2006.



## **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 30th September, 2006, 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 30th September, 2006.

## **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 30th September, 2006.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 10th January, 2007 to Friday, 12th January, 2007 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 4:00p.m. on Tuesday, 9th January, 2007.

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

All information of the interim results of the Group for the six months ended 30th September, 2006 required under 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, 19th December, 2006

*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.*