



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 2007

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 2007 as follows:–

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

		Six months ended	
		30 September	
		2007	2006
		Unaudited	Unaudited
	Notes	HK\$'000	HK\$'000
Turnover	4	170,954	141,348
Cost of sales		(116,483)	(97,912)
Gross profit		54,471	43,436
Other income and gains		2,565	1,833
Selling and distribution costs		(8,665)	(8,043)
Administrative and other operating expenses		(15,011)	(12,772)
Profit before income tax expense	5	33,360	24,454
Income tax expense	6	(3,234)	(2,394)
Profit for the period		30,126	22,060
Dividends	7	9,883	7,326
Basic earnings per share	8	HK9.5 cents	HK6.9 cents
Diluted earnings per share	8	HK9.4 cents	HK6.9 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2007

		30 September	31 March
		2007	2007
		Unaudited	Audited
	<i>Notes</i>	HK\$'000	HK\$'000
Assets			
Non-current assets			
Property, plant and equipment		<u>10,910</u>	<u>10,176</u>
Current assets			
Inventories		57,075	52,480
Trade and bills receivables	9	38,414	27,266
Other receivables, deposits and prepayments		4,312	4,267
Tax recoverable		–	706
Cash and cash equivalents		<u>134,427</u>	<u>119,573</u>
Total current assets		<u>234,228</u>	<u>204,292</u>
Total assets		<u>245,138</u>	<u>214,468</u>
Liabilities			
Current liabilities			
Trade and bills payables	10	18,240	11,631
Other payables and accrued charges		14,174	14,456
Tax payable		<u>2,250</u>	<u>271</u>
Total current liabilities		34,664	26,358
Non-current liabilities			
Deferred tax liabilities		<u>302</u>	<u>283</u>
Total liabilities		<u>34,966</u>	<u>26,641</u>
TOTAL NET ASSETS		<u>210,172</u>	<u>187,827</u>
Capital and reserves			
Share capital	11	3,188	3,185
Reserves		<u>206,984</u>	<u>184,642</u>
TOTAL EQUITY		<u>210,172</u>	<u>187,827</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 unaudited condensed interim financial statements have been prepared under the historical cost convention.

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 2007.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by HKICPA, that are relevant to its operation and effective for accounting period beginning on or after 1 April 2007. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK (IFRIC) – Interpretation 12	Service Concession Arrangements ²
HK (IFRIC) – Interpretation 13	Customer loyalty programmes ³
HK (IFRIC) – Interpretation 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions ²

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

² Effective for annual periods beginning on or after 1 January 2008.

³ Effective for annual periods beginning on or after 1 July 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		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September	
	2007	2006	2007	2006	2007	2006	2007	2006
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenue								
External sales	160,814	131,365	10,140	9,983	-	-	170,954	141,348
Inter-segment sales	973	833	-	-	(973)	(833)	-	-
	<u>161,787</u>	<u>132,198</u>	<u>10,140</u>	<u>9,983</u>	<u>(973)</u>	<u>(833)</u>	<u>170,954</u>	<u>141,348</u>
Segment results	<u>31,536</u>	<u>23,765</u>	<u>(356)</u>	<u>(758)</u>	<u>15</u>	<u>(12)</u>	<u>31,195</u>	<u>22,995</u>
Unallocated income							2,487	1,833
Unallocated expenses							(322)	(374)
Profit before income tax expense							33,360	24,454
Income tax expense							(3,234)	(2,394)
Profit for the period							<u>30,126</u>	<u>22,060</u>

Secondary reporting format – geographical segment

	Turnover	
	Six months ended	
	30 September	
	2007	2006
Unaudited	Unaudited	
HK\$'000	HK\$'000	
Japan	52,847	31,864
Europe	48,027	37,879
The United States of America	16,472	27,605
Hong Kong	25,484	23,161
The People's Republic of China, other than Hong Kong (the "PRC")	13,148	8,574
Australia	5,002	4,235
Others	9,974	8,030
	<u>170,954</u>	<u>141,348</u>

5. Profit before income tax expense

Profit before income tax expense is arrived at after charging:

	Six months ended 30 September	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	116,483	97,912
Depreciation of property, plant and equipment	1,291	1,199
Operating lease rentals in respect of land and buildings	5,201	4,795
Write down of inventories	860	258
Staff costs (excluding directors' emoluments)	8,315	6,948
and crediting:		
Interest income	<u>2,143</u>	<u>1,777</u>

6. Income tax expense

	Six months ended 30 September	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Current taxation:		
– Hong Kong profits tax	2,530	1,852
– Other jurisdictions	685	460
Deferred tax	<u>19</u>	<u>82</u>
	<u>3,234</u>	<u>2,394</u>

Hong Kong profits tax is calculated at 17.5% (2006: 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 30 September	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interim dividend of HK3.1 cents (2006: HK2.3 cents) per ordinary share	<u>9,883</u>	<u>7,326</u>

At a board meeting held on 17 December 2007, the directors declared an interim dividend of HK3.1 cents per share, aggregating a total of approximately HK\$9,883,000 for the six months ended 30 September 2007. 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 31 March 2008.

The amount of proposed interim dividend is based on 318,804,000 shares in issue at 17 December 2007.

8. Earnings per share

The calculation of basic earnings per share is based on the Group's profit for the period of HK\$30,126,000 (2006: HK\$22,060,000) and weighted average of 318,604,656 (2006: 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\$30,126,000 (2006: HK\$22,060,000) and the weighted average number of 319,558,610 (2006: 318,972,299) ordinary shares. The weighted average number of ordinary shares used in the calculation is the weighted average number of 318,604,656 (2006: 318,500,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average of 953,954 (2006: 472,299) 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:

	30 September 2007 Unaudited HK\$'000	31 March 2007 Audited HK\$'000
Current to 30 days	17,333	14,036
31-60 days	9,249	8,159
61-90 days	3,185	2,084
91-120 days	4,490	1,052
121-365 days	3,851	1,935
Over 365 days	306	–
	<u>38,414</u>	<u>27,266</u>

10. Trade and bills payables

Details of the ageing analysis are as follows:

	30 September 2007 Unaudited HK\$'000	31 March 2007 Audited HK\$'000
Current to 30 days	10,308	6,902
31-60 days	3,941	3,155
61-90 days	2,709	1,003
91-120 days	557	293
121-365 days	548	143
Over 365 days	177	135
	<u>18,240</u>	<u>11,631</u>

11. Share capital

	30 September 2007 HK\$'000	31 March 2007 HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.01 each	<u>20,000</u>	<u>20,000</u>
	Issued and fully paid Ordinary shares of HK\$0.01 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
At 31 March 2007	318,500,000	3,185
Exercise of share options	<u>304,000</u>	<u>3</u>
At 30 September 2007	<u>318,804,000</u>	<u>3,188</u>

12. Contingent liabilities

The Group had no material contingent liabilities as at 30 September 2007 (At 31 March 2007: nil).

13. Related party transactions

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

	Six months ended 30 September	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	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	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Short-term benefits	5,887	4,353
Post employment benefits	<u>60</u>	<u>54</u>
	<u>5,947</u>	<u>4,407</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's turnover for the period ended 30 September 2007 recorded an increase of HK\$29,606,000 or 21% to HK\$170,954,000. The Group's accelerated growth in turnover was primarily driven by export sales of OEM and ODM products to Japan and Europe. Gross profit was around HK\$54,471,000 while the gross profit margin was approximately 32% (2006: 31%).

Selling and distribution costs for the period increased by 8% to HK\$8,665,000. The increase in the selling and distribution expenses was mainly due to the expansion of retail business. Administrative and other operating expenses increased by 18%, to HK\$15,011,000 which was due to the employment of additional management personnel, the increase of staff salaries and bonus paid to the executive directors of the Company.

Net profit for the six month ended 30 September 2007 increased by 37% to HK\$30,126,000. The basic earnings per share was HK9.5 cents as compared to HK6.9 cents for the corresponding period last year.

BUSINESS REVIEW

Manufacturing Business

During the period under review, turnover of manufacturing business grew by approximately 22% to HK\$160,814,000.

Geographically, sales growth was mainly attributable to better sales performance in Japan and European market. Sales to Japan surged by 66% to HK\$52,847,000 compared with exceptionally low sales level in first half of last fiscal year. Export sales to Europe increased by 27% to HK\$48,027,000. The growing maturity in the business relationship with several international brand customers became the key driver of sales growth in Europe. The remarkable growth of sales was also driven by higher purchasing power of the European customers resulting from the strong Euro currency. Sales to U.S dropped by 40% as a result of slow down of the U.S. market. U.S customers tended to make purchase cautiously during the reviewing period. For the PRC market, driven by increased orders from reputable brand customers, sales rose by 53% to HK\$13,148,000. Apart from the major export markets, sales revenue from other countries including Canada, Taiwan, Philippines, Singapore and Malaysia, etc. rose approximately 24%, to HK\$9,974,000.

Revenue from manufacturing of belts increased from HK\$126,563,000 to HK\$152,068,000. Sales of leather goods and other accessories was approximately HK\$8,746,000. The gross profit of manufacturing business increased by 26% to HK\$49,609,000 (2006: HK\$39,372,000). Despite facing unfavorable factors like rising labor cost and appreciation of Renminbi, the Group reported an improved gross margin of around 31% (2006: 30%). The impressive result reflected the efforts undertaken by the management in enhancing the Group's customer portfolio, tightening cost control, improving operation efficiency and adjusting the pricing strategy during the reporting period.

Retail Business

Retail sales for the reporting period was slightly increased to HK\$10,140,000, representing around 6% of the Group's total turnover. Same store sales dropped by around 10% because of the Group's strategy for reduction of selling third party brand products during the reporting period. The retail performance kept improving and the operating loss reduced from HK\$758,000 to HK\$356,000. The Group reported a sharp improvement on gross profit margin as a result of more diversified in-house brand products launched in the market. Retail profit margin increased 7 percentage points to 48% compared with same period of last year. During the reviewing period, the Group opened one new concept store and closed one non-profitable store upon expiry of the lease. At the end of September 2007, the Group operated 3 AREA 0264 stores in Hong Kong.

PROSPECTS

Challenging business conditions for manufacturer are expected to persist in view of continuing rise in Renminbi and labor cost. Nevertheless, we expect the momentum of the top line growth could continue despite housing concerns threatening the slowdown of US market. We continue to enjoy a competitive edge over many of our competitors. We will continue to focus our efforts to grow new businesses and at the same time strengthen the relationships with our existing customers. To stay competitive, we will strive for more stringent quality control and streamlining operation efficiency.

Looking into the second half of fiscal 2008 with confidence, we expect the retail business could achieve positive result for the full fiscal year. Riding on the satisfactory response from customers for our in-house brand products, we believe the sales proportion of in-house brand will continue to increase and further enhance the overall profit margin. In view of high shop rental, we will keep our prudent strategy for retail expansion in Hong Kong.

The Group's business fundamentals have proven our strength and our strategy have prepared us well to face future challenges. Barring unforeseeable circumstances, the management is cautiously optimistic towards the Group's performance in the second half of fiscal 2008.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2007, the Group's cash and bank deposits were approximately HK\$134,427,000, compared to approximately HK\$119,573,000 as at 31 March 2007.

As at 30 September 2007, 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\$234,228,000 as at 30 September 2007 (31 March 2007: HK\$204,292,000) and total current liabilities of approximately HK\$34,664,000 (31 March 2007: HK\$26,358,000). The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 7 times as at 30 September 2007 (31 March 2007: 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\$187,827,000 as at 31 March 2007 to approximately HK\$210,172,000 as at 30 September 2007.

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. 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 2007.

Human Resources

As at 30 September 2007, the Group had 392 employees in Hong Kong and the PRC and the processing factory had around 1,700 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 2007.

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 2007, 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 2007.

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 2007.

INTERIM DIVIDEND

The Directors has resolved to declare an interim dividend of HK3.1 cents per ordinary share for the six months ended 30 September 2007. The interim dividend will be paid on or about 30 January 2008 to members, whose names appear on the register of members of the Company at the close of business on 11 January 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 9 January 2008 to Friday, 11 January 2008 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, 8 January 2008.

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 2007 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.

On behalf of the Board
Chan King Hong, Edwin
Chairman

Hong Kong, 17 December 2007

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.