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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 2010

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 2010 as follows:–

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

		Six months ended 30 September	
		2010	2009
		Unaudited	Unaudited
	Notes	***HK$'000***	*HK$'000*
Turnover	*4*	**103,271**	115,319
Cost of sales		**(74,817)**	(89,131)
Gross profit		**28,454**	26,188
Other income and gains		**650**	1,377
Selling and distribution costs		**(11,046)**	(7,264)
Administrative and other operating expenses		**(15,595)**	(21,596)
Profit/(loss) before income tax expense	*5*	**2,463**	(1,295)
Income tax expense	*6*	**(1,060)**	(1,002)
Profit/(loss) for the period attributable to owners of the Company		**1,403**	(2,297)

	Notes	Six months ended 30 September **2010** **Unaudited** ***HK$'000***	2009 Unaudited *HK$'000*
Other comprehensive income			
Change in fair value of available-for-sale investments		**(165)**	1,795
Exchange differences arising on translation of financial statements of operations outside Hong Kong		**416**	28
Other comprehensive income for the period		**251**	1,823
Total comprehensive income for the period attributable to owners of the Company		**1,654**	(474)
Earnings/(loss) per share			
– Basic	*8*	**HK0.4 cent**	(HK0.7 cent)
– Diluted	*8*	**HK0.4 cent**	(HK0.7 cent)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2010

	Notes	30 September 2010 Unaudited HK$'000	31 March 2010 Audited HK$'000
Non-current assets			
Property, plant and equipment		**8,779**	8,876
Available-for-sale investments	9	**4,918**	4,161
Rental deposits		**3,101**	2,282
		16,798	15,319
Current assets			
Inventories		**68,626**	68,843
Trade and bills receivables	10	**19,949**	19,566
Other receivables, deposits and prepayments		**3,290**	2,599
Tax recoverable		**1,029**	597
Cash and cash equivalents		**191,792**	190,885
		284,686	282,490
Current liabilities			
Trade and bills payables	11	**12,924**	9,595
Other payables and accrued charges		**18,295**	14,915
Current tax liabilities		**570**	805
		31,789	25,315
Net current assets		**252,897**	257,175
Total assets less current liabilities		**269,695**	272,494
Non-current liabilities			
Deferred tax liabilities		**159**	149
Total Net Assets		**269,536**	272,345
Capital and reserves			
Share capital	12	**3,188**	3,188
Reserves		**266,348**	269,157
Total Equity		**269,536**	272,345

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

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2010.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by HKICPA, which are effective for the Group's financial year beginning on 1 April 2010.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs
HKFRSs (Amendments)	Improvements to HKFRSs 2009
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation ("INT") 17	Distribution of Non-cash Assets to Owners

The adoption of the new interpretations and amendments has had no significant effect on these condensed interim financial statements.

The Group has not yet applied the following new standards, amendments and interpretations, potentially relevant to the Group's operations, that have been issued but not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[2]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[4]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 January 2011
[3] Effective for annual periods beginning on or after 1 July 2011
[4] Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. TURNOVER AND SEGMENT INFORMATION

Turnover, which is also the revenue, represents the net amounts received and receivable for goods sold to external customers, less returns and discount, if any, during the period.

The principal activities of the Group are manufacture and distribution of leather products and retail of fashion apparel and leather accessories.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

Manufacturing business	–	Manufacture and distribution of leather products
Retail business	–	Retail of fashion apparel and leather accessories

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' profit that is used by the chief operating decision-makers for assessment of segment performance.

	Manufacturing business Six months ended 30 September		Retail business Six months ended 30 September		Total Six months ended 30 September	
	Unaudited	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**88,450**	104,591	**14,821**	10,728	**103,271**	115,319
Inter-segment revenue	**387**	687	**–**	–	**387**	687
Reportable segment revenue	**88,837**	105,278	**14,821**	10,728	**103,658**	116,006
Reportable segment result	**4,140**	1,923	**(1,396)**	1,007	**2,744**	2,930
Elimination of inter-segment profits					**46**	53
Dividend income from available-for-sale investments					**116**	95
Interest income					**381**	873
Unallocated other income and gains					**40**	–
Unallocated corporate expenses					**(864)**	(5,246)
Profit/(loss) before income tax expense					**2,463**	(1,295)
Income tax expense					**(1,060)**	(1,002)
Profit/(loss) for the period					**1,403**	(2,297)

	Manufacturing	**Retail**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Reportable segment assets:				
30 September 2010	104,904	21,942	174,638	301,484
31 March 2010	110,335	14,600	172,874	297,809

5. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

Profit/(loss) before income tax expense is arrived at after charging:

	Six months ended 30 September	
	2010	2009
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Cost of inventories sold	**74,817**	89,131
Depreciation of property, plant and equipment	**909**	860
Operating lease rentals in respect of land and buildings	**9,007**	5,042
Write down of inventories	**309**	121
Staff costs (excluding directors' emoluments)	**8,654**	9,130
and crediting:		
Dividend income from available-for-sale investments	**116**	95
Interest income	**381**	873

6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2010	2009
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Current taxation:		
– Hong Kong profits tax	**196**	242
– Other jurisdictions	**854**	780
Deferred tax	**10**	(20)
	1,060	1,002

Hong Kong profits tax is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7. INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2010 (2009: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings/(loss) per share is based on the Group's profit for the period of HK$1,403,000 (2009: loss of HK$2,297,000) and weighted average number of 318,804,000 (2009: 318,804,000) ordinary shares in issue during the period.

For the six months ended 30 September 2010 and 2009, diluted earnings/(loss) per share is equal to the basic earnings/(loss) per share for the period as there is no dilutive effect on the outstanding share options.

9. AVAILABLE-FOR-SALE INVESTMENTS

	30 September 2010 Unaudited ***HK$'000***	31 March 2010 Audited *HK$'000*
Equity securities listed in Hong Kong, at fair value	**4,918**	4,161

Fair value is determined by reference to published price quotation in an active market.

10. TRADE AND BILLS RECEIVABLES

	30 September 2010 Unaudited ***HK$'000***	31 March 2010 Audited *HK$'000*
Trade and bills receivables	**20,598**	20,212
Less: impairment loss	**(649)**	(646)
	19,949	19,566

Customers are generally granted with credit terms of 30 to 90 days. The ageing analysis of trade and bills receivables (net of impairment loss) at the end of reporting period is as follows:

	30 September 2010 Unaudited ***HK$'000***	31 March 2010 Audited *HK$'000*
0 - 30 days	**14,502**	10,986
31 - 60 days	**2,900**	3,329
61 - 90 days	**1,234**	4,103
91 - 120 days	**137**	866
121 - 365 days	**1,101**	7
Over 365 days	**75**	275
	19,949	19,566

11. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	30 September 2010 Unaudited *HK$'000*	31 March 2010 Audited *HK$'000*
0 - 30 days	**8,587**	8,233
31 - 60 days	**1,379**	578
61 - 90 days	**2,008**	376
91 - 120 days	**623**	213
121 - 365 days	**233**	131
Over 365 days	**94**	64
	12,924	9,595

DIVIDEND

The Board would not recommend the payment of an interim dividend for the six months ended 30 September 2010 (30 September 2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2010, the Group's turnover decreased from HK$115,319,000 to HK$103,271,000. The fall in total turnover was due to lower sales from manufacturing business segment. Gross profit was around HK$28,454,000 (2009: HK$26,188,000) while gross profit margin was approximately 28% (2009: 23%) .

Other income and gains decreased from HK$1,377,000 to HK$650,000. This was mainly attributed to the decrease of bank interest income received during the reporting period.

Selling and distribution costs increased 52% to HK$11,046,000. The rise in selling and distribution costs was mainly attributable to substantial increase of rental expenses for the group's retail business. Administrative and other operating expense decreased from HK$21,596,000 to HK$15,595,000 for the reporting period. Administrative and other operating expense was lower by 28% owing to one-off share based payment expenses of HK$4,904,000 recognized in the same period last year.

On the whole, the Group reported a net profit of HK$1,403,000 for the six months ended 30 September 2010. Earnings per share was HK0.4 cent (2009: loss per share of HK0.7 cent).

Business Review

Manufacturing Business

For the six months ended 30 September 2010, turnover of manufacturing business segment from external customers reduced by approximately 15% to HK$88,450,000, accounting for 86% of the Group's total turnover. The fall in turnover was mainly attributed to the significant decrease of export sales to Japan.

Geographically, export sales to Japan dropped significantly from HK$43,772,000 to HK$13,328,000. During the reporting period, the major customer in Japan diversified their orders placement to several manufacturers for strategic reason. To cope with the unexpected reduction of orders from Japan, the Group had shifted its focus on the U.S and European markets. Export sales to the U.S. and European markets were better off in the reporting period. Sales to the U.S. and European market increased from HK$9,623,000 to HK$15,719,000 and increased from HK$23,716,000 to HK$29,156,000 respectively. Sales to the PRC market dropped slightly to HK$8,916,000 compared with HK$9,710,000 same period last year. Apart from the major markets, sales revenue from other countries including Australia, Canada, Korea, Taiwan, Philippines, Singapore and Malaysia, etc. increased by 19% , to HK$13,936,000.

In terms of product mix, sales of belts decreased to HK$80,788,000 (2009: HK$96,859,000). Sales of leather goods and other accessories was approximately HK$7,661,000. Gross profit was approximately HK$19,811,000 (2009: HK$19,893,000). During the reporting period, the Group was mainly using lower cost stock leather for production. Despite the fixed overhead cost and labor cost per piece was higher as a result of output volume reduced, gross profit margin still increased from 19% to 22% for the reporting period.

Retail Business

Retail sales for the reporting period increased from HK$10,728,000 to HK$14,821,000. Comparable same store sales increased around 18% against same period last year. Retail gross profit margin was stayed at around 58% . However, sales performance of the new shop in Causeway Bay was far from satisfactory. Because of high rental costs, the overall shop rental to turnover ratio rose significantly from 23% to around 43% . Consequently, our retail business segment incurred an operating loss of around HK$1,396,000. During the reporting period, we continued to build up our in-house brands value through strengthening product design and quality and brand promotion. A new store was opened at Shatin in August 2010. As at 30 September 2010, the Group operated 5 AREA 0264 stores in Hong Kong.

Prospects

The second half of the financial year 2011 will continue to be challenging. The rising labor costs, growing inflation pressure in the PRC and continuing appreciation of Renminbi will put pressure on the profit margin. Faced with these difficulties, we will continue to maintain rigid cost control and optimize the production capacity in order to maintain the profitability. In terms of market, we expect the sales order from Japan will reduce in the second half of the financial year as compared with same period last year. We will endeavor to explore new markets and find new customers in Europe, the U.S. and the PRC to increase our sales.

The retail market is expected to remain prosperous in the second half of financial year 2011 on the back of steady economic growth, growing wealth effect and continued strong mainland Chinese tourist arrivals. The stronger Renminbi will provide mainland visitors with extra incentive to travel to Hong Kong for consumption. Despite negative result reported in the first half of the financial year, we are confident that the retail business will remain profitable for the full financial year.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2010 the Group's cash and bank deposits were approximately HK$191,792,000, compared to approximately HK$190,885,000 as at 31 March 2010.

As at 30 September 2010, the Group had aggregate banking facilities in respect of import/export facilities of approximately HK$15,000,000 which were secured by corporate guarantees provided by the Company.

The Group recorded total current assets of approximately HK$284,686,000 as at 30 September 2010 (31 March 2010: HK$282,490,000) and total current liabilities of approximately HK$31,789,000 (31 March 2010: HK$25,315,000). The current ratio of the Group, calculated by dividing the total currents assets by the total current liabilities, was approximately 9 times as at 30 September 2010 (31 March 2010: 11 times).

In view of its strong financial and liquidity position, the Group did not raise any bank loan during the period.

The Group recorded a decrease in shareholders' funds from approximately HK$272,345,000 as at 31 March 2010 to approximately HK$269,536,000 as at 30 September 2010.

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 2010.

Human Resources

As at 30 September 2010, the Group had around 171 employees in Hong Kong and the PRC and the processing factory, an independent third party with which the Group has entered into a processing agreement, had around 1,088 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 2010.

CORPORATE GOVERANCE

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 2010, 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 2010.

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 2010.

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 2010 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, 22 November 2010

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.