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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 2011

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 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2011

		Six months ended 30 September	
		2011	2010
		Unaudited	Unaudited
	Notes	***HK$'000***	*HK$'000*
Turnover	*4*	**84,346**	103,271
Cost of sales		**(60,488)**	(74,817)
Gross profit		**23,858**	28,454
Other income and gains		**3,684**	650
Selling and distribution costs		**(14,041)**	(11,046)
Administrative and other operating expenses		**(15,435)**	(15,595)
(Loss)/profit before income tax expense	*5*	**(1,934)**	2,463
Income tax expense	*6*	**(494)**	(1,060)
(Loss)/profit for the period attributable to owners of the Company		**(2,428)**	1,403
Other comprehensive income			
Change in fair value of available-for-sale investments		**(2,011)**	(165)
Exchange differences arising on translation of financial statements of operations outside Hong Kong		**864**	416
Other comprehensive income for the period		**(1,147)**	251
Total comprehensive income for the period attributable to owners of the Company		**(3,575)**	1,654
(Loss)/earnings per share			
— Basic	*8*	**(HK0.8 cent)**	HK0.4 cent
— Diluted	*8*	**(HK0.8 cent)**	HK0.4 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2011

	Notes	**30 September 2011 Unaudited *HK$'000***	31 March 2011 Audited *HK$'000*
Non-current assets			
Property, plant and equipment		**8,597**	8,429
Available-for-sale investments	*9*	**4,376**	5,333
Held-to-maturity investment		**1,524**	—
Rental deposits		**2,493**	1,934
		16,990	15,696
Current assets			
Inventories		**77,791**	55,158
Trade and bills receivables	*10*	**16,426**	20,944
Other receivables, deposits and prepayments		**5,764**	3,666
Tax recoverable		**960**	370
Cash and cash equivalents		**193,764**	214,586
		294,705	294,724
Current liabilities			
Trade and bills payables	*11*	**15,133**	7,463
Other payables and accrued charges		**15,618**	15,835
Current tax liabilities		**532**	539
		31,283	23,837
Net current assets		**263,422**	270,887
Total assets less current liabilities		**280,412**	286,583
Non-current liabilities			
Deferred tax liabilities		**77**	123
Total net assets		**280,335**	286,460
Capital and reserves			
Share capital	*12*	**3,188**	3,188
Reserves		**277,147**	283,272
Total equity		**280,335**	286,460

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 2011.

In the current interim period, the Group has applied, for the first time, the following accounting policy and accounting standards:

(i) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. At the end of each reporting period subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

(ii) New and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 April 2011.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC)-Interpretations 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Interpretations 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of these new and revised HKFRSs has had no significant effect on these condensed interim financial statements.

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

HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[4]
HKFRS 11	Joint Arrangements[4]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurements[4]
HKAS 1 (Amendments)	Presentation of Financial Statements[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[2]
HKAS 19 (as revised in 2011)	Employee Benefits[4]
HKAS 27 (as revised in 2011)	Separate Financial Statements[4]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[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, footwear 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, footwear 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
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**64,132**	88,450	**20,214**	14,821	**84,346**	103,271
Inter-segment revenue	**1,241**	387	**—**	—	**1,241**	387
Reportable segment revenue	**65,373**	88,837	**20,214**	14,821	**85,587**	103,658
Reportable segment result	**(1,561)**	4,140	**(1,843)**	(1,396)	**(3,404)**	2,744
Elimination of inter-segment profits					**(51)**	46
Dividend income from available-for-sale investments					**131**	116
Interest income					**1,508**	381
Unallocated other income and gains					**388**	40
Unallocated corporate expenses					**(506)**	(864)
(Loss)/profit before income tax expense					**(1,934)**	2,463
Income tax expense					**(494)**	(1,060)
(Loss)/profit for the period					**(2,428)**	1,403

	Manufacturing business		Retail business		Total	
	30 September	31 March	**30 September**	31 March	**30 September**	31 March
	2011	2011	**2011**	2011	**2011**	2011
	Unaudited	Audited	**Unaudited**	Audited	**Unaudited**	Audited
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment assets	**128,754**	118,822	**32,279**	21,836	**161,033**	140,658
Available-for-sales investments					**4,376**	5,333
Held-to-maturity investment					**1,524**	—
Tax recoverable					**960**	370
Unallocated cash and cash equivalents					**143,469**	161,833
Other unallocated corporate assets					**333**	2,226
					311,695	310,420

5. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

(Loss)/profit before income tax expense is arrived at after charging:

	Six months ended 30 September	
	2011	2010
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Cost of inventories sold	**60,488**	74,817
Depreciation of property, plant and equipment	**1,069**	909
Operating lease rentals in respect of land and buildings	**10,238**	9,007
Write down of inventories	**220**	309
Staff costs (excluding directors' emoluments)	**9,574**	8,654
and crediting:		
Dividend income from available-for-sale investments	**131**	116
Interest income	**1,508**	381

6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2011	2010
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Current taxation:		
— Hong Kong profits tax	**—**	196
— PRC enterprise income tax	**540**	854
Deferred tax	**(46)**	10
	494	1,060

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit for the period (2010: 16.5%). The PRC enterprise income tax rate for the Company's subsidiary in the PRC is 25% (2010: 25%).

7. INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2011 (2010: Nil).

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the Group's loss for the period of HK$2,428,000 (2010: profit of HK$1,403,000) and weighted average number of 318,804,000 (2010: 318,804,000) ordinary shares in issue during the period.

For the six months ended 30 September 2011 and 2010, diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share for the respective periods as there is no dilutive effect on the outstanding share options.

9. AVAILABLE-FOR-SALE INVESTMENTS

	30 September 2011 Unaudited ***HK$'000***	31 March 2011 Audited *HK$'000*
Equity securities listed in Hong Kong, at fair value	**4,376**	5,333

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

10. TRADE AND BILLS RECEIVABLES

	30 September 2011 Unaudited ***HK$'000***	31 March 2011 Audited *HK$'000*
Trade and bills receivables	**17,080**	21,591
Less: impairment loss	**(654)**	(647)
	16,426	20,944

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 2011 Unaudited ***HK$'000***	31 March 2011 Audited *HK$'000*
Current to 30 days	**12,667**	10,838
31–60 days	**1,865**	2,816
61–90 days	**1,144**	3,600
91–120 days	**111**	420
121–365 days	**559**	3,192
Over 365 days	**80**	78
	16,426	20,944

11. TRADE AND BILLS PAYABLES

Details of the ageing analysis are as follows:

	30 September 2011 Unaudited *HK$'000*	31 March 2011 Audited *HK$'000*
Current to 30 days	**11,569**	3,126
31–60 days	**1,005**	2,361
61–90 days	**1,419**	1,454
91–120 days	**359**	251
121–365 days	**678**	102
Over 365 days	**103**	169
	15,133	7,463

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 2011 and 31 March 2011.

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 September	
	2011 Unaudited *HK$'000*	2010 Unaudited *HK$'000*
Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises	**300**	272

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	
	2011	2010
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Short-term benefits	**6,485**	6,633
Post employment benefits	**60**	60
	6,545	6,693

DIVIDEND

The Board would not recommend the payment of an interim dividend for the six months ended 30 September 2011 (30 September 2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's turnover for the six months ended 30 September 2011 was HK$84,346,000 (2010: HK$103,271,000). The decline in total turnover was mainly due to a decrease in sales revenue from manufacturing business segment during the reporting period. Gross profit was around HK$23,858,000 (2010: HK$28,454,000) while gross profit margin was around 28.3% (2010: 27.6%).

Other income and gains increased from HK$650,000 to HK$3,684,000 which was mainly attributed to an increase in net foreign exchange gain and increase in bank interest income during the reporting period.

Selling and distribution costs increased from HK$11,046,000 to HK$14,041,000. This was mainly due to the increase of staff cost and rental expenses in relation to the Group's retail business. Administrative and other operating expense was around HK$15,435,000 for the reporting period (2010: HK$15,595,000).

As a result, the Group reported a net loss of HK$2,428,000 for the six months ended 30 September 2011 as compared to a net profit of HK$1,403,000 for the six months ended 30 September 2010. Loss per share was HK0.8 cent (2010: earnings per share of HK0.4 cent).

BUSINESS REVIEW

Manufacturing Business

For the six months ended 30 September 2011, turnover of manufacturing business segment from external customers reduced by approximately 27.5% to HK$64,132,000, accounting for approximately 76% of the Group's total turnover. The fall in turnover was mainly due to the weakness of two of its core markets, Europe and the U.S. and the continuing decrease of export sales to Japan.

Geographically, sales to the U.S. decreased from HK$15,719,000 to HK$6,623,000 and sales to Europe decreased from HK$29,156,000 to HK$22,756,000. Customers in both markets were more conservative in the reporting period. Export sales to Japan continued to reduce to approximately HK$2,468,000 and this market became unimportant to the Group in this financial period. Sales in Hong Kong increased from HK$7,395,000 to HK$8,456,000. This was primarily due to increase in sales to apparel retailers in Hong Kong. Sales in the PRC market dropped slightly to HK$7,678,000 compared with HK$8,916,000 same period last year. Apart from the major markets, sales revenue from other countries including Australia, Canada, India, Korea, Singapore and Malaysia, etc. increased by approximately 15.9%, to HK$16,151,000.

In terms of product mix, sales of belts decreased to HK$53,630,000 (2010: HK$80,788,000). Sales of leather goods and other accessories was approximately HK$10,502,000 (2010: HK$7,661,000). Gross profit was approximately HK$12,061,000 (2010: HK$19,811,000). Gross profit margin decreased from approximately 22.4% to approximately 18.8% which was mainly due to an increase in labor cost and increase in outsourcing production during the reporting period. Fixed overhead cost per unit was higher as a result of output volume reduced in the reporting period.

Retail Business

Revenue from retail business increased from HK$14,821,000 to HK$20,214,000, an increase of approximately 36.4%. Despite the Group's retail sales were adversely affected by store renovation works implemented in July 2011, the comparable same store sales still increased around 9.2% against same period last year. The Group's in-house brand sales kept growing on the back of continuing market effort on the product promotion. Retail gross profit margin went down to approximately 56.2% compared with approximately 58.3% of same period last year. This was mainly due to the increase of sales of international footwear brand products with lower profit margin in the reporting period. The overall shop rental to turnover ratio decreased from approximately 42.5% to approximately 37.3% as a result of better sales performance in the reporting period. The staff cost was notably higher than same period last year as a result of an increase in staff salaries and sales commission and expansion of in-house design team. The first half of the current financial year was traditionally slow season for retail business and thus an operating loss of approximately HK$1,843,000 was incurred. During the reporting period, one new store was opened in Tsing Yi. As at 30 September 2011, the Group operated six AREA 0264 stores in Hong Kong.

PROSPECTS

Moving forward, the Group expects the business environment in the second half of the financial year 2012 to be challenging as debt crisis in the U.S. and Europe are likely to continue suppressing market demand. The adverse impact from the escalating production costs in the PRC and volatility in raw material prices will continue to affect the Group's profit margin. In response to these challenges in its business environment, the Group will strive to maintain tight cost control and optimize the production capacity.

Hong Kong retail outlook remain prosperous in the second half of financial year 2012 on the back of prevailing strength of inbound tourism. The Group's retail sales performance in October 2011 was very encouraging. Besides, the loss-making store in Causeway Bay has just been closed upon expiry of the lease in November 2011. Retail performance in the second half of the financial year is expected to be much better than same period of last year. Despite negative result reported in the first half of the financial year, the Group is confident that the retail business will remain profitable for the full financial year. The Group will continue to look for strategic location to expand its sales networks. One new store will be opened at a new shopping mall in Tseung Kwan O in the first quarter of 2012. The Group expects that retail business will grow faster and will become a key driving force for the Group's turnover growth in future.

Liquidity, Financial Resources and Capital Structure

As at 30 September 2011 the Group's cash and bank deposits were approximately HK$193,764,000, compared to approximately HK$214,586,000 as at 31 March 2011.

As at 30 September 2011, 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$294,705,000 as at 30 September 2011 (31 March 2011: HK$294,724,000) and total current liabilities of approximately HK$31,283,000 (31 March 2011: HK$23,837,000). 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 2011 (31 March 2011: 12 times).

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

As a result of the net loss incurred, change in fair value of available-for-sale investments and final dividend paid out in the reporting period, the Group recorded a decrease in shareholders' funds from approximately HK$286,460,000 as at 31 March 2011 to approximately HK$280,335,000 as at 30 September 2011.

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, Renminbi and Euro. Transactions of the Group are mainly denominated in Hong Kong dollars, US dollars, Renminbi and Euro. It is estimated that the Group's exposure to foreign exchange fluctuation in Renminbi and Euro against Hong Kong dollars would have insignificant effects on profit or loss and other components of equity of the Group. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

During the reporting period, the Group invested in government bond issued by the Ministry of Finance People's Republic of China amounting to RMB1,250,000 (equivalent to approximately HK$1,524,000) for long term investment purpose.

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 2011.

Human Resources

As at 30 September 2011, the Group had around 152 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 934 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 2011.

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 2011, 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 2011.

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 2011.

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 2011 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, 28 November 2011

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.