



bauhaus
interim report 2011

BAUHAUS INTERNATIONAL (HOLDINGS) LIMITED
(incorporated in the Cayman Islands with limited liability)
(Stock Code:483)

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Key Financial Ratios		Notes	Period 4-9/2011	Period 4-9/2010	Change +/-
Performance					
Gross Margin	(%)	1	71.7	70.5	1.2% pt.
Net Profit Margin	(%)	2	3.2	6.0	-2.8% pts.
Return on Average Equity (Annualised)	(%)	3	6.3	11.1	-4.8% pts.
Return on Average Assets (Annualised)	(%)	4	4.4	8.7	-4.3% pts.
Operating					
Inventory Turnover Days (Annualised)		5	368	261	107 days
Debtors' Turnover Days (Annualised)		6	13	12	1 day
Creditors' Turnover Days (Annualised)		7	36	35	1 day
Liquidity					
Current Ratio		8	1.6	3.0	-46.7%
Quick Ratio		9	0.4	1.5	-73.3%
Capital Structure					
Debt-to-Equity Ratio	(%)	10	18.2	-	18.2% pts.
Per Share Data					
Book Value Per Share	(HK cents)	11	127.6	112.3	13.6%
Earnings Per Share	(HK cents)	12	4.2	6.4	-34.4%
Dividend Per Share Interim	(HK cents)		2.0	2.0	-

Notes:

- 1 "Gross Margin" is based on gross profit divided by turnover for the period.
- 2 "Net Profit Margin" is calculated as the profit for the period attributable to owners of the parent divided by turnover for the period.
- 3 "Return on Average Equity" represents the annualised profit for the period attributable to owners of the parent divided by average of opening and closing balance of shareholders' equity.
- 4 "Return on Average Assets" represents the annualised profit for the period attributable to owners of the parent divided by average of opening and closing balance of total assets.
- 5 "Inventory Turnover Days" is based on average of opening and closing balance of inventories divided by cost of sales and then multiplied by number of days during the period.
- 6 "Debtors' Turnover Days" is based on average of opening and closing balance of trade and bills receivables divided by turnover and then multiplied by number of days during the period.
- 7 "Creditors' Turnover Days" is based on average of opening and closing balance of trade and bills payables divided by purchases and then multiplied by number of days during the period.
- 8 "Current Ratio" represents current assets divided by current liabilities.
- 9 "Quick Ratio" represents current assets less inventories then divided by current liabilities.
- 10 "Debt-to-Equity Ratio" represents total bank borrowings divided by total shareholders' equity.
- 11 "Book Value Per Share" represents shareholders' equity divided by the total number of issued shares at the end of reporting period of 359,450,000 (2010: 359,450,000).
- 12 "Earnings Per Share" is calculated as the profit for the period attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the period under review of 359,450,000 (2010: 359,450,000).



Name of the Company

Bauhaus International (Holdings) Limited
包浩斯國際(控股)有限公司

Directors

Executive directors:

Mr. Wong Yui Lam
(Chairman and Chief Executive Officer)
Madam Lee Yuk Ming
Mr. Yeung Yat Hang

Independent non-executive directors:

Mr. Chu To Ki
Mr. Mak Wing Kit
Dr. Wong Yun Kuen

Company Secretary

Mr. Li Kin Cheong, CPA, FCCA

Qualified Accountant

Mr. Li Kin Cheong, CPA, FCCA

Authorised Representatives

Mr. Wong Yui Lam
Madam Lee Yuk Ming

Audit Committee

Mr. Mak Wing Kit *(Chairman)*
Mr. Chu To Ki
Dr. Wong Yun Kuen

Remuneration Committee

Mr. Mak Wing Kit *(Chairman)*
Mr. Chu To Ki
Dr. Wong Yun Kuen

Nomination Committee

Dr. Wong Yun Kuen *(Chairman)*
Mr. Chu To Ki
Mr. Mak Wing Kit

Principal Auditors

Ernst & Young, *Certified Public Accountants*
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road, Central
Hong Kong

Bank of China (Hong Kong) Limited
382-384 Prince Edward Road
Kowloon City
Kowloon
Hong Kong

Investor Relation

Strategic Financial Relations Limited
Unit A, 29/F, Admiralty Centre I
18 Harcourt Road, Hong Kong

Registered Office

Cricknet Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

Room 501, Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay, Kowloon
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Bank (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Listing information

Listing exchange	:	Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")
Listing date	:	12 May 2005
Stock code	:	483

Share information

Board lot size	:	2,000 shares
Par value	:	HK\$0.10

		As at 30 September 2011 No. of shares	As at 31 March 2011 No. of shares
Shares			
Authorised shares	:	2,000,000,000	2,000,000,000
Issued shares	:	359,450,000	359,450,000
		FY 2011/12 (half-year) HK cents	FY 2010/11 (half-year) HK cents
Basic earnings per share	:	4.2	6.4
Dividend per share			
Interim	:	2.0	2.0

Key dates

2010/11 annual results announcement	:	21 June 2011
Closure of Register of Members	:	9 August 2011 to 11 August 2011 for annual general meeting (<i>both days inclusive</i>)
2010/11 annual general meeting	:	11 August 2011
Closure of Register of Members	:	17 August 2011 to 19 August 2011 for proposed final and special dividends (<i>both days inclusive</i>)
Payment of proposed final and special dividends	:	8 September 2011
2011/12 interim results announcement	:	24 November 2011
Closure of Register of Members	:	18 January 2012 to 20 January 2012 for interim dividends (<i>both days inclusive</i>)
Payable of 2011/12 interim dividend on or about	:	9 February 2012
Official website	:	www.bauhaus.com.hk
Financial year end	:	31 March
Interim period end	:	30 September

06 Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2011

	Notes	Six months ended 30 September 2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
REVENUE	3	465,025	383,819
Cost of sales		(131,422)	(113,252)
GROSS PROFIT		333,603	270,567
Other income and gains	4	2,448	1,559
Selling and distribution costs		(257,091)	(194,353)
Administrative expenses		(57,438)	(44,831)
Other expenses		(755)	(722)
OPERATING PROFIT		20,767	32,220
Interest income		229	322
Finance cost	5	(293)	–
PROFIT BEFORE TAX	6	20,703	32,542
Income tax expense	7	(5,712)	(9,507)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		14,991	23,035
OTHER COMPREHENSIVE INCOME:			
Currency translation differences		3,258	3,226
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		18,249	26,261
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
Basic		HK4.2 cents	HK6.4 cents
Diluted		HK4.2 cents	HK6.4 cents
DIVIDENDS	9	7,189	7,189

07 Condensed Consolidated Statement of Financial Position

As at 30 September 2011

	Notes	As at 30 September 2011 (Unaudited) HK\$'000	As at 31 March 2011 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		189,484	115,435
Intangible assets		1,603	1,714
Held-to-maturity debt securities	10	911	888
Deferred tax assets		28,588	19,069
Rental, utility and other non-current deposits		78,266	66,563
Total non-current assets		298,852	203,669
CURRENT ASSETS			
Inventories		326,293	201,682
Trade and bills receivables	11	31,487	34,022
Prepayments, deposits and other receivables		41,400	28,638
Tax recoverable		98	171
Held-to-maturity debt securities	10	800	780
Cash and cash equivalents		52,350	153,934
Total current assets		452,428	419,227
CURRENT LIABILITIES			
Trade payables	12	72,029	21,984
Other payables and accruals		102,658	74,704
Tax payable		33,214	29,773
Bank borrowings	13	83,514	–
Total current liabilities		291,415	126,461
NET CURRENT ASSETS		161,013	292,766
TOTAL ASSETS LESS CURRENT LIABILITIES		459,865	496,435
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,185	1,497
NET ASSETS		458,680	494,938
EQUITY			
Equity attributable to owners of the parent			
Issued capital	14	35,945	35,945
Reserves		415,546	402,559
Proposed dividends		7,189	56,434
TOTAL EQUITY		458,680	494,938

08 Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2011

Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds HK\$'000	Proposed dividends HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 April 2010 (Audited)	35,945	87,875	744	-	10,690	6,483	48,526	235,675	425,938
Total comprehensive income for the period	-	-	-	-	3,226	-	-	23,035	26,261
Final dividend declared and paid	-	-	-	-	-	-	(30,553)	-	(30,553)
Special dividend declared and paid	-	-	-	-	-	-	(17,973)	-	(17,973)
Interim dividend	9	-	-	-	-	-	7,189	(7,189)	-
At 30 September 2010 (Unaudited)	35,945	87,875	744	-	13,916	6,483	7,189	251,521	403,673
At 1 April 2011 (Audited)	35,945	87,875	744	1,509	18,369	9,125	56,434	284,937	494,938
Total comprehensive income for the period	-	-	-	-	3,258	-	-	14,991	18,249
Equity-settled share option arrangements	15	-	-	1,927	-	-	-	-	1,927
Final dividend declared and paid	-	-	-	-	-	-	(38,461)	-	(38,461)
Special dividend declared and paid	-	-	-	-	-	-	(17,973)	-	(17,973)
Interim dividend	9	-	-	-	-	-	7,189	(7,189)	-
At 30 September 2011 (Unaudited)	35,945	87,875*	744*	3,436*	21,627*	9,125*	7,189	292,739*	458,680

* These reserve accounts comprise the consolidated reserves of HK\$415,546,000 (31 March 2011: HK\$402,559,000) in the condensed consolidated statement of financial position.

09 Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2011

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Net cash flows used in operating activities	(40,029)	(13,629)
Net cash flows used in investing activities	(91,598)	(17,463)
Net cash flows from/(used in) financing activities	27,080	(48,526)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(104,547)	(79,618)
Cash and cash equivalents at beginning of period	153,934	220,615
Effect of foreign exchange rate changes, net	2,963	2,994
CASH AND CASH EQUIVALENTS AT END OF PERIOD	52,350	143,991
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	52,350	125,418
Non-pledged time deposits with original maturity of less than three months when acquired	–	18,573
	52,350	143,991

1. BASIS OF PRESENTATION AND PREPARATION

These unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") of the Bauhaus International (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 September 2011 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation adopted in the preparation of the Interim Financial Statements are the same as those used in the annual financial statements for the year ended 31 March 2011, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRS") (which also include HKASs and Interpretations) in current period for the first time as disclosed in note 2 below. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

These Interim Financial Statements have not been audited, but have been reviewed by the Company's audit committee and should be read in conjunction with the 2011 annual report.

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted in the preparation of these Interim Financial Statements the following new and revised HKFRSs, amendments and interpretations (the "New Standards") which are mandatory for accounting periods beginning on or after 1 April 2011.

HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i>
HKAS 34 Amendment	<i>Amendment to HKAS 34 Interim Financial Reporting</i>
HKFRS 1 Amendment	<i>Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HK(IFRIC)-Int 14 Amendments	<i>Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
HKFRSs (Amendments)	<i>Improvements to HKFRS 2010</i>

The adoption of these New Standards has had no material impact on the Group's results of operations and financial position.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, amendments or interpretations that have been issued but are not yet effective, in these Interim Financial Statements.

HKAS 1 (Revised) Amendments	Amendments to HKAS 1 (Revised) <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> ³
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> ²
HKAS 19 (2011)	<i>Employee Benefits</i> ⁴
HKAS 27 (2011)	<i>Separate Financial Statements</i> ⁴
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ⁴
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers to Financial Assets</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ⁴
HKFRS 11	<i>Joint Arrangements</i> ⁴
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ⁴
HKFRS 13	<i>Fair Value Measurement</i> 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

The Group is in the process of making an assessment of the impact of these new and revised standards upon initial application. So far, the Group considers that these new and revised standards are unlikely to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in manufacturing, wholesaling and retailing of apparel products and accessories.

For management purposes, the Group is organised into business units that offer products to customers located in different geographical areas and has four reportable operating segments as follows:

- (a) Hong Kong and Macau
- (b) Mainland China
- (c) Taiwan
- (d) Elsewhere

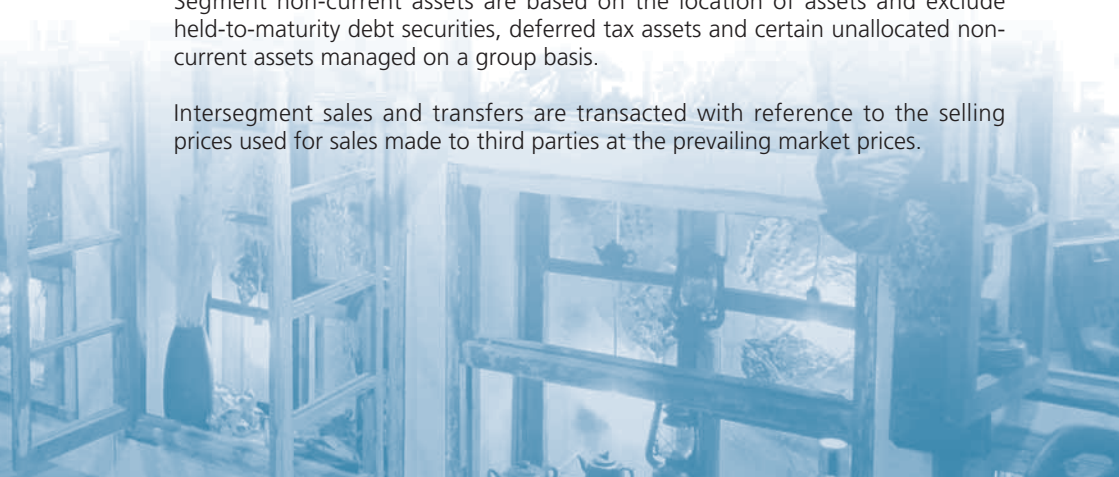
Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance cost and unallocated expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, time deposits, held-to-maturity debt securities, and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, tax payable and bank borrowings as these liabilities are managed on a group basis.

Segment non-current assets are based on the location of assets and exclude held-to-maturity debt securities, deferred tax assets and certain unallocated non-current assets managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.



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3. OPERATING SEGMENT INFORMATION (continued)

	Hong Kong and Macau HK\$'000	Mainland China HK\$'000	Taiwan HK\$'000	Elsewhere HK\$'000	Total HK\$'000
For the six months ended 30 September 2011 (Unaudited)					
Segment revenue:					
Sales to external customers	291,824	84,086	77,149	11,966	465,025
Intersegment sales	26	3,445	52,980	–	56,451
	291,850	87,531	130,129	11,966	521,476
<i>Reconciliation:</i>					
Elimination of intersegment sales					(56,451)
Revenue					465,025
Segment results:	32,231	1,148	7,426	2,196	43,001
<i>Reconciliation:</i>					
Interest income					229
Finance cost					(293)
Unallocated expenses					(22,234)
Profit before tax					20,703
Other segment information:					
Capital expenditure	9,604	13,282	9,194	34	32,114
Unallocated capital expenditure					59,489
Total capital expenditure					91,603
Depreciation	6,291	5,258	3,926	–	15,475
Unallocated depreciation					1,690
Total depreciation					17,165
As at 30 September 2011 (Unaudited)					
Segment assets:	246,809	152,861	114,290	2,873	516,833
<i>Reconciliation:</i>					
Deferred tax assets					28,588
Tax recoverable					98
Held-to-maturity debt securities					1,711
Unallocated assets					204,050
Total assets					751,280
Segment liabilities:	100,229	54,748	18,415	1,295	174,687
<i>Reconciliation:</i>					
Deferred tax liabilities					1,185
Tax payable					33,214
Bank borrowings					83,514
Total liabilities					292,600
Segment non-current assets:	80,095	39,118	14,318	994	134,525
<i>Reconciliation:</i>					
Deferred tax assets					28,588
Held-to-maturity debt securities					911
Unallocated non-current assets					134,828
Total non-current assets					298,852

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3. OPERATING SEGMENT INFORMATION (continued)

	Hong Kong and Macau HK\$'000 (Restated)	Mainland China HK\$'000	Taiwan HK\$'000	Elsewhere HK\$'000	Total HK\$'000 (Restated)
For the six months ended 30 September 2010 (Unaudited)					
Segment revenue:					
Sales to external customers	237,894	75,795	54,004	16,126	383,819
Intersegment sales	–	921	37,774	–	38,695
	237,894	76,716	91,778	16,126	422,514
<i>Reconciliation:</i>					
Elimination of intersegment sales					(38,695)
Revenue					383,819
Segment results:					
Interest income	25,535	13,726	3,612	4,891	47,764
<i>Reconciliation:</i>					
Unallocated expenses					322
					(15,544)
Profit before tax					32,542
Other segment information:					
Capital expenditure	7,427	7,740	3,516	107	18,790
Unallocated capital expenditure					595
Total capital expenditure					19,385
Depreciation	5,869	2,775	1,094	–	9,738
Unallocated depreciation					1,678
Total depreciation					11,416
As at 31 March 2011 (Audited)					
Segment assets:					
<i>Reconciliation:</i>					
Deferred tax assets	215,226	131,438	95,558	6,895	449,117
Tax recoverable					19,069
Time deposits					171
Held-to-maturity debt securities					3,650
Unallocated assets					1,668
					149,221
Total assets					622,896
Segment liabilities:					
<i>Reconciliation:</i>					
Deferred tax liabilities	57,454	32,281	6,494	459	96,688
Tax payable					1,497
					29,773
Total liabilities					127,958
Non-current assets:					
<i>Reconciliation:</i>					
Deferred tax assets	66,213	27,612	8,538	1,070	103,433
Held-to-maturity debt securities					19,069
Unallocated non-current assets					888
					80,279
Total non-current assets					203,669

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4. OTHER INCOME AND GAINS

	Six months ended	
	30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income:		
Sundry income	1,283	1,018
Gains:		
Foreign exchange gains, net	1,165	541
	2,448	1,559

5. FINANCE COST

	Six months ended	
	30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest expenses on bank borrowings	293	–

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived after charging:

	Six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
		(Restated)
	HK\$'000	HK\$'000
Cost of inventories sold	115,071	99,852
Provision for slow-moving and aged inventories, net (included in cost of sales)	16,351	13,400
Depreciation	17,165	11,416
Loss on disposal of property, plant and equipment, net	570	413
Amortisation of intangible assets	177	170
Write-off of intangible assets	–	8
Write-off of rental deposits	7	131
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	114,461	94,275
Contingent rents	21,310	14,755
	135,771	109,030
Rental expenses under operating leases in respect of equipments:		
Minimum lease payments	299	299
Contingent rents	130	63
	429	362
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and other benefits	87,212	68,362
Equity-settled share option expenses	1,927	–
Pension scheme contributions	5,327	3,738
	94,466	72,100

7. INCOME TAX EXPENSE

	Six months ended	
	30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax		
– Hong Kong	5,467	4,625
– Elsewhere	10,076	9,206
Deferred tax credit	(9,831)	(4,324)
Total tax charge for the period	5,712	9,507

Hong Kong profit tax has been provided at a rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2011. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries/jurisdictions, in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8. EARNINGS PER SHARE ATTRIBUTIBLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the period attributable to equity holders of the parent of HK\$14,991,000 (2010: HK\$23,035,000) and the weighted average number of ordinary shares in issue during the six months ended 30 September 2011 of 359,450,000 (2010: 359,450,000).

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 September 2011 and 2010 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the amounts of basic earnings per share presented.

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9. DIVIDENDS

A final dividend and a special dividend of HK\$38,461,000 (2010: HK\$30,553,000) and HK\$17,973,000 (2010: HK\$17,973,000) respectively for the year ended 31 March 2011 were paid in September 2011.

	Six months ended 30 September 2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interim – HK2.0 cents (2010: HK2.0 cents) per ordinary share	7,189	7,189

The Directors declared to pay an interim dividend of HK2.0 cents per ordinary share for the six months ended 30 September 2011 (2010: HK2.0 cents) payable on or about Thursday, 9 February 2012 to shareholders whose names appear on the register of members of the Company on Friday, 20 January 2012. The interim dividend is not reflected as a dividend payable as of 30 September 2011, but will be reflected as an appropriation of retained earnings of the Company for the year ending 31 March 2012.

10. HELD-TO-MATURITY DEBT SECURITIES

	As at 30 September 2011 (Unaudited) HK\$'000	As at 31 March 2011 (Audited) HK\$'000
Unlisted bonds, at amortised cost	1,711	1,668
Current portion	(800)	(780)
Non-current portion	911	888

These unlisted bonds have an aggregate nominal value of RMB1,390,000 (31 March 2011: RMB1,390,000), bear interest at rates ranging from 2.25% to 2.70% (31 March 2011: from 2.25% to 2.70%) per annum and will mature between 2011 and 2012.

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11. TRADE AND BILLS RECEIVABLES

Retail sales are made on cash terms or by credit card with very short credit terms. Wholesales are made to customers with general credit terms ranging from 30 days to 60 days, except for certain well-established customers with a long business relationship with the Group, where the terms are extended, while no credit terms were granted to sales to franchisees. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed. In view of the aforementioned and the fact the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on invoice date and net of provisions, is as follows:

	As at 30 September 2011 (Unaudited) HK\$'000	As at 31 March 2011 (Audited) HK\$'000
Within 90 days	31,165	33,914
91 to 180 days	165	35
181 to 365 days	140	73
Over 365 days	17	–
	31,487	34,022

The carrying amounts of trade and bills receivables approximate their fair values.



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12. TRADE PAYABLES

Trade payables are non-interest-bearing and are normally settled on 30-day to 60-day terms. An aged analysis of the trade payables as at the end of the reporting period, based on invoice date, is as follows:

	As at 30 September 2011 (Unaudited) HK\$'000	As at 31 March 2011 (Audited) HK\$'000
Within 90 days	70,902	21,551
91 to 180 days	818	49
181 to 365 days	189	373
Over 365 days	120	11
	72,029	21,984

The carrying amounts of trade payables approximate their fair values.

13. BANK BORROWINGS

	As at 30 September 2011 (Unaudited) HK\$'000	As at 31 March 2011 (Audited) HK\$'000
Bank loans – current portion	83,514	–

As at 30 September 2011, the bank loans were in Hong Kong dollars, repayable within three years or on demand and bearing interest at variable rates ranging from Hong Kong Interbank Offered Rate plus 1.2% per annum to the Best Lending Rate (as of 30 September 2011: 5%) per annum. The bank loans were secured by mortgages over certain of the Group's properties situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of HK\$103,752,000, and cross guarantees from the Company and certain subsidiaries of the Group.

The bank borrowings were classified as current liabilities as the loan agreements contain an overriding clause that provides the lenders with an unconditional right to demand repayment at any time at their own discretion.

14. SHARE CAPITAL

	Company	
	As at	As at
	30 September	31 March
	2011	2011
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Authorised:		
2,000,000,000 (31 March 2011: 2,000,000,000)		
ordinary shares of HK\$0.1 each	200,000	200,000
Issued and fully paid:		
359,450,000 (31 March 2011: 359,450,000)		
ordinary shares of HK\$0.1 each	35,945	35,945

15. SHARE OPTION SCHEME

On 22 April 2005, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any consultants, advisers, managers or officers of the Group, and the Company's shareholders. The Scheme will remain in force for 10 years from the date of its adoption.

On 2 December 2010, the Board resolved to grant a total of 9,840,000 share options to certain directors and employees of the Group to subscribe for shares of HK\$0.10 each in the Company under the Scheme as rewards for the grantees' contribution to the continual operation and development of the Group. Each share option shall entitle the holder thereof to subscribe for one share upon exercise of such share option at an exercise price of HK\$3.354 per share and such exercise price of the share options is subject to adjustment in case of rights issues, share consolidation, reduction or other similar changes in the Company's share capital.

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15. SHARE OPTION SCHEME *(continued)*

Movements in the number of share options outstanding and their weighted average exercise prices are as follows:

	For the six months ended 30 September 2011 (Unaudited)		For the year ended 31 March 2011 (Audited)	
	Average exercise price per share HK\$	Number of share options '000	Average exercise price per share HK\$	Number of share options '000
At beginning of period/year	3.354	9,840	–	–
Granted	–	–	3,354	9,840
Exercised	–	–	–	–
At end of period/year	3.354	9,840	3,354	9,840

The fair value of the share options granted was HK\$8,174,000 (HK\$0.83 each) of which the Group recognised a share option expense of HK\$1,927,000 during the six months ended 30 September 2011 (2010: Nil).

16. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the Interim Financial Statements were as follows:

	Group As at 30 September 2011 (Unaudited) HK\$'000	As at 31 March 2011 (Audited) HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	7,103	5,473

As at the end of the reporting period, the Company did not have any significant contingent liabilities.

17. COMMITMENTS**(i) Commitments under operating leases**

The Group, as lessee, leases its retail shops, certain of its offices and warehouses under operating lease arrangements with lease terms ranging from one to ten years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 September 2011 (Unaudited) HK\$'000	As at 31 March 2011 (Audited) HK\$'000
Within one year	236,211	204,473
In the second to fifth year, inclusive	296,706	229,713
Over five years	8,248	10,129
	541,165	444,315

The operating lease rentals of certain retail shops are based on the higher of a fixed rental and contingent rent based on the sales of the retail shops pursuant to the terms and conditions as set out in the respective rental agreements. As the future sales of these retail shops could not be estimated reliably, the relevant contingent rent has not been included above and only the minimum lease commitment has been included in the above table.

No operating lease arrangements were entered into by the Company as at 30 September 2011 (31 March 2011: Nil).

(ii) Other commitment

In addition to the operating lease commitments detailed above, the Group and the Company had no material capital commitments contracted, but not provided for in the Interim Financial Statements as at 30 September 2011 (31 March 2011: Nil).

18. RELATED PARTY TRANSACTIONS**(a) Transactions with related parties**

	Six months ended	
	30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Computer system maintenance charges paid to related companies	705	634
Purchases of computer equipment from related companies	770	852

(b) Compensation of key management personnel of the Group

	Six months ended	
	30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term employee benefits	1,938	2,502
Equity-settled share option expenses	513	–
Post-employment benefits	28	28
Total compensation paid to key management personnel	2,479	2,530

19. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current period's presentation and accounting treatment.

20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Directors on 24 November 2011.

BUSINESS REVIEW

The consolidated turnover of the Group increased markedly by around 21.2% to approximately HK\$465.0 million (2010: HK\$383.8 million) in the six months ended 30 September 2011. During the period under review, the Group continued to expand its self-managed retail networks to increase retail coverage and penetration. As at 30 September 2011, the Group had a total of 252 shops in operation, a net increase of 18 shops since 31 March 2011. Most of the new shops were in operation since the third quarter of 2011. The Group faced steadily rising operating costs including rent, raw materials and wages. However, robust favourable consumer sentiment during the period under review enabled the Group to modestly increase the general retail prices of its products as well as offer less discounts. As a result, gross margin further improved by 1.2 percentage point to approximately 71.7% for the six months ended 30 September 2011 (2010: 70.5%).

Although the retail markets and consumption sentiment in the regions within which the Group operates remained strong during the period under review, increasing competition from various fashion brands was experienced, particularly in Mainland China where a large number of players have sought to tap this lucrative market. Consequently, the Group has to improve effectiveness and efficiency in its operations in Mainland China. The Group sought to consolidate Mainland China's operations, especially to streamline its franchise network since the performance of the franchise business deteriorated during the period under review. The Group was eliminating non-performing franchisees and directed more resources to self-managed retail business in order to strengthen its control over the Group's brand image and to ensure quality shopping experience and services to consumers, which are considered as critical factors for the long term success in the Group's retail business. In addition, since the Group's self-managed retail operation in the country was still not in economies of scale and carried efficiently, more efforts were invested to hire sufficient staff and to train them up to operate the business in a more effective manner. Moreover, substantial pre-operating costs were incurred for new shop openings, in particular for a newly introduced licensed label "SUPERDRY" in Hong Kong and Taiwan, while marketing and other operating costs increased as well. As a result, the Group's net profit contracted by approximately 34.8% to about HK\$15.0 million for the six months ended 30 September 2011 (2010: HK\$23.0 million), and the half-year profit margin declined to about 3.2%.

Furthermore, to acquire sufficient stock to supply the opening of new shops as well as to cater for increasing market demand, inventory level was required to rise. However, redundant inventories as a result of downsizing of franchise business, a higher proportion of new season products arriving early and more off-season inventories remaining unsold, also magnified the overall inventory level and eventually impaired liquidity. All of the aforesaid factors hindered performance of the Group.

As at 30 September 2011, the Group's self-managed retail outlets and franchised outlets were located in Hong Kong, Macau, Mainland China and Taiwan as outlined below. These mainly include outlets under the in-house brand names of "BAUHAUS", "TOUGH Jeansmith", "SALAD", "80/20", "ELITE" and "ATTACHMENT", as well as "SUPERDRY", a licensed brand.

	As at 30 September 2011	As at 31 March 2011	Changes
Self-managed outlets			
Hong Kong	71	71	–
Macau	4	4	–
Mainland China			
• Shanghai	27	21	+6
• Beijing	14	13	+1
• Guangzhou	6	5	+1
• Nanjing	4	2	+2
• Suzhou	2	–	+2
	53	41	+12
Taiwan	64	53	+11
	192	169	+23
Franchised outlets			
Mainland China	60	65	-5
TOTAL	252	234	+18

Hong Kong and Macau

Segment profit before tax of the Group's Hong Kong and Macau operation surged by about 26.3% to about HK\$32.2 million for the six months ended 30 September 2011 (2010: HK\$25.5 million). The strong performance of the regions was largely due to higher turnover from the Group's self-managed retail business. The retail operation in Hong Kong, which accounts for about 55.8% (2010: 56.1%) of the Group's turnover, achieved double-digit sales growth of approximately 20.6% to roughly HK\$259.5 million (2010: HK\$215.2 million) during the period under review. Macau's retail operation also performed encouragingly with turnover increasing by about 42.3% to approximately HK\$32.3 million (2010: HK\$22.7 million). Although the total number of shops in Hong Kong and Macau remained at 75 in aggregate, the same as at 31 March 2011, the Group had actually been fine-tuning its shop mix by introducing more "SUPERDRY" licensed brand shops, closing down certain non-performing shops and relocating shops to other prime shopping locations that commanded lower rent. The Group remains committed to maintaining a robust and diverse retail network to fuel stable growth over the long term.

Mainland China

The Group penetrated the Mainland China markets through a "dual-channel" method, specifically, employing a self-managed retail operation to cover prime cities – presently encompassing Beijing, Shanghai, Guangzhou, Nanjing and Suzhou – and through a franchised network that covers roughly 25 second-tier and third-tier cities in Mainland China. During the period under review, turnover from Mainland China increased by approximately 10.9% to about HK\$84.1 million (2010: HK\$75.8 million). However, segment profit before tax for the six months ended 30 September 2011 fell significantly to about HK\$1.1 million (2010: HK\$13.7 million), mainly due to substantial pre-operating costs incurred from expansion of the retail network while the newly opened shops took time to achieve stable revenue levels and a drop in franchise sales.

Self-managed Retail Operation

During the period under review, retail sales in Mainland China recorded growth of about 26.0% to approximately HK\$60.1 million (2010: HK\$47.7 million). The Group continued to expand its self-managed retail network not only in first-tier cities but also gradually to neighboring cities. Overall, the Group opened 12 additional shops, including two new openings in Suzhou, raising the total to 53 (31 March 2011: 41). As at 30 September 2011, the Group's self-managed retail shops spanned over five prime cities in Mainland China, including Beijing, Shanghai, Guangzhou, Nanjing and Suzhou.

However, the challenges on the operations also became more serious. It was noted that the sales performance was quite volatile since the third quarter of 2011, particularly for retail shops newly opened. Apart from cost-rising operating environments in Mainland China, the Group also encountered problem of shortage of effective managerial sales staff and skillful workforce to cope with its rapid development. The Group has paid special attention to monitor the performance and operating effectiveness of its shop portfolio and might slow down its expansion temporarily until the overall performance of the region improved.

Franchise Business

Franchise business of the Group performed just fairly during the six months ended 30 September 2011. The Group has been streamlining and consolidating the franchise network with the aim of bolstering efficiency, which included eliminating some non-performing members. The total number of franchised shops has duly been trimmed from 65 as at 31 March 2011 to 60 as at the end of the reporting period. In addition, more time is expected for recruiting new qualified franchisees and to be fully integrated into the Group's existing network. As a result, sales from the franchise operation dropped by approximately 14.6% to about HK\$24.0 million (2010: HK\$28.1 million) for the six months ended 30 September 2011.

Taiwan

The Group has over the years operated a self-managed retail network in Taiwan, and now possesses a healthy business in the region. Underscoring the success of this network, the local operation once again recorded impressive growth in turnover, rising by about 42.8% to approximately HK\$77.1 million (2010: HK\$54.0 million). Segment profit before tax of the region was doubled to about HK\$7.4 million (2010: HK\$3.6 million) for the period under review. Brand awareness and recognition of the Group's in-house labels were generally strong in Taiwan's trendy casual wear market, which contributed greatly to stable and sustainable sales growth. The Group also made noticeable strides in entering major Taiwan cities to capture larger market share. In addition to enhancing its presence through in-house labels, the Group gradually established robust distribution channels for "SUPERDRY", a popular licensed brand, since last year. As at 30 September 2011, there were 64 shops and counters in Taiwan, including 12 outlets that operated under the "SUPERDRY" licensed brand name. As an effective strategy in Taiwan, most of the shops were located within reputable department stores in major Taiwan cities.

Elsewhere

The Group extended its business coverage to several countries, with particular focus on Asia, through wholesale operations. Japan is the Group's largest overseas wholesale market. However, due to the impact of Japan's devastating earthquake in March 2011, overall sales from the segment dropped by about 25.5% from roughly HK\$16.1 million during the corresponding period of 2010 to approximately HK\$12.0 million for the six months ended 30 September 2011. The Group will maintain the size of this segment to address demand from existing customers.

FINANCIAL REVIEW

Turnover

The aggregate turnover of the Group rose by approximately 21.2% to around HK\$465.0 million (2010: HK\$383.8 million) for the six months ended 30 September 2011, which comprised about HK\$429.0 million (2010: HK\$339.5 million) in sales from the retail operations, roughly HK\$24.0 million (2010: HK\$28.1 million) in sales from the franchise business and about HK\$12.0 million (2010: HK\$16.2 million) in sales from the wholesale business. The retail business was the major sales contributor, accounting for approximately 92.3% of total turnover and achieving strong year-on-year growth of about 26.4%.

During the period under review, the Group's in-house branded products accounted for about 82% (2010: 88%) of total turnover of the Group. The drop in sales mix was mainly due to a significant increase in sales from import brands following the launch of "SUPERDRY" licensed brand specialty shops.

Operating Segment Information

Detailed information of the Group's turnover and its contribution to profit before tax by segment is shown in note 3 to the Interim Financial Statements.

Gross Profit

The Group's gross profit increased by about 23.3% to approximately HK\$333.6 million (2010: HK\$270.6 million) for the six months ended 30 September 2011 and gross margin improved by 1.2 percentage point to around 71.7% (2010: 70.5%) when compared with the same period last year.

In view of inflationary pressure and strong retail sentiment, the Group was able to modestly increase the retail price of its in-house branded products in general to compensate for a rise in purchase and production costs. Furthermore, the extent and frequency of sales discounts offered to customers were reduced. As a result, the average net selling price of products during the period under review increased, which led to an improvement in gross margin.

Operating Expenses and Finance Costs

Operating expenses increased by about 31.4% to approximately HK\$315.3 million during the six months ended 30 September 2011 (2010: HK\$239.9 million), equivalent to roughly 67.8% of total turnover (2010: 62.5%), an increase of around 5.3 percentage points. In addition, the Group incurred finance cost of about HK\$0.3 million (2010: Nil) during the period under review, which represented the interest expenses paid for bank borrowings.

Rent for land and buildings, which accounted for about 43.1% (2010: 45.4%) of the Group's total expenses during the period under review and equivalent to about 29.2% (2010: 28.4%) of the Group's turnover, rose by about 24.6% to approximately HK\$135.8 million (2010: HK\$109.0 million). This was mainly because of an increase in the number of stores and gross shop area leased by the Group. During the period under review, the Group continued to strategically relocate and consolidate certain shops to gradually moderate the high burden of rent and to enhance sales area utilisation.

Staff cost was another major operating expense that increased by about 31.1% to approximately HK\$94.5 million during the six months ended 30 September 2011 (2010: HK\$72.1 million). Staff cost-to-sales ratio also came up to about 20.3% for the six months ended 30 September 2011 (2010: 18.8%). Inflationary operating environments and shortage of skillful retail sales staff pushed up the wages in general. Through effective use of incentive systems to motivate sales staff for better efficiency and cost control measures, they helped the Group to contain the staff cost-to-sales ratio at an acceptable level.



Depreciation charges rose significantly by about 50.9% to approximately HK\$17.2 million for the six months ended 30 September 2011 (2010: HK\$ 11.4 million) owing to larger capital investment for enlarging the Group's retail networks and properties acquired for back office support. The Group also invested heavily in marketing and advertising campaigns during the period under review to enhance brand awareness and recognition in various regions, including a major campaign to highlight the opening of the first "SUPERDRY" flagship store in Hong Kong in August 2011. Hence, marketing expenses, including advertising, promotion and exhibition expenses, rose to approximately HK\$15.7 million (2010: HK\$9.3 million) for the period under review, an increase of about 68.8%.

Net Profit

The Group's net profit declined by about 34.8% from approximately HK\$23.0 million in the corresponding period of 2010 to approximately HK\$15.0 million for the six months ended 30 September 2011. Net profit margin also slid from about 6.0% to about 3.2%.

CAPITAL STRUCTURE

As at 30 September 2011, the Group had net assets of approximately HK\$458.7 million (31 March 2011: HK\$494.9 million), comprising non-current assets of approximately HK\$298.9 million (31 March 2011: HK\$203.6 million), net current assets of approximately HK\$161.0 million (31 March 2011: HK\$292.8 million) and non-current liabilities of approximately HK\$1.2 million (31 March 2011: HK\$1.5 million).

ACQUISITION OF PROPERTIES

During the six months ended 30 September 2011, the Group acquired certain properties situated in Hong Kong for an aggregate consideration of about HK\$56.6 million. The transactions have been completed on 22 July 2011. The aforesaid properties were used as the Group's central warehouse to support the growing retail business.



LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2011, the Group had cash and cash equivalents of about HK\$52.4 million (31 March 2011: HK\$153.9 million).

As at 30 September 2011, the Group had aggregate banking facilities of about HK\$105.5 million (31 March 2011: HK\$22.0 million) comprising interest-bearing bank overdraft, mortgage loans and revolving loans, rental and utility guarantees as well as import and export facilities, of which about HK\$14.9 million had not been utilised at the end of the reporting period. In particular, the Group had bank borrowings of about HK\$83.5 million as at 30 September 2011 (31 March 2011: Nil), which were in Hong Kong dollars, repayable within three years or on demand and bearing interest at variable rates ranging from Hong Kong Interbank Offered Rate plus 1.2% per annum to the Best Lending Rate (as of 30 September 2011: 5%) per annum.

The gearing ratio (i.e. debt-to-equity ratio) of the Group, represented total bank borrowings divided by total shareholders' equity, was about 18.2% at the end of the reporting period (31 March 2011: 0%).

CASH FLOWS

For the six months ended 30 September 2011, net cash flows used in operating activities was approximately HK\$40.0 million (2010: HK\$13.6 million), which was mainly attributed to a substantial increase in inventory level. Net cash flows used in investing activities increased significantly from approximately HK\$17.5 million in the corresponding period of 2010 to approximately HK\$91.6 million in the period under review, mainly because of acquisition of certain properties situated in Hong Kong for use as warehouse and capital expenditure invested for expansion of retail network. Net cash inflow from financing activities during the period under review amounted to about HK\$27.1 million (2010: cash outflow of HK\$48.5 million). The Group obtained bank borrowings of about HK\$88.2 million to finance the acquisition of the properties and to support general working capital. Besides, the 2010/11 final and special dividends totaling approximately HK\$56.4 million (2009/10: HK\$48.5 million) were paid during the period under review.

SECURITY

As at 30 September 2011, the Group's general banking facilities and bank borrowings were secured by certain of its leasehold land and buildings with aggregate carrying value of approximately HK\$103.8 million (31 March 2011: HK\$9.4 million) and cross guarantees from the Company and certain subsidiaries of the Group.

CAPITAL COMMITMENT

As at 30 September 2011, the Group and the Company had no material capital commitments in respect of acquisition of items of property, plant and equipment contracted, but not provided for in the financial statements (31 March 2011: Nil).

CONTINGENT LIABILITIES

As at 30 September 2011, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK\$7.1 million (31 March 2011: HK\$5.5 million). The Company had no material contingent liabilities as at the end of the reporting period (31 March 2011: Nil).

HUMAN RESOURCES

Including all directors, the Group had 1,686 employees as at 30 September 2011 (31 March 2011: 1,673). To attract and retain high performance staff, the Group provided competitive remuneration packages with performance bonuses, mandatory provident fund, insurance and medical coverage as well as entitlements to share options to be granted under a share option scheme based on employees' performance, experience and the prevailing market rate. Remuneration packages were reviewed regularly. Regarding staff development, the Group provided regular in-house training to retail staff and subsidised them on external training programmes.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's sales and purchases during the period were mostly denominated in Hong Kong dollars, Renminbi, United States dollars and Euros. The Group was exposed to certain foreign currency exchange risks while it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. However, the Group continuously monitors its foreign exchange position and, when necessary, will hedge foreign exchange exposure arising from contractual commitments in sourcing apparel from overseas suppliers.

PROSPECTS

The economies in the areas where the Group has operations have remained robust. However, uncertainty in the global economic outlook and short-term fluctuation are expected in the coming year. A more severe operating environment is expected, brought about by the Chinese credit crunch, the Euro debt crisis, and the very real possibility of a double dip global recession. These factors, coupled with continuously surging costs including rental expenses, wages and raw material prices are likely to pose challenges to the Group's performance. Nevertheless, the Group has formulated measures to drive business growth and is thus prepared to face whatever challenges lie ahead.

Riding on its strong foundation of its in-house labels, the Group has developed effective strategies to introduce new brands and lines of products with enormous potential to the market, with an aim to enrich its product mix and widen its customer base. During the past few years, the Group has exerted considerable efforts in promoting selected popular labels, including the newly-licensed "SUPERDRY" brand. This English licensed brand has enjoyed an overwhelming response since its market debut, with eight additional shops rolled-out across Hong Kong and Taiwan during the period under review. As at 30 September 2011, the Group had a total of 19 outlets traded under the licensed brand name of "SUPERDRY." The Group's numerous brands are now well-recognised as a result of strong ties that the Group has forged with the public over the years. Striking a balance between cost control and marketing efforts, the Group is planning innovative marketing campaigns to further stimulate customers' interest in its brands and products, while keeping expenditures in line with turnover growth.

The Hong Kong and Macau operations are expected to continue their stable business performance, providing a steady source of revenue and cash flow. Elsewhere, in Taiwan, "Bauhaus" has become a well-recognised name through a series of effective brand building activities over years. Mindful of the rising expenses in the region, the Group is exploring every opportunity to deepen market penetration.

However, in Mainland China, as it faces increasingly fierce competition from other fashion brands, the Group has to improve effectiveness and efficiency in its operations in the country. The Group strategically shifted its focus from franchise business to direct self-managed retail business. A probable significant contraction of the franchise business is foreshadowed. Certain non-performing franchised shops will be closed down, leading to a likely significant drop in franchise sales and total number of franchised outlets. On the other hand, the Group will devote more resources to stabilise self-managed retail operations in order to strengthen control over its brand image and to ensure quality service to consumers.

The Group believes that high calibre and experienced staff are essential for sustained and efficient development. Towards this end, the Group is stepping up efforts in building sufficient and capable workforce to support future growth. Training programmes and other incentives are to be implemented to assist new staff to smoothly integrate into the Group's culture while enhancing professional competency. In the long run, this investment is anticipated to pay off when greater operational efficiency is achieved.

To uphold the Group's healthy financial position, large-scale bargain sales are scheduled for the Christmas and Lunar New Year holiday seasons from December 2011 to January 2012. Bargain sales have previously proven successful in not only improving the Group's inventory level and reducing slow-moving stocks, but also increasing cash flow to the Group. Holiday sales can also serve as a marketing tool to extend brand awareness through extensive media coverage of the events as well as visibility through consumer purchase and wear.

While the future is full of challenges, the Group has undertaken initiatives to boost its internal strength in order to effectively react to any eventuality or development in the global economy or within the individual markets where it has a presence. Economic fluctuations are inevitable in the short term, yet the prospects of long-term development in the retail markets where the Group has operations remain positive. As such, we are cautiously optimistic that we can continuously develop our business.



The Directors declared to pay an interim dividend of HK2.0 cents per ordinary share for the six months ended 30 September 2011 (2010: HK2.0 cents) payable on or about Thursday, 9 February 2012 to shareholders whose names appear on the register of members of the Company on Friday, 20 January 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 18 January 2012 to Friday, 20 January 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 17 January 2012.



DIRECTORS' INTERESTS IN SECURITIES

At 30 September 2011, the interests and short positions of the directors of the Company in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(a) Long positions in ordinary shares of the Company

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Through a discretionary trust/as beneficiary or trustee of trust		
Mr. Wong Yui Lam	–	29,900,000 <i>(note)</i>	180,000,000 <i>(note)</i>	209,900,000	58.39%
Mr. Yeung Yat Hang	3,748,000	–	–	3,748,000	1.04%

Note:

29,900,000 shares are held by Wonder View Limited ("Wonder View"), the entire issued share capital of which is beneficially owned by Mr. Wong Yui Lam, an executive director of the Company. 180,000,000 shares are held by Huge Treasure Investments Limited ("Huge Treasure") as trustee of The Wong & Tong Unit Trust, all units of which are owned by The Wong & Tong Family Trust, a discretionary trust established by Mr. Wong Yui Lam, the executive director of the Company and Madam Tong She Man, Winnie, a beneficial shareholder of the Company.

(b) Long positions in share options of the Company

Name of director	Number of options directly beneficially owned
Madam Lee Yuk Ming	800,000
Mr. Yeung Yat Hang	600,000
	1,400,000

(c) Long positions in shares of associated corporations

Name of associated corporation	Name of director	Capacity	Number of shares held	Percentage of the associated corporation's issued share capital
Huge Treasure (as trustee of The Wong & Tong Unit Trust)	Mr. Wong Yui Lam	Beneficial owner	1 share of US\$1	50%
Tough Jeans Limited	Mr. Wong Yui Lam	Beneficial owner (note)	3 non-voting deferred shares of HK\$1 each	60% of the issued non-voting deferred shares
Bauhaus Holdings Limited	Mr. Wong Yui Lam	Beneficial owner (note)	1 non-voting deferred shares of HK\$1 each	50% of the issued non-voting deferred shares

Note:

Mr. Wong Yui Lam is a non-voting shareholder of these companies. The holders of these non-voting deferred shares are not entitled to any dividends and have no voting rights.

Save as disclosed above, as at 30 September 2011, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporation that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 15 to the Interim Financial Statements.

The following table discloses movements in the Company's share options outstanding during the six months ended 30 September 2011:

Name or category of participant	Number of share options					At 30 September 2011	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share
	At 1 April 2011	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period				
Directors									
Madam Lee Yuk Ming	250,000	-	-	-	-	250,000	2 Dec 10	2 Dec 11 to 2 Dec 15	3.354
	250,000	-	-	-	-	250,000	2 Dec 10	3 Dec 12 to 2 Dec 15	3.354
	300,000	-	-	-	-	300,000	2 Dec 10	3 Dec 13 to 2 Dec 15	3.354
	800,000	-	-	-	-	800,000			
Mr. Yeung Yat Hang	200,000	-	-	-	-	200,000	2 Dec 10	2 Dec 11 to 2 Dec 15	3.354
	200,000	-	-	-	-	200,000	2 Dec 10	3 Dec 12 to 2 Dec 15	3.354
	200,000	-	-	-	-	200,000	2 Dec 10	3 Dec 13 to 2 Dec 15	3.354
	600,000	-	-	-	-	600,000			
Other employees									
In aggregate	2,310,000	-	-	-	-	2,310,000	2 Dec 10	2 Dec 11 to 2 Dec 15	3.354
	2,310,000	-	-	-	-	2,310,000	2 Dec 10	3 Dec 12 to 2 Dec 15	3.354
	3,820,000	-	-	-	-	3,820,000	2 Dec 10	3 Dec 13 to 2 Dec 15	3.354
	8,440,000	-	-	-	-	8,440,000			
Others									
In aggregate	-	-	-	-	-	-	-	-	-
	9,840,000	-	-	-	-	9,840,000			

Notes to the table of share options outstanding during the six months ended 30 September 2011:

- * The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The closing price of the Company's shares immediately before the date on which the options were granted was HK\$3.35 per share.

The directors have estimated the values of the share options granted, calculated using the Black-Scholes-Merton pricing model as at the date of grant of the options:

Grantee	Number of options granted	Theoretical value of share options HK\$'000
Madam Lee Yuk Ming	800,000	665
Mr. Yeung Yat Hang	600,000	498
Other employees	8,440,000	7,011
	9,840,000	8,174

The Black-Scholes-Merton Pricing Model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options were the risk-free interest rate, expected life of options, expected volatility and expected dividend. The expected life of the options and expected volatility were estimated taking into account the terms and conditions upon which the options were granted, which may also not necessarily be the actual outcome. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the Black-Scholes-Merton Pricing Model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

The following table lists the inputs to the model used:

Dividend yield (%)	5.00
Expected volatility (%)	46.95 – 49.38
Risk-free interest rate (%)	0.86 – 1.20
Expected life of options (year)	3 – 4
Initial underlying stock price (HK\$ per share)	3.35

At the end of the reporting period, the Company had 9,840,000 share options, which represented approximately 2.7% of the Company's shares in issue as at the date of this report, outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 9,840,000 additional ordinary shares of the Company and additional share capital of HK\$984,000 and share premium of HK\$32,019,000 (before issue expenses).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the six months ended 30 September 2011 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 September 2011, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Position	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
		Directly beneficially owned	Through discretionary trust/as beneficiary or trustee of trust	Total number of ordinary shares held	
Huge Treasure (note 1)	Long position	180,000,000	–	180,000,000	50.08%
East Asia International Trustees Limited ("EAIT") (note 2)	Long position	–	180,000,000	180,000,000	50.08%
Wonder View (note 3)	Long position	29,900,000	–	29,900,000	8.32%
Great Elite Corporation ("Great Elite") (note 4)	Long position	34,068,000	–	34,068,000	9.48%
Webb David Michael	Long position	21,642,000	–	21,642,000	6.02%

Notes:

1. The 180,000,000 shares are held by Huge Treasure as trustee of The Wong & Tong Unit Trust, all units of which are owned by The Wong & Tong Family Trust, a discretionary trust established by Mr. Wong Yui Lam, an executive director of the Company and Madam Tong She Man, Winnie, a beneficial shareholder of the Company.
2. EAIT is a licensed trustee in the British Virgin Islands and acts as trustee of The Wong & Tong Family Trust. By virtue of its capacity as trustee of The Wong & Tong Family Trust, EAIT is deemed to be interested in the shares held by Huge Treasure (as trustee of The Wong & Tong Unit Trust) under the SFO.
3. Wonder View is a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mr. Wong Yui Lam.
4. Great Elite is a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Madam Tong She Man, Winnie.

Save as disclosed above, as at 30 September 2011, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in securities" above, has an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the six months ended 30 September 2011 except for not having a separate Chairman and Chief Executive Officer of the Group. Both positions are currently held by Mr. Wong Yui Lam (“Mr. Wong”).

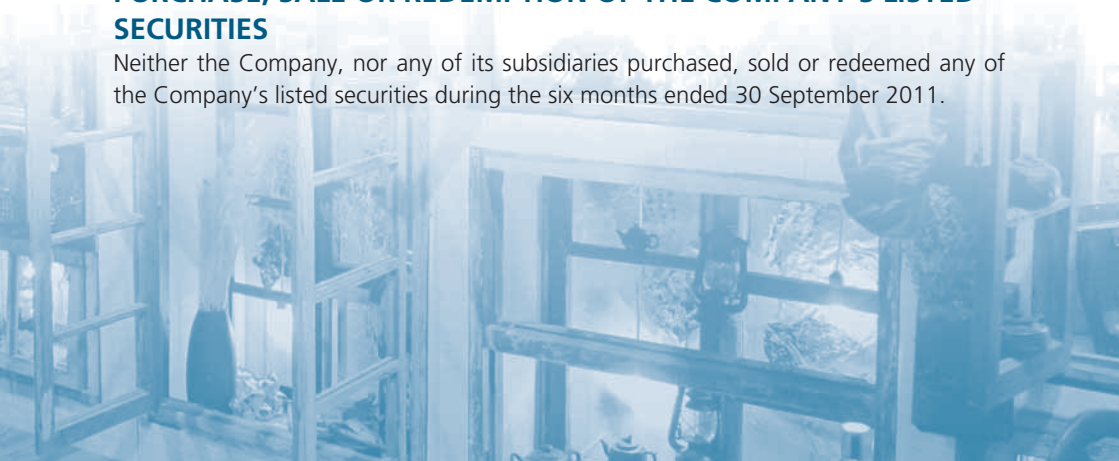
Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Being the founder of the Group, Mr. Wong has substantial experience in the fashion industry. The Directors consider that the present structure provides the Group with strong and consistent leadership which facilitates the development of the Group’s business strategies and execution of its business plans in the most efficient and effective manner. The Directors believe that it is in the best interest of the Company and its shareholders as a whole that Mr. Wong continues to assume the roles of the Chairman and the Chief Executive Officer of the Group.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 (the “Model Code”) to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 September 2011.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 September 2011.



REVIEW OF FINANCIAL INFORMATION

An audit committee of the Company (the “Audit Committee”) comprising three independent non-executive directors was established on 22 April 2005 with written terms of reference. The Audit Committee has reviewed and discussed with management the accounting principles and practices adopted by the Group, internal control and financial reporting matters, including the review of the Interim Financial Statements for the six months ended 30 September 2011.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company’s total issued share capital was held by the public as at the date of this report.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our shareholders, business partners and customers for their unstinting support. I would also like to extend my sincere appreciation to all the Group’s employees for their dedication.

By order of the Board
Bauhaus International (Holdings) Limited
Wong Yui Lam
Chairman

Hong Kong, 24 November 2011

