




bauhaus

annual report 2014

BAUHAUS INTERNATIONAL (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code:483)



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Salad

www.salad-jeans.com

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LEATHER TO WEATHER.
bauhaus

Salad



SEGMENT TURNOVER

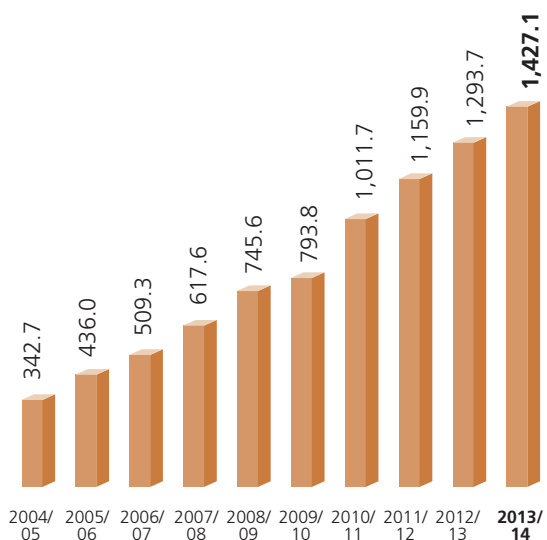
| Market | Turnover | | | Turnover Composition | | |
|---------------------|----------------------------|----------------------------|-------------|----------------------|-----------------|-----------------|
| | FY 2013/14 HK\$ million | FY 2012/13 HK\$ million | Change % | FY 2013/14 % | FY 2012/13 % | Change % pts |
| By Region | | | | | | |
| Hong Kong & Macau | 1,001.8 | 880.1 | 13.8% | 70.2% | 68.0% | 2.2% |
| Taiwan | 270.9 | 222.3 | 21.9% | 19.0% | 17.2% | 1.8% |
| Mainland China | 135.1 | 152.4 | -11.4% | 9.4% | 11.8% | -2.4% |
| Elsewhere | 19.3 | 38.9 | -50.4% | 1.4% | 3.0% | -1.6% |
| | 1,427.1 | 1,293.7 | 10.3% | 100.0% | 100.0% | |
| By Business | | | | | | |
| Retail | 1,387.9 | 1,230.7 | 12.8% | 97.3% | 95.2% | 2.1% |
| Franchise | 18.6 | 23.8 | -21.8% | 1.3% | 1.8% | -0.5% |
| Wholesales & Others | 20.6 | 39.2 | -47.4% | 1.4% | 3.0% | -1.6% |
| | 1,427.1 | 1,293.7 | 10.3% | 100.0% | 100.0% | |

RETAIL NETWORK

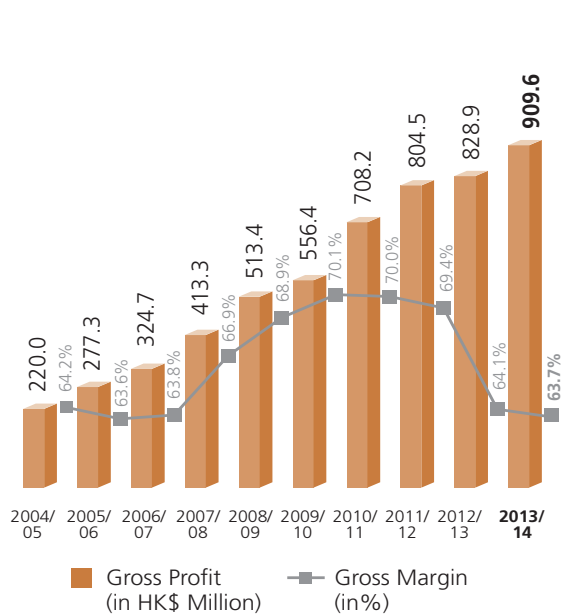
| | no. of outlets | | | TOTAL |
|---------------------------------------|-------------------|-----------|----------------|------------|
| | Hong Kong & Macau | Taiwan | Mainland China | |
| As at 31 March 2014 | | | | |
| Self-managed retail network | | | | |
| In-House Brand | | | | |
| BAUHAUS | 35 | 13 | 9 | 57 |
| TOUGH | 8 | 29 | 9 | 46 |
| SALAD | 20 | 13 | 7 | 40 |
| Others | 11 | 9 | – | 20 |
| Licensed Brand | | | | |
| SUPERDRY | 10 | 23 | 1 | 34 |
| Sub-total number of shops | 84 | 87 | 26 | 197 |
| Aggregate sales footage (in sq. feet) | 104,371 | 71,201 | 33,481 | 209,053 |
| Franchise network | | | | |
| TOUGH | – | – | 15 | 15 |
| SALAD | – | – | 2 | 2 |
| Sub-total number of shops | – | – | 17 | 17 |
| TOTAL number of shops | 84 | 87 | 43 | 214 |
| As at 31 March 2013 | | | | |
| Self-managed retail network | | | | |
| In-House Brand | | | | |
| BAUHAUS | 36 | 13 | 12 | 61 |
| TOUGH | 7 | 28 | 13 | 48 |
| SALAD | 18 | 12 | 4 | 34 |
| Others | 10 | 6 | – | 16 |
| Licensed Brand | | | | |
| SUPERDRY | 8 | 18 | 1 | 27 |
| Sub-total number of shops | 79 | 77 | 30 | 186 |
| Aggregate sales footage (in sq. feet) | 93,562 | 59,636 | 48,640 | 201,838 |
| Franchise network | | | | |
| TOUGH | – | – | 21 | 21 |
| TOUGH & SALAD* | – | – | 7 | 7 |
| Sub-total number of shops | – | – | 28 | 28 |
| TOTAL number of shops | 79 | 77 | 58 | 214 |

* Dual-branded shops

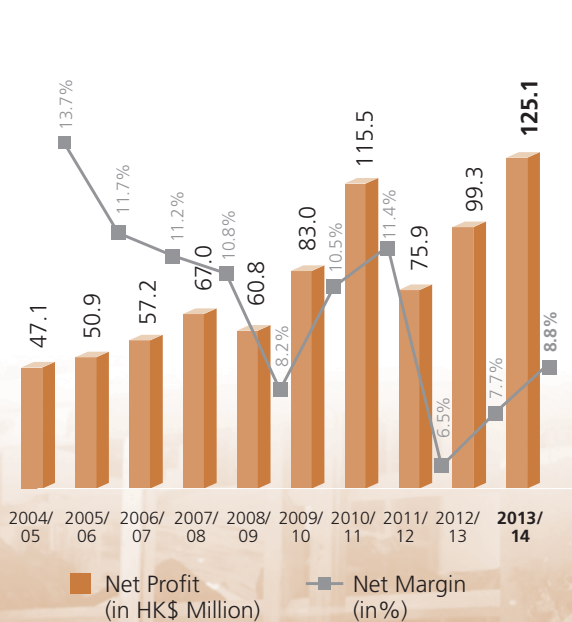
Sales (in HK\$ Million)



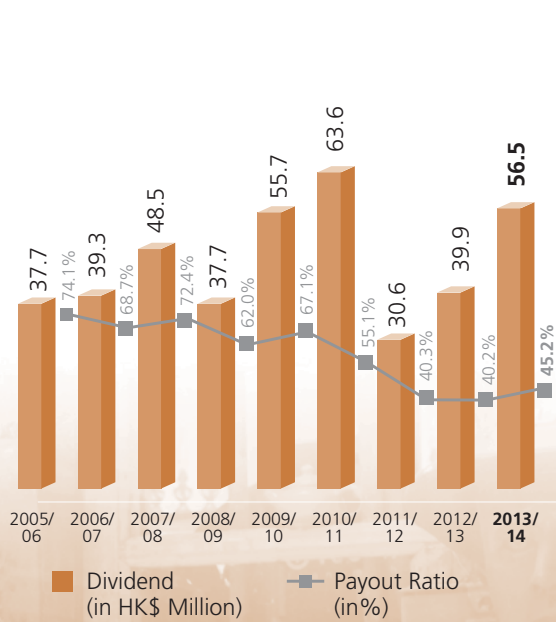
Gross Profit & Gross Margin



Net Profit & Net Margin



Dividend & Payout Ratio



來。不可能沒有
皮褸的日子

LEATHER TO WEATHER.

bauhaus



+ TOUGH

J e a n s m i t h

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a member of bauhaus

Anthony Wong

in
love
we are
tough

| | | Notes | FY 13/14 | FY 12/13 | Change +/- |
|------------------------------|------------|-------|--------------|----------|------------|
| KEY FINANCIAL RATIOS | | | | | |
| Performance | | | | | |
| Gross Margin | (%) | 1 | 63.7 | 64.1 | -0.4% pt. |
| Net Profit Margin | (%) | 2 | 8.8 | 7.7 | 1.1% pts. |
| Return on Average Equity | (%) | 3 | 19.4 | 17.8 | 1.6% pts. |
| Return on Average Assets | (%) | 4 | 15.5 | 13.6 | 1.9% pts. |
| Operating | | | | | |
| Inventory Turnover Days | | 5 | 186 | 208 | -22 days |
| Debtors' Turnover Days | | 6 | 13 | 12 | 1 day |
| Creditors' Turnover Days | | 7 | 22 | 21 | 1 day |
| Liquidity and Gearing | | | | | |
| Current Ratio | | 8 | 3.9 | 3.4 | 14.7% |
| Quick Ratio | | 9 | 2.2 | 1.8 | 22.2% |
| Gearing Ratio | (%) | 10 | – | 5.6 | -5.6% pts. |
| PER SHARE DATA | | | | | |
| Book Value Per Share | (HK cents) | 11 | 189.5 | 165.9 | 14.2% |
| Basic Earnings Per Share | (HK cents) | 12 | 34.6 | 27.6 | 25.4% |
| Diluted Earnings Per Share | (HK cents) | 13 | 34.6 | 27.6 | 25.4% |
| Dividend Per Share | | | | | |
| Interim | (HK cents) | | 1.5 | 1.0 | 50.0% |
| Proposed Final | (HK cents) | | 14.0 | 10.1 | 38.6% |
| | | | 15.5 | 11.1 | 39.6% |
| Dividend Payout Ratio | (%) | 14 | 45.2 | 40.2 | 5.0% pts. |

Notes:

- | | | | |
|---|---|----|--|
| 1 | "Gross Margin" is based on gross profit divided by turnover for the year. | 8 | "Current Ratio" represents current assets divided by current liabilities. |
| 2 | "Net Profit Margin" is calculated as the profit for the year attributable to equity holders of the parent divided by turnover for the year. | 9 | "Quick Ratio" represents current assets less inventories then divided by current liabilities. |
| 3 | "Return on Average Equity" represents the profit for the year attributable to equity holders of the parent divided by average of opening and closing balance of shareholders' equity. | 10 | "Gearing Ratio" represents total interest-bearing bank borrowings divided by total assets. |
| 4 | "Return on Average Assets" represents the profit for the year attributable to equity holders of the parent divided by average of opening and closing balance of total assets. | 11 | "Book Value Per Share" represents shareholders' equity divided by the total number of issued shares at the end of the reporting period of 364,810,000 (2013: 359,450,000). |
| 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 year. | 12 | "Basic Earnings Per Share" is calculated as the profit for the year attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the year under review of 361,216,731 (2013: 359,450,000). |
| 6 | "Debtors' Turnover Days" is based on average of opening and closing balance of trade receivables divided by turnover and then multiplied by number of days during the year. | 13 | "Diluted Earnings Per Share" is calculated as the profit for the year attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the year under review and all dilutive potential ordinary shares of 361,538,001 (2013: 359,450,000) in aggregate. |
| 7 | "Creditors' Turnover Days" is based on average of opening and closing balance of trade payables divided by purchases and then multiplied by number of days during the year. | 14 | "Dividend Payout Ratio" represents the aggregate dividends declared and proposed for the year under review divided by the profit for the year attributable to equity holders of the parent. |

baunhaus

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*
22nd Floor
CITIC Tower,
1 Tim Mei Avenue, 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

REGISTERED OFFICE

Cricket 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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATION

Strategic Financial Relations Limited
Unit A, 29/F, Admiralty Centre I
18 Harcourt Road, 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 31 March 2014 | As at 31 March 2013 |
|-----------------------------------|--------------------------------|--------------------------------|
| Shares | No. of shares | No. of shares |
| Authorised shares | 2,000,000,000 | 2,000,000,000 |
| Issued shares | 364,810,000 | 359,450,000 |
| | FY 2013/14 | FY 2012/13 |
| | HK cents | HK cents |
| Basic earnings per share | 34.64 | 27.60 |
| Diluted earnings per share | 34.61 | 27.60 |
| Dividend per share | | |
| Interim | 1.5 | 1.0 |
| Proposed final | 14.0 | 10.1 |
| TOTAL | 15.5 | 11.1 |

Key dates

| | |
|--|---|
| 2012/13 annual results announcement | 21 June 2013 |
| Closure of Register of Members for 2012/13 annual general meeting | 30 August 2013 to 3 September 2013 (both days inclusive) |
| 2012/13 annual general meeting | 3 September 2013 |
| Closure of Register of Members for 2012/13 proposed final dividend | 10 September 2013 to 12 September 2013 (both days inclusive) |
| Payment of 2012/13 final dividend | 27 September 2013 |
| 2013/14 interim results announcement | 25 November 2013 |
| Closure of Register of Members for 2013/14 interim dividend | 8 January 2014 to 10 January 2014 (both days inclusive) |
| Payment of 2013/14 interim dividend | 28 January 2014 |
| 2013/14 annual results announcement | 23 June 2014 |
| Closure of Register of Members for 2013/14 annual general meeting | 12 August 2014 to 14 August 2014 (both days inclusive) |
| 2013/14 annual general meeting | 14 August 2014 |
| Closure of Register of Members for 2013/14 proposed final dividend | 20 August 2014 to 22 August 2014 (both days inclusive) |
| Payable of 2013/14 proposed final dividend | 12 September 2014 |
| Official website | www.bauhaus.com.hk |
| Financial year end | 31 March |
| Interim period end | 30 September |











On behalf of the board of directors (the "**Board**"), I am pleased to present the annual results of Bauhaus International (Holdings) Limited (the "**Company**") and its subsidiaries (collectively the "**Group**" or "**Bauhaus**") for the year ended 31 March 2014.

Over the past 12 months, business conditions have remained challenging for many retail players due to the economic slowdown in Mainland China and rising risk of diminishing growth in other emerging markets. Retail sentiment in the regions in which the Group operates has been generally fair, though on the operation front, high rentals, particularly in Hong Kong, coupled with escalating staff and raw materials costs have placed a heavy burden on all retailers.

Despite the strong headwind confronted, the Group recorded a record-high annual turnover with notable rise in profitability during the year under review. All major geographical regions, including Hong Kong & Macau, Mainland China and Taiwan, that the Group has business operations have recorded improvements when compared to the preceding year. The encouraging results can be attributed to our effective brand building efforts; pinpoint marketing strategies; sales network consolidation; and effective cost controls. Furthermore, the Group has fully repaid all bank borrowings, which has greatly strengthened its net cash position and working capital. This will allow Bauhaus to enjoy greater financial flexibility, facilitating further development despite the volatile conditions.

Over the past several years, the rise of fast retailing stores have transformed the apparel industry and brought challenge to other fashion retailers like Bauhaus. To cope with such change and maintain our competitiveness, we have been adjusting the Group's product portfolio to ensure that its products are stylish and appealing to a wide spectrum of customers. In response to the fast-changing markets, we began to switch our attention to accessories, particularly on the "SALAD" branded handbags and wallets. These efforts have been complemented by effective marketing efforts. Building on our successful track

records, we launched a comprehensive "Salad – Carry Me Lite" marketing campaign that generated a tremendously positive response from the public. Consequently, our strategic move has been proven a success. We will continue to closely monitor market trends and fine-tune our product mix to bolster Bauhaus' reputation as a brand synonymous with trendy fashion.

To further broaden our target customer group and maintain brand vitality, we have also continued to nurture the development of both in-house brands and third-party import brands. We will continue to look for potential brands to import so as to further appeal to the mass market, enrich our product mix and maintain the attractiveness and dynamism of the Bauhaus name.

While bolstering sales is certainly essential, we are also aware that escalating rent can undermine profits. This is particularly a concern in our principal markets of Hong Kong and Macau, where stiff competition for coveted locations has led to exorbitant rental rates. To maintain such expenditures at a reasonable level, the Group places emphasis on enhancing the overall efficiency and profitability of each store rather than expanding merely for the sake of increasing sales points. Correspondingly, the management has maintained the practice of relocating shops to areas that offer lower rent or strategically setting up stores adjacent to stores that it expects to vacate due to anticipated and substantial rental increases. The Group has also continued to strengthen its presence in or near major new commercial developments whenever opportunities arise. In this way, the Group is able to consolidate its presence in key locations and maintain brand awareness.

Aside from strengthening its physical store network, the Group has been proactively exploring new sales channels, including online platforms, to address changing consumer behaviour and the popularity of online shopping. Early this year, the Group launched its very first online operation. The Group will therefore direct additional resources to develop this sales platform, thereby creating a new network to support its existing business.

Looking ahead, the slowing down of China's economy and considering to place restrictions by the Hong Kong Government on the number of Mainland Chinese visitors allowed to enter the territory may result in unpleasant conditions for the entire retail industry. Nevertheless, the potential upside favourable to the Group may be a downward adjustment on market rents. Leveraging its past experience operating in China, the management will make every effort to turn challenges into fresh opportunities. Similarly, in Taiwan, the Group is committed to enhancing its performance on the island. Having already cleared much of the Group's old inventory, this presents it with an ideal opportunity to make a fresh start – introducing new and exciting initiatives and products that address the needs of local consumers.

In respect of the Group's operations, we will closely examine the current work flow and seek to further enhance efficiency. Efforts will also be made to streamline production processes, thus allowing us to speed up product launches and restock products in a timely manner, which is essential for coping with fast-changing customer preferences. In addition, the Group will continue to explore new regions for sourcing well priced, quality materials to enhance profitability.

In view of the volatile operating environment that is expected to persist, we have implemented a series of measures aimed at fortifying our foundation, raising brand awareness, and ultimately, helping sustain profit growth. With a clear roadmap in place, we remain confident in Bauhaus' ability to overcome economic and market challenges; growing stronger while delivering optimum returns to our shareholders.

Appreciation

On behalf of the board, I would like to take this opportunity to thank the management team and staff for their dedication and contributions, which have helped the Group to overcome challenges and subsequently realise satisfactory results during the year. I would also like to extend my gratitude to our shareholders, business partners and customers for their trust and unwavering support.

Wong Yui Lam
Chairman

Hong Kong, 23 June 2014

BUSINESS REVIEW

Encouragingly, the Group recorded a record-high annual turnover of about HK\$1,427.1 million (2013: HK\$1,293.7 million) and net profit of about HK\$125.1 million (2013: HK\$99.3 million) for the year ended 31 March 2014. If the last financial year's one-off exceptional compensation income for early termination of tenancies of about HK\$21.7 million, gain on disposal of under-utilised properties of about HK\$16.3 million and restructuring costs for the Mainland China operations of about HK\$10.9 million were excluded, the recurring base earnings before interest, tax, depreciation and amortisation (the "EBITDA") increased significantly by about 29.8% to about HK\$187.2 million (2013: HK\$144.2 million) for the year under review, indicating a strong enhancement in the profitability of the Group's core business.

Actually, the market conditions were still challenging during the year under review. As a result of the slowdown of growth in Mainland China's economy and increasing risk of diminishing growth in other emerging markets, the retail sentiment in the regions where the Group operates was just fair in general. The operating environment was still unfavourable for retailers as high rentals, rising production costs and soaring staff expenses remained.

To confront the challenges, the Group closely monitored and promptly adjusted to market dynamics. Through effective brand-building efforts, pinpoint marketing tactics and attractive promotional offerings to attract customers, the Group successfully managed to perform well-exceeding expectations. With the appropriate strategic focus, the results in the Group's major geographical operating segments, including Hong Kong & Macau, Mainland China and Taiwan, have been enhanced or have been improving as compared to the same period last year. In addition, the net cash level and working capital of the Group were greatly strengthened, with all bank borrowings fully repaid as at the end of reporting period. Hence, the Group has better financial flexibility to further develop its business even under potentially volatile conditions.

Hong Kong and Macau

Sales from retail operations in Hong Kong and Macau, which accounted for about 70.2% of the Group's turnover (2013: 68.0%), has reached another milestone, exceeding HK\$1 billion per annum to approximately HK\$1,001.8 million during the year under review (2013: HK\$880.1 million), representing a growth of about 13.8%. The increase was mainly brought by a strong same-store-sales growth rate of about 21% during the year under review, thanks to the strategic decision to focus on certain fast-growing brands and product categories as well as the success of marketing activities.

During the year under review, the Group invested effectively in marketing certain significant product categories, especially the "SALAD" branded handbags and wallets. "SALAD" has been a fast-growing in-house brand in recent years targeting young ladies. A series of television advertising programmes and related marketing activities were launched in the second-half of the financial year. The Group also fine-tuned its shop mix and product mix to maximise the benefits from the television advertising campaigns. The Group not only received an overwhelming response for these advertised items, but also effectively improved customer traffic in shops and enhanced cross-selling opportunities to boost the sales of its other products and brands as a whole.

The strong sales growth in the region has proven the Group's success in exploring new growth momentum under less than ideal consumption situations. However, the surging operating costs, particularly rentals, still placed pressure on the Group's business. In response, the Group maintained an optimum operating scale with stringent cost control measures in place. During the year under review, the Group continued to enhance its efficiency and profitability by closing down underperforming shops and relocating shops to other prime shopping locations with affordable rentals. The Group also gradually renovated its existing shop design in a more lively, trendy and attractive style and enriched its shop and brand portfolio to remain competitive in the retail market. Furthermore, as in the previous year, the Group launched large scale bargain sales campaigns in the region during the traditional sales peak season in the summer holiday of 2013 and the period from Christmas 2013 to the Chinese New Year 2014 in order to reduce aged and slow-moving stocks.

Mainland China

As at 31 March 2014, the Group operated its self-managed retail shops in Beijing, Shanghai, Guangzhou, Nanjing and Suzhou and maintained a streamlined franchise network focusing mainly on second-tier cities in Mainland China. During the year under review, the Group reduced the total number of self-managed retail stores in the region to 26 shops as at 31 March 2014 (2013: 30). The Group also adopted a more focused strategy to foster certain franchisees with greater growth potential and to eliminate the poorly-managed ones. The number of franchised shops was further reduced to 17 shops at the end of the reporting period (2013: 28). Hence, turnover from the Mainland China segment dropped by about 11.4% to about HK\$135.1 million (2013: HK\$152.4 million). However, after restructuring in previous years, the segment losses were greatly reduced by about 80.5% to about HK\$4.3 million for the year ended 31 March 2014 (2013: HK\$22.0 million). The same-store-sales growth rate in Mainland China operation for the year under review was of about 11%. Though the impact from the Mainland China segment on the Group's overall results has become less significant after the downsizing measures, the Group's priority was to resume profitability and operational effectiveness in the near future rather than merely fueling rapid business expansion.

Taiwan

In Taiwan, the local retail market was continuously weak during the year under review. Because of prolonged stagnant retail consumption, the Group's slow-moving inventories in the region had accumulated. To react promptly to this unfavourable development, the Group offered deep promotional discounts and extensive bargains, particularly in the first-half of the financial year, to galvanize sales and to reduce redundant inventories. As a result, the region reported a remarkable positive same-store-sales growth rate of about 19% and the turnover from Taiwan grew rapidly by about 21.9% to about HK\$270.9 million (2013: HK\$222.3 million) despite the unfavourable retail sentiment. Also, after redundant stocks were gradually trimmed, the extent of discounts offered to the market has been lessening since the second-half of the financial year. For the year ended 31 March 2014, the Taiwan operation recorded a profit of about HK\$7.6 million (2013: a loss of about HK\$1.6 million).

Elsewhere

The Group extended its business coverage through wholesale operations to certain countries, with a particular focus on Asia. The turnover from the segment dropped substantially by about 50.4% to about HK\$19.3 million (2013: HK\$38.9 million). The drop was mainly due to the significant decrease in sales to the Japanese market. Owing to material depreciation of the Japanese Yen against the United States dollar as compared to the same period last year, the sales demand from the Group's Japanese customers was depressed. The Group plans to maintain a comparable scale of its wholesale operations to address the demand from current customers.

FINANCIAL REVIEW

Turnover

The aggregate turnover of the Group rose by approximately 10.3% to around HK\$1,427.1 million for the year ended 31 March 2014 (2013: HK\$1,293.7 million). The major components of the Group's turnover by business were as follows:

| | Year ended 31 March 2014 HK\$ million | Year ended 31 March 2013 HK\$ million | Change |
|--------------------------------|--|--|--------|
| Retail business | 1,387.9 | 1,230.7 | +12.8% |
| Franchise business | 18.6 | 23.8 | -21.8% |
| Wholesales business and others | 20.6 | 39.2 | -47.4% |
| TOTAL | 1,427.1 | 1,293.7 | +10.3% |

As indicated above, the retail business was the largest sales contributor, accounting for approximately 97.3% (2013: 95.1%) of total turnover and achieving a year-on-year growth of about 12.8%.

Operating Segment Information

Detailed information of the Group's turnover and its contribution to profit before tax by segment is shown in Note 4 to the consolidated financial statements.

Gross Profit

The Group's gross profit increased to approximately HK\$909.6 million for the year ended 31 March 2014 (2013: HK\$828.9 million) while gross margin slightly narrowed to around 63.7% (2013: 64.1%). Owing to a stagnant retail performance in Taiwan, the Group significantly increased the extent and frequency of sales promotions to customers in the region to galvanise sales and reduce its inventory level.

Operating Expenses

Operating expenses increased slightly by about 3.7% to approximately HK\$761.9 million (2013: HK\$734.8 million) during the year ended 31 March 2014, equivalent to roughly 53.4% of total turnover (2013: 56.8%). Rent for land and buildings was about HK\$323.0 million (2013: HK\$311.5 million), which accounted for about 22.6% (2013: 24.1%) of the Group's turnover and equivalent to about 42.4% (2013: 42.4%) of the Group's total expenses during the year under review. Actually, the market rentals continued to surge during the year under review, but more mildly compared to the same period last year. Besides, since the Group greatly improved the growth rate of existing shops, strategically relocated shops to other prime shopping areas commanding lower rents and consolidated shops in nearby locations, the respective rent-to-sales ratio was obviously improved.

Staff cost declined by about 2.2% to approximately HK\$221.3 million (2013: HK\$226.2 million) during the year ended 31 March 2014. Staff cost-to-sales ratio was further reduced to about 15.5% (2013: 17.5%). Although the inflationary operating environment and shortage of experienced front-line sales staff led to a surge in average staff cost, the Group streamlined the operations in supporting back offices and reduced headcount in general.

Depreciation charges dropped to approximately HK\$35.4 million (2013: HK\$40.3 million) for the year under review. Marketing expenses, including advertising, promotion and exhibition expenses, however, increased significantly by about 62.9% to approximately HK\$55.7 million for the year ended 31 March 2014 (2013: HK\$34.2 million). The substantial increase was mainly because the Group placed much more marketing effort (including intensive television advertising programmes) on promoting products with good growth prospects.

Finance Costs

The Group incurred a finance cost of about HK\$0.7 million (2013: HK\$1.4 million) during the year under review, which represented the interest expenses paid for bank borrowings.

Net Profit

The Group's net profit attributable to equity holders improved by about 26.0% to approximately HK\$125.1 million (2013: HK\$99.3 million) for the year ended 31 March 2014 despite the absence of certain significant exceptional gains and income as in the last financial year. Net profit margin also increased from about 7.7% to about 8.8%. For the year ended 31 March 2014, the results in the Group's major geographical operating segments, including Hong Kong & Macau, Mainland China and Taiwan, were improved as compared to the same period last year.

SEASONALITY

Based on the Group's track record, its sales and results are greatly affected by seasonality. In general, over 50% of the Group's annual sales and most of its net profit are derived during the second-half of the financial year, particularly the period spanning Christmas to the Lunar New Year.

CAPITAL STRUCTURE

As at 31 March 2014, the Group had net assets of approximately HK\$691.4 million (2013: HK\$596.4 million), comprising non-current assets of approximately HK\$250.7 million (2013: HK\$210.1 million), net current assets of approximately HK\$447.0 million (2013: HK\$388.0 million) and non-current liabilities of approximately HK\$6.3 million (2013: HK\$1.7 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2014, the Group had cash and cash equivalents of about HK\$260.2 million (2013: HK\$197.9 million). At the end of the reporting period, the Group had aggregate banking facilities of about HK\$134.9 million (2013: HK\$110.3 million) comprising interest-bearing bank overdraft, revolving loans, rental and utility guarantees as well as import facilities, of which about HK\$119.4 million had not been utilised. As at 31 March 2014, the Group had no bank borrowings (2013: HK\$42.3 million). The Group's gearing ratio at the end of the reporting period, representing a percentage of total interest-bearing bank borrowings to total assets, was zero (2013: 5.6%).

CASH FLOWS

For the year ended 31 March 2014, net cash inflow from operating activities increased significantly to approximately HK\$192.8 million (2013: HK\$115.3 million), which was mainly attributed to an increase in sales. Resulting from the absence of proceeds from disposal of properties of about HK\$59.4 million as in the last financial year and an increase in capital expenditure for the year ended 31 March 2014 for renovation of existing retail networks and decoration for reallocated/new shops, the Group had net cash flow used in investing activities of about HK\$57.0 million (2013: net cash inflow of HK\$26.5 million) during the year under review. Net cash flow used in financing activities during the year under review increased to approximately HK\$74.2 million (2013: HK\$31.4 million), which was mainly arisen from payment of dividends and repayment of all bank borrowings during the year under review.

SECURITY

As at 31 March 2014, 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\$64.8 million (2013: HK\$66.2 million) and cross guarantees from the Company and certain subsidiaries of the Group.

CAPITAL COMMITMENT

As at 31 March 2014, both the Group and the Company had no material capital commitments (2013: Nil).

CONTINGENT LIABILITIES

As at 31 March 2014, the Group had contingent liabilities in respect of bank guarantees given in lieu of utility and property rental deposits amounting to approximately HK\$7.6 million (2013: HK\$7.6 million). In addition, at the end of the reporting period, the general banking facilities granted to certain subsidiaries subject to guarantees given to banks by the Company of about HK\$100.2 million (2013: HK\$70.2 million) was utilised to the extent of about HK\$15.5 million (2013: HK\$31.3 million).

HUMAN RESOURCES

Including the Directors, the Group had 1,363 (2013: 1,486) employees as at 31 March 2014. To attract and retain high quality staff, the Group provided competitive remuneration packages with performance bonuses, mandatory provident fund, and 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 their external training programmes.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's sales and purchases during the year were mostly denominated in Hong Kong dollars, New Taiwan dollars, Renminbi and United States dollars. The Group was exposed to certain foreign currency exchange risks but 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.

The Group's objective and policies in foreign exchange risk management and other major financial risk management are set out in Note 34 to the consolidated financial statements.

DIRECTORS

Executive Directors

Mr. Wong Yui Lam, aged 56, is the founder, the Chairman, the Chief Executive Officer and the Authorised Representative of the Group. He is responsible for the overall management and strategic planning of the Group. Mr. Wong conceived the concept and brandname "TOUGH", the first in-house brand of the Group, and is responsible for overall development including design and direction of the brand. Mr. Wong has over 20 years of experience in fashion industry. He was awarded the Teacher's Certificate by Sir Robert Black College of Education in 1981. Mr. Wong is the father of Ms. Wong Hei Ting and Ms. Wong Hei Man, Frances, members of the Group's senior management.

Madam Lee Yuk Ming, aged 46, is the General Manager and the Authorised Representative of the Group. She is responsible for implementation of corporate strategies and co-ordination among different departments and business units of the Group. Madam Lee is also responsible for administration, human resources and financial management of the Group. Madam Lee is an associate member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. She obtained a diploma in Management Studies from the Hong Kong Polytechnic University/Hong Kong Management Association in 1998. Madam Lee has over 20 years of experience in different areas including accounting, finance and management. She joined the Group in April 2002.

Mr. Yeung Yat Hang, aged 37, is the Operation Manager of the Group. Mr. Yeung is responsible for overseeing the Group's business operation in Mainland China. He is also responsible for the Group's leasing affairs and executing various development projects. Mr. Yeung has extensive experience in business negotiation, project management, shop decoration and retail operation. He joined the Group in May 1994.

Independent Non-Executive Directors

Dr. Wong Yun Kuen, aged 56, was appointed as an Independent Non-Executive Director on 1 May 2005. Dr. Wong received his Ph.D. Degree from Harvard University in 1989. Dr. Wong has worked in financial industries in the United States and Hong Kong for many years, and is a member of Hong Kong Securities Institute. Dr. Wong is an executive director of UBA Investments Limited, and the independent non-executive director of China Sandi Holdings Limited, China Yunnan Tin Minerals Group Company Limited, Climax International Company Limited, Kingston Financial Group Limited, Kong Sun Holdings Limited, Harmony Asset Limited, Guocang Group Limited, Kaisun Energy Group Limited, New Island Development Holdings Limited and Sincere Watch (Hong Kong) Limited. All the aforesaid companies are listed either on the Main Board or GEM Board of the Stock Exchange of Hong Kong Limited.

Mr. Chu To Ki, aged 48, was appointed as an Independent Non-Executive Director on 1 May 2005. Mr. Chu graduated from the University of Hong Kong in June 1998 with Postgraduate Certificate in Laws and obtained from Manchester Metropolitan University a Bachelor Degree in Laws in September 1999. Mr. Chu was admitted as a solicitor of the High Court of Hong Kong in March 2000. Mr. Chu has over 20 years of working experience in the legal field in Hong Kong. Mr. Chu is currently a principal of the solicitors firm TKC Lawyers.

Mr. Mak Wing Kit, aged 46, was appointed as an Independent Non-Executive Director on 1 May 2005. Mr. Mak graduated from the Boston University in United States in 1997 with a Master Degree of Science in Administrative Studies. Mr. Mak is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Mak has over 20 years of experience in auditing, accounting, company secretarial affairs and financial control in Hong Kong. Mr. Mak is currently the financial controller of a private company based in Hong Kong and People's Republic of China ("PRC").

SENIOR MANAGEMENT

Mr. Chan Chi Keung, aged 63, is the General Manager – Production of the Group and the legal representative of 汕頭市包浩斯服飾製品有限公司 (“**Bauhaus Shantou**”), a wholly-owned subsidiary of the Group. Mr. Chan is responsible for the supervision of production processes at the production site operated by the Group in the PRC and the sourcing of raw materials from suppliers in the PRC. Mr. Chan has over 30 years of manufacturing experience in the clothing and fashion accessory industry. Mr. Chan joined the Group in August 2001.

Ms. Wong Hei Ting, aged 27, is the Design Director of the Group. Ms. Wong oversees the Group’s product design and accessories merchandising. She delivers seasonal planning of collections as well as managing the design and production process. Ms. Wong obtained a Bachelor degree in Business Administration from The Hong Kong University of Science and Technology in 2009. She joined the Group in February 2013. She is a daughter of Mr. Wong Yui Lam, the Chairman, the Chief Executive Officer and an executive director of the Company, and the sister of Ms. Wong Hei Man, Frances, the Retail Director of the Group.

Ms. Wong Hei Man, Frances, aged 26, is the Retail Director of the Group. Ms. Wong oversees the Group’s retail operations. She is responsible for developing retail and promotional strategies with a view to optimising the sales across the shop networks to meet the Group’s business goals. Ms. Wong obtained a Bachelor degree in Management from The University of Warwick in United Kingdom in 2010, and a Graduate Diploma in Law from the BPP University in United Kingdom in 2012. She joined the Group in December 2013. She is a daughter of Mr. Wong Yui Lam, the Chairman, the Chief Executive Officer and an executive director of the Company, and the sister of Ms. Wong Hei Ting, the Design Director of the Group.

Mr. Chan Chung Kai, aged 49, is the Strategic Marketing Director of the Group. Mr. Chan is responsible for the Group’s strategic marketing plans, buying strategies and procurement of fashion labels. Mr. Chan has over 20 years of experience in strategic marketing, brand development and visual merchandising and he had successfully introduced certain foreign brands into Hong Kong market with overwhelming responses. Prior to joining the Group in January 2007, Mr. Chan gained extensive strategic marketing experience in a sizable fashion group.

Madam Fan Ching Shan, Susan, aged 51, is the Design & Merchandising Director of the Group. She is responsible for product design, material and factory sourcing, production planning as well as garment merchandising. Madam Fan obtained a diploma in management studies from the Hong Kong Polytechnic University/Hong Kong Management Association in 1999. Madam Fan has over 25 years of product development, merchandising, sales and marketing experience in Hong Kong and overseas markets. She joined the Group in July 2001.

Mr. Li Kin Cheong, aged 38, is the Financial Controller, the Company Secretary and the Qualified Accountant of the Group. He is responsible for overseeing the Group’s financial management, accounting and company secretarial affairs. Mr. Li is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He holds a Master degree in Business Administration from The Chinese University of Hong Kong and a Bachelor degree in Accountancy from the Hong Kong Polytechnic University. He has over 16 years of experience in accounting, auditing, corporate finance and company secretarial affairs. Prior to joining the Group in June 2005, he was a manager of an international accounting firm.

Madam Chan Wai Chun, Candy, aged 48, is the Administration Manager of the Group. She is responsible for administration and human resources management of the Group. Madam Chan has over 20 years of shop management and administration experience in Hong Kong. She has been with the Group since the opening of its first Bauhaus shop in 1991.

The Company is committed to maintaining a high standard of corporate governance which serves as a vital element of risk management throughout the development process of the Company. The board of directors (the “**Board**”) of the Company emphasises on maintaining and conducting sound and effective corporate governance structure and practices. Throughout the year ended 31 March 2014, the Company has complied with the applicable code provision of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange except for the deviation from CG Code provision A.2.1 in respect of the roles of chairman (the “**Chairman**”) and chief executive officer (the “**CEO**”) of the Company. Explanations for such non-compliance are discussed later in the section of “Chairman and Chief Executive Officer” in this Corporate Governance Report.

BOARD OF DIRECTORS

The Board is collectively responsible for the management of the Company, and is charged with a mission of promoting success and providing effective leadership to the Company. All directors of the Company (the “**Directors**”) are aware of their collective and individual responsibilities to the shareholders, the duties to act honestly and in good faith in the interest of the Company and its shareholders as a whole and to avoid conflict of interests.

The Board is responsible for formulating corporate strategies of the Company, setting goals and objectives for the management as well as monitoring and controlling the performance of the management. The management of the Company implements the strategic plans and deals with day-to-day operational matters of the Group under the delegation and authority of the Board.

As at 31 March 2014 and up to the date of this report, the Board comprised six members, including three executive Directors and three independent non-executive Directors, as shown below:

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

The biographical details of the Directors and the relationship among the members of the Board, if any, are set out in the section of “Directors and Senior Management” on pages 20 to 21 of this Annual Report.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive strategic planning and execution experience and/or expertise relevant to the business of the Group.

In compliance with Rule 3.10(1) and (2) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, who have represented at least one-third of the Board. The Board considers that all the independent non-executive Directors have appropriate and sufficient business, legal and/or finance experience and qualifications to carry out their duties so as to protect the interests of the shareholders of the Company.

The Company has received from each of the independent non-executive Directors an annual confirmation of their independence as required under Rule 3.13 of the Listing Rules. The Company considered all the independent non-executive Directors to be independent. The independent non-executive Directors are explicitly identified in all corporate communications.

BOARD OF DIRECTORS (Continued)

Each of the independent non-executive Directors has taken up the role as an independent non-executive Director for an initial term of one year and is subject to retirement and re-election in accordance with the articles of association of the Company.

If a Director has conflict of interest in a transaction or proposal to be considered by the Board and which the Board has determined to be material, the individual Director concerned declares his/her interest and is required to abstain from voting. The matter is considered at a Board meeting with the presence of the independent non-executive Directors who have no material interest in the proposed transaction.

The Company has arranged appropriate liability insurance to indemnify the Directors from their liabilities arising out of corporate activities. The insurance coverage will be reviewed regularly to ensure its effectiveness and sufficiency.

Pursuant to CG Code provision A.6.5, the Directors are required to participate in continuous professional development so as to ensure that their contribution to the Board remains informed and relevant. Accordingly, the Group also adopted a corporate governance policy requiring every newly appointed Director should receive a comprehensive, formal and tailored induction on appointment of at least 15 hours from the Chairman, other senior Directors and/or external professional bodies, as appropriate, so as to ensure that they have appropriate understanding of the business and operations of the Group and that they are fully aware of their responsibilities and obligations under the Listing Rules and relevant regulatory requirements. In addition, all the Directors are required to participate in at least 15 hours of continuous professional development in each financial year to develop and refresh their knowledge and skills, either through in-house training or external professional resources. All the Directors have complied with the requirements for the year ended 31 March 2014.

A summary of training received by the Directors during the year under review is as follows:

| | Type of training |
|--|-------------------------|
| Executive Directors | |
| Mr. Wong Yui Lam (<i>Chairman and Chief Executive Officer</i>) | A, B, C |
| Madam Lee Yuk Ming | A, B |
| Mr. Yeung Yat Hang | A, B |
| Independent Non-Executive Directors | |
| Mr. Chu To Ki | A, B |
| Mr. Mak Wing Kit | A, B |
| Dr. Wong Yun Kuen | A, B |

- A: reading newspaper/journals and updates relating to retail industry, corporate governance and/or director's responsibilities
 B: attending technical seminars/conferences/workshops/forums
 C: attending postgraduate studies organised by tertiary educational institutions

During the year ended 31 March 2014, Mr. Li Kin Cheong, the company secretary of the Company (the "**Company Secretary**"), has also undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. However, the roles of the Chairman and the CEO are not separated and are performed by the same person. Mr. Wong Yui Lam (“**Mr. Wong**”) held and is currently holding both positions. As the founder of the Group, Mr. Wong has substantial experience in fashion industry and retail operations. The Board considers 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 a most efficient and effective manner. The Board believes 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 CEO.

BOARD MEETINGS

Board meetings are held regularly and at least four times a year at approximately quarterly intervals. For regular Board meetings, notices of at least 14 days together with respective agendas are given to facilitate maximum attendance of the Directors. At the meeting, the Directors are provided with the relevant documents to be considered and approved. Draft minutes of Board meeting are circulated to all the Directors for comments. Minutes of Board meetings are taken by the Company Secretary or a duly appointed secretary of the Board meeting and are open for inspection by any Director.

The table below sets out the attendance of each Director at the annual general meeting (the “**AGM**”) and the meetings of the Board and other Board committees held during the year under review:

| | AGM | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|--|-----|-------|-----------------|------------------------|----------------------|
| Executive Directors | | | | | |
| Mr. Wong Yui Lam (<i>Chairman and Chief Executive Officer</i>) | 1/1 | 10/10 | n/a | n/a | n/a |
| Madam Lee Yuk Ming | 1/1 | 10/10 | n/a | n/a | n/a |
| Mr. Yeung Yat Hang | 1/1 | 10/10 | n/a | n/a | n/a |
| Independent Non-Executive Directors | | | | | |
| Mr. Chu To Ki | 1/1 | 10/10 | 3/3 | 1/1 | 2/2 |
| Mr. Mak Wing Kit | 1/1 | 8/10 | 3/3 | 1/1 | 2/2 |
| Dr. Wong Yun Kuen | 1/1 | 10/10 | 3/3 | 1/1 | 2/2 |

BOARD COMMITTEES

The Board established three committees, namely the audit committee, the remuneration committee and the nomination committee, on 22 April 2005 with written terms of references in compliance with the CG Code. All those committees comprise three independent non-executive Directors, namely, Mr. Mak Wing Kit, Mr. Chu To Ki and Dr. Wong Yun Kuen, who have appropriate professional qualifications and experiences in accounting, legal affairs, financial and/or business management. Mr. Mak Wing Kit is the chairman of the audit committee and the remuneration committee; and Dr. Wong Yun Kuen is the chairman of the nomination committee. The committee members may call any meetings at any time when necessary or desirable.

BOARD COMMITTEES (Continued)**Audit Committee**

The primary duties of audit committee are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, to approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal; to review and monitor the integrity of the Group's financial information (including, but not limited to, the Group's consolidated financial statements, interim report and annual report, etc.); to oversee the Group's financial reporting system and internal control procedures; and to develop and review the Group's corporate governance functions delegated by the Board.

During the year under review, the audit committee reviewed the Group's consolidated financial statements, interim and annual reports, the accounting principles and practices adopted, internal control and financial reporting systems, and also plans and findings of annual audit from external auditors. In addition, the audit committee also reviewed the external auditors' independence, approved the external auditors' remuneration and terms of engagement and recommended the Board for re-appointment of the external auditors. For corporate governance, the audit committee reviewed the Group's compliance with the CG Code, including respective policies and practices, and disclosures in this Corporate Governance Report.

Remuneration Committee

The primary duties of remuneration committee are to make recommendations to the Board on the Group's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing such remuneration policy; to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

The primary goal of the remuneration policy with regard to the remuneration packages to the Directors, senior management and other employees of the Group is to enable the Group to retain and motivate them to meet corporate goals and to support continuous development of the Group by linking their remuneration with performance as measured against corporate objectives achieved. The remuneration package is determined by reference to individual's duties and responsibilities, experiences, qualifications, prevailing market conditions and both corporate and individual performance. Subject to the Group's profitability, the Group may also grant discretionary bonus and share options of the Company to its employees as an incentive for their contribution to the Group.

During the year under review, the remuneration committee reviewed and evaluated the Group's remuneration policy and structure for the executive Directors, their performance against corporate objectives and results achieved and terms of their service contracts. In addition, the remuneration committee has reviewed the remuneration packages of individual executive Directors and senior management of the Group and recommended the Board for approval. No Director was involved in deciding his/her own remuneration during the year under review.

The details of the remuneration to the Directors for the year under review are set out in the Note 8 to the consolidated financial statements on pages 37 to 83 of this Annual Report.

In addition, the details of the remuneration for the year ended 31 March 2014 to the senior management of the Group fell within the following bands:

| | Number of individuals |
|-------------------------------|----------------------------------|
| HK\$1,000,000 or below | 3 |
| HK\$1,000,001 – HK\$1,500,000 | 3 |
| HK\$1,500,001 – HK\$2,000,000 | 1 |

BOARD COMMITTEES (Continued)**Nomination Committee**

The primary duties of nomination committee are to review the structure, size and composition of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Group's corporate strategy and on the selection of individuals nominated for directorships as well as appointment or re-appointment of the Directors. The nomination committee is also responsible for making succession planning for the Directors, in particular the Chairman and the chief executive of the Company.

In compliance with a new CG Code provision A.5.6, the Board has adopted a board diversity policy with effect from 1 September 2013. The Company recognises and embraces the benefit of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. When determining the composition of the Board, board diversity will be considered from a number of factors, including but not limit to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The board diversity policy of the Company has been published on the Company's official website (www.bauhaus.com.hk) for public information.

During the year under review, the nomination committee reviewed the present structure, size and composition of the Board and was of view that no change was necessary. The nomination committee has also formulated a board diversity policy and recommended the Board for approval and adoption.

In addition, according to the articles of association of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Madam Lee Yuk Ming and Mr. Yeung Yat Hang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The nomination committee has reviewed the performance of Madam Lee Yuk Ming and Mr. Yeung Yat Hang and approved to recommend them to the Board for the re-election.

EXTERNAL AUDITORS AND AUDITORS REMUNERATION

The Group appointed Ernst & Young as the Group's principal auditors. The acknowledgement of their responsibilities on the financial statements are set out in the section of "Independent Auditors' Report" on page 36 of this Annual Report.

The fees paid or payable to Ernst & Young, and its affiliated firms, for services rendered in respect of the year ended 31 March 2014 are as follows:

| | Year ended 31 March 2014 HK\$'000 | Year ended 31 March 2013 HK\$'000 |
|--------------------|--|---|
| Audit services | 1,780 | 1,731 |
| Non-audit services | 294 | 537 |
| Total | 2,074 | 2,268 |

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flows of the Group for that year and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 March 2014, the Directors have selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose the financial position of the Group with reasonable accuracy at any time.

INTERNAL CONTROL

The Group maintained a structure with defined lines of responsibility and appropriate delegation of duties and authority to management. The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the audit committee. The Board requires management to establish and maintain sound and effective internal controls, which cover all material controls, including financial, operational and compliance and risk management functions. The Board conducted a review of effectiveness of the internal control system of the Group and also communicated regularly with the audit committee and the external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. 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 year under review.

COMMUNICATION WITH INVESTORS AND SHAREHOLDERS

To enhance transparency and effectively communicate with the investment community, the executive Directors maintain regular communications with various shareholders, potential investors, research analysts, fund managers and media.

The Board also welcomes the views of shareholders on matters affecting the Company and encourages them to attend shareholders' general meeting to communicate directly with the Board. External auditors and the chairman of each of the Board committee attend the general meeting and are available to answer shareholders enquiries. The important details and dates for shareholders during the year under review and in the coming financial year are set out in the section of "Information for Investors" on page 9 of this Annual Report.

In addition, annual/interim reports, announcements and press releases are posted on the website of the Stock Exchange at www.hkexnews.hk and/or the Company's official website at www.bauhaus.com.hk, which are constantly being updated in a timely manner and so contain additional information on the Group's business.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING (THE “EGM”)

The following procedures are subject to the memorandum and articles of association of the Company (as amended from time to time), and the applicable legislation and regulation, in particular the Listing Rules (as amended from time to time).

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the “**Eligible Shareholder(s)**”) shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.
- Eligible Shareholders who wish to convene an EGM must deposit a written requisition (the “**Requisition**”) signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at Room 501, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong, for the attention of the Company Secretary.
- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding, the reason(s) to convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned.
- The Requisition will be verified with the Company’s branch share registrar and upon their confirmation that the Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the articles of association of the Company to all the registered shareholders of the Company. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM.
- If within 21 days of the deposit of the Requisition, the Board fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS’ MEETINGS

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, pursuant to the articles of association of the Company, shareholders who wish to move a resolution may requisition the Company to convene an EGM following the procedures set out above.

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders may send their enquiries and concerns in writing to the Board of the Company by addressing them to the principal place of business of the Company in Hong Kong at Room 501, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong by post for the attention of the Company Secretary or by email to kingol@bauhaus.com.hk.

Upon receipt of the enquiries, the Company Secretary will forward:

1. communications relating to matters within the Board’s purview to the executive Directors;
2. communications relating to matters within a Board committee’s area of responsibility to the chairman of the appropriate committee of the Company; and
3. communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the appropriate management of the Group.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2014.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and management of the Group's operations. Details of the principal activities of the principal subsidiaries are set out in Note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2014 and the state of affairs of the Company and the Group at that date are set out on pages 37 to 83 of this Annual Report.

An interim dividend of HK1.5 cents per ordinary share was paid on 28 January 2014. The directors recommend the payment of a final dividend of HK14.0 cents per ordinary share in respect of the year to shareholders on the register of members on Friday, 22 August 2014. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company (the "AGM"), the proposed final dividend will be payable on or before Friday, 12 September 2014. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

CLOSURE OF REGISTER OF MEMBERS

The AGM is scheduled on Thursday, 14 August 2014. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 12 August 2014 to Thursday, 14 August 2014, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 11 August 2014.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the AGM. The record date for entitlement to the proposed final dividend is Friday, 22 August 2014. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 20 August 2014 to Friday, 22 August 2014, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Tuesday, 19 August 2014.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out on page 84 of this Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's issued share capital during the year are set out in Note 25 to the financial statements.

Details of movements in the Company's share options during the year are set out in Note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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 year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2014, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$298,115,000, of which an aggregate of HK\$51,073,000 has been proposed as final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$99,818,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$249,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2014, sales to the Group's five largest customers accounted for less than 30% of the total sales of the Group for the year. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 18% and 54%, respectively, of the Group's total purchases for the year. None of the directors or any of their associates or any shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) had beneficial interests in the Group's top five suppliers referred to above.

DIRECTORS

The directors of the Company during the year were:

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

In accordance with article 87 of the Company's articles of association, Madam Lee Yuk Ming and Mr. Yeung Yat Hang will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") from each of the independent non-executive directors and still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 20 to 21 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has renewed his/her service contract with the Company for a term of three years commencing from 1 May 2014. The service contracts will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other without payment of compensation. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the board of directors, be adjusted and they will each be entitled to a discretionary bonus provided that the total amount of bonuses payable to all the directors for such year shall not exceed HK\$5 million. Each of the executive directors will be entitled to all the reasonable out-of-pocket expenses and medical expenses, housing benefits and reimbursements, the use of a car and the fuel and maintenance (including insurance) expenses in respect of the car used by him/her.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' remuneration is recommended by the remuneration committee and is subject to approval by the board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2014, 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 of Hong Kong Limited (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 | 700,000 | 29,900,000 (note) | 180,000,000 (note) | | 210,600,000 | 57.73% |
| Madam Lee Yuk Ming | 250,000 | — | — | | 250,000 | 0.07% |
| Mr. Yeung Yat Hang | 4,148,000 | — | — | | 4,148,000 | 1.14% |

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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

(b) Long positions in share options of the Company

| Name of director | Number of options directly beneficially owned |
|--------------------|---|
| Madam Lee Yuk Ming | 550,000 |
| Mr. Yeung Yat Hang | 200,000 |
| | 750,000 |

(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 share of HK\$1 | 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 31 March 2014, 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 corporations 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 27 to the financial statements.

The following table discloses movements in the Company’s share options outstanding during the year:

| Name or category of participant | Number of share options | | | | At 31 March 2014 | Date of grant of share options ⁽ⁱ⁾ | Exercise period of share options | Exercise price of share options ⁽ⁱⁱ⁾ HK\$ per share |
|--|-------------------------|-------------------------|--|---------------------------|------------------|---|----------------------------------|---|
| | At 1 April 2013 | Granted during the year | Exercised during the year ⁽ⁱⁱⁱ⁾ | Forfeited during the year | | | | |
| Directors, chief executive and a substantial shareholder and their associates | | | | | | | | |
| Madam Lee Yuk Ming | 250,000 | – | (250,000) | – | – | 13 Jan 12 | 12 Jan 13 to 12 Jan 17 | 1.830 |
| | 250,000 | – | – | – | 250,000 | 13 Jan 12 | 12 Jan 14 to 12 Jan 17 | 1.830 |
| | 300,000 | – | – | – | 300,000 | 13 Jan 12 | 12 Jan 15 to 12 Jan 17 | 1.830 |
| | 800,000 | – | (250,000) | – | 550,000 | | | |
| Mr. Yeung Yat Hang | 200,000 | – | (200,000) | – | – | 13 Jan 12 | 12 Jan 13 to 12 Jan 17 | 1.830 |
| | 200,000 | – | (200,000) | – | – | 13 Jan 12 | 12 Jan 14 to 12 Jan 17 | 1.830 |
| | 200,000 | – | – | – | 200,000 | 13 Jan 12 | 12 Jan 15 to 12 Jan 17 | 1.830 |
| | 600,000 | – | (400,000) | – | 200,000 | | | |
| Other employees | | | | | | | | |
| In aggregate | 2,930,000 | – | (2,550,000) | (170,000) | 210,000 | 13 Jan 12 | 12 Jan 13 to 12 Jan 17 | 1.830 |
| | 2,930,000 | – | (2,160,000) | (250,000) | 520,000 | 13 Jan 12 | 12 Jan 14 to 12 Jan 17 | 1.830 |
| | 2,910,000 | – | – | (250,000) | 2,660,000 | 13 Jan 12 | 12 Jan 15 to 12 Jan 17 | 1.830 |
| | 8,770,000 | – | (4,710,000) | (670,000) | 3,390,000 | | | |
| | 10,170,000 | – | (5,360,000) | (670,000) | 4,140,000 | | | |

Notes to the table of share options outstanding during the year:

- (i) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (ii) 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.
- (iii) The weighted average closing prices of the shares of the Company immediately before the dates on which the share options were exercised, was HK\$2.62 per share.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any of the directors 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 31 March 2014, 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 | Position | Number of shares held, capacity and nature of interest | | | | Total number of ordinary shares held | Percentage of the Company's issued share capital |
|--|---------------|--|--------------------------------|--|-------------|--------------------------------------|--|
| | | Directly beneficially owned | Through controlled corporation | Through discretionary trust/as beneficiary or trustee of trust | | | |
| Huge Treasure (note 1) | Long position | 180,000,000 | – | – | 180,000,000 | 49.34% | |
| East Asia International Trustees Limited ("EAIT") (note 2) | Long position | – | – | 180,000,000 | 180,000,000 | 49.34% | |
| Wonder View (note 3) | Long position | 29,900,000 | – | – | 29,900,000 | 8.2% | |
| Great Elite Corporation ("Great Elite") (note 4) | Long position | 34,068,000 | – | – | 34,068,000 | 9.34% | |
| David Michael Webb (note 5) | Long position | 4,646,000 | 16,996,000 | – | 21,642,000 | 5.93% | |

Notes:

- 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.
- 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.
- 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.
- 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.
- 16,996,000 shares are held by Preferable Situation Assets Limited, which is incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mr. David Michael Webb.

Save as disclosed above, as at 31 March 2014, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" 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.

CONTINUING CONNECTED TRANSACTIONS

Details of the related party transactions of the Group during the year are set out in Note 32 to the financial statements and such related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules and save as disclosed below, there were no other transactions which need to be disclosed as continuing connected transactions in accordance with the requirements of the Listing Rules.

During the year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

The following continuing connected transactions are exempt from the independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules, and the respective amounts have not exceeded the relevant annual cap approved by the Stock Exchange as disclosed in the announcement dated 6 October 2011.

CONTINUING CONNECTED TRANSACTIONS (Continued)

Licence of software and provision of services

On 6 October 2011, the Group entered into an agreement with Netideas Limited (“**Netideas**”) and its associate company, 發順計算機服務(上海)有限公司 (“**發順**”), for the licence of software and the provision of services. Both Netideas and 發順 are 100% beneficially owned by Mr. Wong Yui Hong, a brother of Mr. Wong Yui Lam, an executive director of the Company, and accordingly, Mr. Wong Yui Hong is a connected person of the Company under the Listing Rules. Under the agreement, Netideas and 發順 grant to the Group the licence and right to use certain software and the documentation relating thereto for the management of the retail business of the Group. The agreement with Netideas is for a term of three years commencing from 1 October 2011 and ending on 30 September 2014.

For the year ended 31 March 2014, the amount paid by the Group to 發順 for the provision of services was HK\$51,000.

Sourcing of equipment

Under the same agreement with Netideas, Netideas and its associate company, 發順 shall source and sell to the Group the computer equipment with the relevant hardware at prices no less favourable than the market prices of the equipment for the purpose of replacement, for upgrading the system, or for the expansion and development of the Group. This computer equipment and hardware will be used in the Group's retail stores, warehouses and offices.

For the year ended 31 March 2014, the amounts paid by the Group for the sourcing of equipment to Netideas and 發順 were HK\$44,000 and HK\$13,000, respectively, which amounted to an aggregate of HK\$57,000.

The independent non-executive directors have reviewed the above continuing connected transactions and confirmed that these continuing connected transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or on terms no less favourable to the Group than terms available from independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

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.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Wong Yui Lam
Chairman

Hong Kong
23 June 2014



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To the shareholders of
Bauhaus International (Holdings) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Bauhaus International (Holdings) Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages 37 to 83 of this Annual Report, which comprise the consolidated and company statements of financial position as at 31 March 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
Hong Kong
23 June 2014

37 Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 March 2014

| | Notes | 2014 HK\$'000 | 2013 HK\$'000 |
|--|-------|----------------------|------------------|
| REVENUE | 5 | 1,427,113 | 1,293,677 |
| Cost of sales | | (517,530) | (464,748) |
| GROSS PROFIT | | 909,583 | 828,929 |
| Other income and gains | 5 | 2,224 | 14,995 |
| Compensation received for early termination of tenancies | | – | 21,700 |
| Selling and distribution expenses | | (650,137) | (607,942) |
| Administrative expenses | | (106,639) | (115,463) |
| Other expenses | | (5,157) | (11,438) |
| Finance costs | 7 | (789) | (1,400) |
| PROFIT BEFORE TAX | 6 | 149,085 | 129,381 |
| Income tax expense | 10 | (23,966) | (30,126) |
| PROFIT FOR THE YEAR | | | |
| ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | 11 | 125,119 | 99,255 |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Currency translation differences | | 779 | 1,482 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | | |
| ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | 125,898 | 100,737 |
| EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | | |
| Basic | 13 | 34.6 HK cents | 27.6 HK cents |
| Diluted | | 34.6 HK cents | 27.6 HK cents |

Details of the dividends payable and proposed for the year are disclosed in Note 12 to the financial statements.

31 March 2014

| | Notes | 2014 HK\$'000 | 2013 HK\$'000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | 145,309 | 126,968 |
| Intangible assets | 15 | 1,203 | 1,381 |
| Rental, utility and other non-current deposits | | 80,273 | 63,264 |
| Deferred tax assets | 17 | 23,886 | 18,487 |
| Total non-current assets | | 250,671 | 210,100 |
| CURRENT ASSETS | | | |
| Inventories | 18 | 268,427 | 259,637 |
| Trade receivables | 19 | 41,482 | 57,690 |
| Prepayments, deposits and other receivables | 20 | 26,769 | 32,215 |
| Tax recoverable | | 4,967 | 1,622 |
| Cash and cash equivalents | 21 | 260,221 | 197,876 |
| Total current assets | | 601,866 | 549,040 |
| CURRENT LIABILITIES | | | |
| Trade payables | 22 | 38,754 | 23,263 |
| Other payables and accruals | 23 | 106,942 | 84,051 |
| Interest-bearing bank borrowings | 24 | – | 42,299 |
| Tax payable | | 9,174 | 11,410 |
| Total current liabilities | | 154,870 | 161,023 |
| NET CURRENT ASSETS | | 446,996 | 388,017 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 697,667 | 598,117 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 17 | 6,288 | 1,750 |
| NET ASSETS | | 691,379 | 596,367 |
| EQUITY | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued capital | 25 | 36,481 | 35,945 |
| Reserves | 27(a) | 603,825 | 524,117 |
| Proposed dividend | 12 | 51,073 | 36,305 |
| TOTAL EQUITY | | 691,379 | 596,367 |

Wong Yui Lam
Chairman, CEO & Executive Director

Lee Yuk Ming
Executive Director

39 Consolidated Statement of Changes in Equity

Year ended 31 March 2014

| | Notes | Issued capital HK\$'000 | Share premium account HK\$'000 | Contributed surplus HK\$'000 (Note 27(a)) | Share option reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Reserve funds HK\$'000 (Note 27(a)) | Proposed dividends HK\$'000 | Retained profits HK\$'000 | Total equity HK\$'000 |
|--|--------|----------------------------|-----------------------------------|---|----------------------------------|--|---|--------------------------------|------------------------------|--------------------------|
| At 1 April 2012 | | 35,945 | 87,875 | 744 | 6,091 | 23,566 | 9,835 | 23,364 | 329,561 | 516,981 |
| Final 2012 dividend declared | | - | - | - | - | - | - | (23,364) | - | (23,364) |
| Total comprehensive income for the year | | - | - | - | - | 1,482 | - | - | 99,255 | 100,737 |
| Transfer to reserve funds | | - | - | - | - | - | 281 | - | (281) | - |
| Equity-settled share option arrangements | 26 | - | - | - | 5,607 | - | - | - | - | 5,607 |
| Interim 2013 dividend | 12 | - | - | - | - | - | - | - | (3,594) | (3,594) |
| Proposed final 2013 dividend | 12 | - | - | - | - | - | - | 36,305 | (36,305) | - |
| At 31 March 2013 and 1 April 2013 | | 35,945 | 87,875* | 744* | 11,698* | 25,048* | 10,116* | 36,305 | 388,636* | 596,367 |
| Issue of shares by exercise of share options | 25, 26 | 536 | 11,943 | - | (2,670) | - | - | - | - | 9,809 |
| Final 2013 dividend declared | | - | - | - | - | - | - | (36,305) | - | (36,305) |
| Total comprehensive income for the year | | - | - | - | - | 779 | - | - | 125,119 | 125,898 |
| Equity-settled share option arrangements | 26 | - | - | - | 1,047 | - | - | - | - | 1,047 |
| Interim 2014 dividend | 12 | - | - | - | - | - | - | - | (5,437) | (5,437) |
| Proposed final 2014 dividend | 12 | - | - | - | - | - | - | 51,073 | (51,073) | - |
| At 31 March 2014 | | 36,481 | 99,818* | 744* | 10,075* | 25,827* | 10,116* | 51,073 | 457,245* | 691,379 |

* These reserve accounts comprise the consolidated reserves of HK\$603,825,000 (2013: HK\$524,117,000) in the consolidated statement of financial position.

40 Consolidated Statement of Cash Flows

Year ended 31 March 2014

| | Notes | 2014 HK\$'000 | 2013 HK\$'000 |
|--|-------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 149,085 | 129,381 |
| Adjustments for: | | | |
| Finance costs | 7 | 789 | 1,400 |
| Bank interest income | 5 | (346) | (199) |
| Depreciation | 6 | 35,382 | 40,289 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | 6 | 2,681 | (11,313) |
| Write-off of rental deposits | 6 | 1,317 | 3,078 |
| Disposal of trademarks | 6 | 58 | – |
| Amortisation of intangible assets | 6 | 308 | 330 |
| Provision/(write-back of provision) for slow-moving inventories, net | 6 | (9,059) | 17,751 |
| Provision for doubtful debts | 6 | 7 | – |
| Write-off of bad debts | 6 | 16 | – |
| Equity-settled share option expense | 26 | 1,047 | 5,607 |
| Impairment of items of property, plant and equipment | 6 | 427 | 6,080 |
| | | 181,712 | 192,404 |
| Decrease/(increase) in rental, utility and other non-current deposits | | (18,326) | 11,730 |
| Decrease/(increase) in inventories | | 269 | (7,939) |
| Decrease/(increase) in trade receivables | | 16,185 | (29,037) |
| Decrease/(increase) in prepayments, deposits and other receivables | | 5,446 | (2,159) |
| Increase/(decrease) in trade payables | | 15,491 | (1,346) |
| Increase/(decrease) in other payables and accruals | | 22,891 | (18,251) |
| Cash generated from operations | | 223,668 | 145,402 |
| Interest received | | 346 | 199 |
| Interest paid | | (789) | (1,400) |
| Hong Kong profits tax paid | | (22,238) | (16,565) |
| Overseas taxes paid | | (8,170) | (12,336) |
| Net cash flows from operating activities | | 192,817 | 115,300 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | 14 | (56,945) | (33,780) |
| Proceeds from disposal of items of property, plant and equipment | | 90 | 59,531 |
| Additions to intangible assets | 15 | (188) | (146) |
| Redemption of held-to-maturity debt securities | | – | 920 |
| Net cash flows from/(used in) investing activities | | (57,043) | 26,525 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | 25 | 9,809 | – |
| New bank loans | | 34,711 | 46,888 |
| Repayment of bank loans | | (77,010) | (51,347) |
| Dividends paid | | (41,742) | (26,958) |
| Net cash flows used in financing activities | | (74,232) | (31,417) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 61,542 | 110,408 |
| Cash and cash equivalents at beginning of year | | 197,876 | 86,167 |
| Effect of foreign exchange rate changes, net | | 803 | 1,301 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 260,221 | 197,876 |
| ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 21 | 260,221 | 197,876 |

41 Statement of Financial Position of the Company

31 March 2014

| | Notes | 2014 HK\$'000 | 2013 HK\$'000 |
|-----------------------------|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Investments in subsidiaries | 16 | 156,376 | 155,329 |
| CURRENT ASSETS | | | |
| Due from subsidiaries | 16 | 283,524 | 256,825 |
| Prepayments | 20 | 144 | 144 |
| Cash and cash equivalents | 21 | 4,468 | 311 |
| Total current assets | | 288,136 | 257,280 |
| CURRENT LIABILITIES | | | |
| Other payables | 23 | 23 | 14 |
| NET CURRENT ASSETS | | 288,113 | 257,266 |
| NET ASSETS | | 444,489 | 412,595 |
| EQUITY | | | |
| Issued capital | 25 | 36,481 | 35,945 |
| Reserves | 27(b) | 356,935 | 340,345 |
| Proposed dividend | 12 | 51,073 | 36,305 |
| TOTAL EQUITY | | 444,489 | 412,595 |

Wong Yui Lam
Chairman, CEO & Executive Director

Lee Yuk Ming
Executive Director

1. CORPORATE INFORMATION

Bauhaus International (Holdings) Limited is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Room 501, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong.

During the year, the Group was engaged in the manufacture and trading of garments and accessories.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Huge Treasure Investments Limited, which is incorporated in the British Virgin Islands.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 March 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|--|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> |
| HKFRS 7 Amendments | Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> |
| HKFRS 10 | <i>Consolidated Financial Statements</i> |
| HKFRS 11 | <i>Joint Arrangements</i> |
| HKFRS 12 | <i>Disclosure of Interests in Other Entities</i> |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – <i>Transition Guidance</i> |
| HKFRS 13 | <i>Fair Value Measurement</i> |
| HKAS 1 Amendments | Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> |
| HKAS 19 (2011) | <i>Employee Benefits</i> |
| HKAS 27 (2011) | <i>Separate Financial Statements</i> |
| HKAS 28 (2011) | <i>Investments in Associates and Joint Ventures</i> |
| HK(IFRIC)-Int 20 | <i>Stripping Costs in the Production Phase of a Surface Mine</i> |
| Annual Improvements 2009-2011 Cycle | Amendments to a number of HKFRSs issued in June 2012 |

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|--|---|
| HKFRS 9 | <i>Financial Instruments</i> ⁴ |
| HKFRS 9, HKFRS 7 and HKAS 39 Amendments | <i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> ⁴ |
| HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments | Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) <i>Investment Entities</i> ¹ |
| HKFRS 11 Amendments | Amendments to HKFRS 11 <i>Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations</i> ³ |
| HKFRS 14 | <i>Regulatory Deferral Accounts</i> ³ |
| HKAS 16 and HKAS 38 Amendments | Amendments to HKAS 16 <i>Property, Plant and Equipment</i> and HKAS 38 <i>Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation</i> ³ |
| HKAS 19 Amendments | Amendments to HKAS 19 <i>Employee Benefits – Defined Benefit Plans: Employee Contributions</i> ² |
| HKAS 32 Amendments | Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ¹ |
| HKAS 36 Amendments | Amendments to HKAS 36 <i>Impairment of Assets – Recoverable Amount Disclosures of Non-Financial Assets</i> ¹ |
| HKAS 39 Amendments | Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i> ¹ |
| HK(IFRIC)-Int 21 | <i>Levies</i> ¹ |
| Annual Improvements 2010-2012 Cycle | Amendments to a number of HKFRSs issued in January 2014 ² |
| Annual Improvements 2011-2013 Cycle | Amendments to a number of HKFRSs issued in January 2014 ² |

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

- ¹ Effective for annual periods beginning on or after 1 January 2014
- ² Effective for annual periods beginning on or after 1 July 2014
- ³ Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
- ⁴ No mandatory effective date yet determined but is available for adoption

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Property, plant and equipment and depreciation** *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|-------------------------------------|----------------------|
| Leasehold land under finance leases | Over the lease terms |
| Buildings | 2% |
| Leasehold improvements | Over the lease terms |
| Plant and machinery | 9% to 25% |
| Computer equipment | 20% to 30% |
| Furniture, fixtures and equipment | 18% to 25% |
| Motor vehicles | 30% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks with definite useful lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their useful lives of 5 to 20 years.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to profit or loss on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their reclassification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost *(Continued)*

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Loans and borrowings *(Continued)*

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (c) compensation income when the right to receive the payment has been established.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (the "equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes-Merton pricing model, further details of which are given in Note 26 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes and other retirement benefits

The Group's subsidiaries incorporated in Hong Kong operate defined contribution Mandatory Provident Fund retirement benefit schemes (the "MPF Schemes") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Schemes. The assets of the MPF Schemes are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes.

The Group's subsidiaries established in Mainland China participate in defined contribution retirement plans managed by the local municipal government of the region where they operate. The relevant authorities of the local municipal government in the People's Republic of China (the "PRC") undertake the retirement obligations of the Group's employees. The Group has no obligation for the payment of retirement benefits beyond the monthly contributions. The contribution payable is charged as an expense to profit or loss as and when incurred.

According to the existing relevant regulations in Taiwan, a subsidiary of the Group incorporated in Taiwan is required to participate in the retirement plan or scheme operated by the government of Taiwan (the "Taiwan Scheme") for the provision of pension benefits to its employees. This Taiwan subsidiary is required to contribute a certain percentage of its payroll costs to the Taiwan Scheme to fund the benefits. Contributions under the Taiwan Scheme are charged to profit or loss as they become payable in accordance with the rules of the Taiwan Scheme, and the outstanding payment of the contribution is reflected on the statement of financial position.

The subsidiaries of the Group incorporated in Macau make monthly contributions to the social security fund managed by the relevant authority of the local government, which undertake the retirement obligations of the Group's employees. The Group has no obligation for payment of retirement benefits beyond the monthly contributions. The contribution payable is charged as an expense to profit or loss as and when incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the memorandum and articles of association of the Company grant the directors the authority to declare such dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their other comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has not made any significant judgement, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of useful lives of items of property, plant and equipment

Management estimates the useful lives of items of property, plant and equipment when acquired based on the period over which the items of property, plant and equipment are expected to be available for use to the Group. The useful lives of items of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of the reporting period. The carrying value of property, plant and equipment at 31 March 2014 was HK\$145,309,000 (2013: HK\$126,968,000). Further details are included in Note 14 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)***Estimation uncertainty** *(Continued)***Impairment test of items of property, plant and equipment**

Management estimates the recoverable amount of items of property, plant and equipment when an indication of impairment exists. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. The carrying value of property, plant and equipment at 31 March 2014 was HK\$145,309,000 (2013: HK\$126,968,000). Further details are included in Note 14 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 March 2014 was HK\$8,515,000 (2013: HK\$28,000). The amount of unrecognised tax losses at 31 March 2014 was HK\$127,901,000 (2013: HK\$141,194,000). Further details are included in Note 17 to the financial statements.

Provision for inventories

Management reviews an aging analysis at the end of each reporting period, and makes provision for obsolete items when events or change in circumstances show that the balance of inventories may not be realisable or are no longer suitable for production use. The Group carries out an inventory review at the end of each reporting period and makes provision for obsolete items. The carrying value of inventories at 31 March 2014 was HK\$268,427,000 (2013: HK\$259,637,000). Further details of which are included in Note 18 to the financial statements.

Impairment of trade receivables

The Group maintains an allowance for estimated losses arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers is to deteriorate so that the actual impairment losses might be higher than expected, the Group will be required to revise the basis of making the allowance, and its future results would be affected. The carrying value of trade receivables at 31 March 2014 was HK\$41,482,000 (2013: HK\$57,690,000). Further details are included in Note 19 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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, unallocated gains, finance costs and unallocated expenses are excluded from this measurement.

Segment assets exclude deferred tax assets, tax recoverable and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, tax payable, interest-bearing bank borrowings and unallocated liabilities as these liabilities are 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 then prevailing market prices.

31 March 2014

4. OPERATING SEGMENT INFORMATION (Continued)

| | Hong Kong and Macau HK\$'000 | Mainland China HK\$'000 | Taiwan HK\$'000 | Elsewhere HK\$'000 | Total HK\$'000 |
|--|------------------------------------|-------------------------------|--------------------|-----------------------|-------------------|
| Year ended 31 March 2014 | | | | | |
| Segment revenue: | | | | | |
| Sales to external customers | 1,001,829 | 135,096 | 270,858 | 19,330 | 1,427,113 |
| Intersegment sales | 6,846 | 4,947 | 130,802 | 2,174 | 144,769 |
| | 1,008,675 | 140,043 | 401,660 | 21,504 | 1,571,882 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment sales | | | | | (144,769) |
| Revenue | | | | | 1,427,113 |
| Segment results: | | | | | |
| | 191,015 | (4,335) | 7,629 | 4,834 | 199,143 |
| <i>Reconciliation:</i> | | | | | |
| Interest income | | | | | 346 |
| Finance costs | | | | | (789) |
| Unallocated expenses | | | | | (49,615) |
| Profit before tax | | | | | 149,085 |
| Segment assets: | | | | | |
| | 379,673 | 119,227 | 118,593 | 6,721 | 624,214 |
| <i>Reconciliation:</i> | | | | | |
| Deferred tax assets | | | | | 23,886 |
| Tax recoverable | | | | | 4,967 |
| Unallocated assets | | | | | 199,470 |
| Total assets | | | | | 852,537 |
| Segment liabilities: | | | | | |
| | 95,687 | 25,213 | 11,396 | 697 | 132,993 |
| <i>Reconciliation:</i> | | | | | |
| Deferred tax liabilities | | | | | 6,288 |
| Tax payable | | | | | 9,174 |
| Unallocated liabilities | | | | | 12,703 |
| Total liabilities | | | | | 161,158 |
| Other segment information: | | | | | |
| Capital expenditure * | 40,702 | 3,973 | 10,090 | 65 | 54,830 |
| Unallocated capital expenditure * | | | | | 2,303 |
| | | | | | 57,133 |
| Depreciation | 17,743 | 5,430 | 6,252 | - | 29,425 |
| Amortisation of intangible assets | 65 | 35 | 42 | 166 | 308 |
| Unallocated depreciation | | | | | 5,957 |
| | | | | | 35,690 |
| Loss on disposal of items of property, plant and equipment | 1,507 | 334 | 283 | - | 2,124 |
| Unallocated loss on disposal of items of property, plant and equipment, net | | | | | 557 |
| | | | | | 2,681 |
| Write-off of rental deposits | - | 1,317 | - | - | 1,317 |
| Impairment of items of property, plant and equipment | 427 | - | - | - | 427 |

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

4. OPERATING SEGMENT INFORMATION (Continued)

| | Hong Kong and Macau HK\$'000 | Mainland China HK\$'000 | Taiwan HK\$'000 | Elsewhere HK\$'000 | Total HK\$'000 |
|--|------------------------------------|-------------------------------|--------------------|-----------------------|-------------------|
| Year ended 31 March 2013 | | | | | |
| Segment revenue: | | | | | |
| Sales to external customers | 880,066 | 152,383 | 222,279 | 38,949 | 1,293,677 |
| Intersegment sales | 7,094 | 7,588 | 115,835 | 2,292 | 132,809 |
| | 887,160 | 159,971 | 338,114 | 41,241 | 1,426,486 |
| <i>Reconciliation:</i> | | | | | |
| Elimination of intersegment sales | | | | | (132,809) |
| Revenue | | | | | 1,293,677 |
| Segment results: | | | | | |
| | 177,817 | (21,981) | (1,608) | 11,744 | 165,972 |
| <i>Reconciliation:</i> | | | | | |
| Interest income | | | | | 199 |
| Unallocated gains, net | | | | | 16,331 |
| Finance costs | | | | | (1,400) |
| Unallocated expenses | | | | | (51,721) |
| Profit before tax | | | | | 129,381 |
| Segment assets: | | | | | |
| | 297,873 | 107,907 | 104,940 | 7,518 | 518,238 |
| <i>Reconciliation:</i> | | | | | |
| Deferred tax assets | | | | | 18,487 |
| Tax recoverable | | | | | 1,622 |
| Unallocated assets | | | | | 220,793 |
| Total assets | | | | | 759,140 |
| Segment liabilities: | | | | | |
| | 51,012 | 32,410 | 10,498 | 587 | 94,507 |
| <i>Reconciliation:</i> | | | | | |
| Deferred tax liabilities | | | | | 1,750 |
| Interest-bearing bank borrowings | | | | | 42,299 |
| Tax payable | | | | | 11,410 |
| Unallocated liabilities | | | | | 12,807 |
| Total liabilities | | | | | 162,773 |
| Other segment information: | | | | | |
| Capital expenditure * | 18,603 | 6,771 | 5,274 | 96 | 30,744 |
| Unallocated capital expenditure * | | | | | 3,182 |
| | | | | | 33,926 |
| Depreciation | 14,691 | 8,946 | 10,603 | – | 34,240 |
| Amortisation of intangible assets | 73 | 38 | 40 | 179 | 330 |
| Unallocated depreciation | | | | | 6,049 |
| | | | | | 40,619 |
| Loss on disposal of items of property, plant and equipment | 1,668 | 3,229 | 121 | – | 5,018 |
| Unallocated gain on disposal of items of property, plant and equipment, net | | | | | (16,331) |
| | | | | | (11,313) |
| Compensation received for early termination of tenancies | (21,700) | – | – | – | (21,700) |
| Write-off of rental deposits | – | 3,078 | – | – | 3,078 |
| Impairment of items of property, plant and equipment | 3,492 | 2,588 | – | – | 6,080 |

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

4. OPERATING SEGMENT INFORMATION (Continued)**Geographical information****Non-current assets**

| | Group | |
|---------------------|-----------------|----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Hong Kong and Macau | 108,815 | 69,951 |
| Mainland China | 16,077 | 19,122 |
| Taiwan | 14,500 | 10,461 |
| Elsewhere | 678 | 902 |
| | 140,070 | 100,436 |

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and certain unallocated non-current assets managed on a group basis.

Information about major customers

Since none of the Group's sales to a single customer amounts to 10% or more of the Group's revenue during the year, no major customer information is presented.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and sales tax during the year.

An analysis of revenue, other income and gains is as follows:

| | Group | |
|---|------------------|-----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Revenue | | |
| Sale of garment products and accessories | 1,427,113 | 1,293,677 |
| Other income | | |
| Bank interest income | 346 | 199 |
| Others | 1,878 | 1,843 |
| | 2,224 | 2,042 |
| Gains | | |
| Gain on disposal of items of property, plant and equipment, net | – | 11,313 |
| Foreign exchange differences, net | – | 1,640 |
| | – | 12,953 |
| | 2,224 | 14,995 |

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | | Group | |
|---|-------|--------------------------------|------------------|
| | Notes | 2014 HK\$'000 | 2013 HK\$'000 |
| Cost of inventories sold | | 526,589 | 446,997 |
| Depreciation | 14 | 35,382 | 40,289 |
| Provision/(write-back of provision) for slow-moving inventories, net, included in cost of sales | | (9,059) | 17,751 |
| Rental expenses under operating leases in respect of land and buildings: | | | |
| Minimum lease payments | | 235,398 | 238,017 |
| Contingent rents | | 87,646 | 73,479 |
| | | 323,044 | 311,496 |
| Rental expenses under operating leases in respect of equipment: | | | |
| Minimum lease payments | | 617 | 657 |
| Contingent rents | | 15 | 132 |
| | | 632 | 789 |
| Auditors' remuneration | | 2,119 | 2,017 |
| Employee benefit expenses (including executive directors' remuneration (Note 8)): | | | |
| Wages, salaries and other benefits | | 209,501 | 208,634 |
| Equity-settled share option expense | | 1,047 | 5,607 |
| Pension scheme contributions* | | 10,714 | 12,000 |
| | | 221,262 | 226,241 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | | 2,681 | (11,313) |
| Amortisation of intangible assets | 15 | 308 | 330 |
| Write-off of rental deposits | | 1,317 | 3,078 |
| Disposal of trademarks | 15 | 58 | – |
| Provision for doubtful debts | | 7 | – |
| Write-off of bad debts | | 16 | – |
| Foreign exchange differences, net | | 20 | – |
| Impairment of items of property, plant and equipment | 14 | 427 | 6,080 |
| Compensation received for early termination of tenancies | | – | (21,700) |

* At the end of the reporting period, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2013: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Group | |
|---|-----------------|----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Interest on bank loans wholly repayable within five years | 789 | 1,400 |

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|-----------------|----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Fees | 396 | 396 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 3,788 | 4,210 |
| Performance-related bonuses* | 2,530 | 470 |
| Equity-settled share option expense | 177 | 369 |
| Pension scheme contributions | 45 | 45 |
| | 6,540 | 5,094 |
| | 6,936 | 5,490 |

* Certain executive directors of the Company are entitled to bonus payments which are determined based on the operating results of the Group.

On 13 January 2012, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in Note 26 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year are as follows:

| | 2014 | 2013 |
|-------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Mr. Chu To Ki | 132 | 132 |
| Mr. Mak Wing Kit | 132 | 132 |
| Dr. Wong Yun Kuen | 132 | 132 |
| | 396 | 396 |

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

8. DIRECTORS' REMUNERATION (Continued)**(b) Executive directors**

| | Fees HK\$'000 | Salaries, allowances and benefits in kind HK\$'000 | Performance- related bonuses HK\$'000 | Equity-settled share option expense HK\$'000 | Pension scheme contributions HK\$'000 | Total remuneration HK\$'000 |
|--------------------|------------------|--|--|---|--|-----------------------------------|
| 2014 | | | | | | |
| Mr. Wong Yui Lam | – | 1,300 | 1,000 | – | 15 | 2,315 |
| Madam Lee Yuk Ming | – | 1,318 | 1,080 | 102 | 15 | 2,515 |
| Mr. Yeung Yat Hang | – | 1,170 | 450 | 75 | 15 | 1,710 |
| | – | 3,788 | 2,530 | 177 | 45 | 6,540 |
| 2013 | | | | | | |
| Mr. Wong Yui Lam | – | 1,400 | 200 | – | 15 | 1,615 |
| Madam Lee Yuk Ming | – | 1,434 | 180 | 209 | 15 | 1,838 |
| Mr. Yeung Yat Hang | – | 1,376 | 90 | 160 | 15 | 1,641 |
| | – | 4,210 | 470 | 369 | 45 | 5,094 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2013: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2013: three) executive directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining two (2013: two) non-director, highest paid employees for the year are as follows:

| | Group | |
|---|------------------|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 |
| Salaries, allowances and benefits in kind | 2,228 | 2,267 |
| Performance-related bonuses | 600 | 550 |
| Equity-settled share option expense | 180 | 382 |
| Pension scheme contributions | 30 | 29 |
| | 3,038 | 3,228 |

9. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|--------------------------------|---------------------|------|
| | 2014 | 2013 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | – |
| HK\$2,000,001 to HK\$2,500,000 | – | 1 |
| | 2 | 2 |

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

The PRC corporate income tax (“CIT”) is applicable to five (2013: five) subsidiaries located in Mainland China. All of these subsidiaries were subject to the applicable CIT rate of 25% (2013: 25%) during the year ended 31 March 2014.

For the subsidiaries in Macau, one of them (2013: one) was incorporated under the Macau Offshore Business Law and exempted from the Macau complementary tax pursuant to the Macau Special Administrative Region’s offshore law.

| | Group | |
|---|------------------|------------------|
| | 2014 HK\$’000 | 2013 HK\$’000 |
| Current tax – Hong Kong | | |
| Provision for the year | 19,903 | 19,123 |
| Overprovision in prior years | (1,102) | (1,099) |
| Current tax – PRC | | |
| Provision for the year | 2,124 | 4,632 |
| Overprovision in prior years | – | (14) |
| Current tax – Elsewhere | | |
| Provision for the year | 3,434 | 5,776 |
| Underprovision/(overprovision) in prior years | 447 | (242) |
| Deferred tax charge/(credit) (Note 17) | (840) | 1,950 |
| Total tax charge for the year | 23,966 | 30,126 |

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10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the applicable rates for the countries/ jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group**2014**

| | Hong Kong | | PRC | | Elsewhere | | Total | |
|---|----------------|--------------|-----------------|---------------|----------------|--------------|-----------------|--------------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Profit before tax | 112,930 | | 17,575 | | 18,580 | | 149,085 | |
| Tax at the statutory tax rate | 18,633 | 16.5 | 4,394 | 25.0 | 1,123 | 6.0 | 24,150 | 16.2 |
| Lower tax rate for specific provinces or enacted by local authority | - | - | - | - | (32) | (0.2) | (32) | - |
| Adjustments in respect of current tax of previous periods | (1,102) | (1.0) | - | - | 447 | 2.4 | (655) | (0.4) |
| Adjustments in respect of deferred tax of previous periods | 1,349 | 1.2 | - | - | - | - | 1,349 | 0.9 |
| Income not subject to tax | (330) | (0.3) | - | - | (1,392) | (7.4) | (1,722) | (1.1) |
| Expenses not deductible for tax | 394 | 0.4 | 15 | 0.1 | 859 | 4.6 | 1,268 | 0.9 |
| Temporary differences not recognised | 100 | 0.1 | (645) | (3.7) | 23 | 0.1 | (522) | (0.4) |
| Tax losses not recognised | 722 | 0.6 | 6,842 | 39.0 | 2,787 | 15.0 | 10,351 | 6.9 |
| Tax losses recognised | (3) | - | (10,218) | (58.2) | - | - | (10,221) | (6.9) |
| | 19,763 | 17.5 | 388 | 2.2 | 3,815 | 20.5 | 23,966 | 16.1 |

2013

| | Hong Kong | | PRC | | Elsewhere | | Total | |
|---|-----------|-------|----------|--------|-----------|-------|----------|-------|
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Profit/(loss) before tax | 109,781 | | (10,291) | | 29,891 | | 129,381 | |
| Tax at the statutory tax rate | 18,114 | 16.5 | (2,573) | 25.0 | 2,077 | 6.9 | 17,618 | 13.6 |
| Lower tax rate for specific provinces or enacted by local authority | - | - | - | - | (32) | (0.1) | (32) | (0.0) |
| Adjustments in respect of current tax of previous periods | (1,099) | (1.0) | (14) | 0.1 | (242) | (0.8) | (1,355) | (1.1) |
| Income not subject to tax | (367) | (0.3) | (250) | 2.4 | (1,315) | (4.4) | (1,932) | (1.5) |
| Expenses not deductible for tax | 1,335 | 1.2 | 79 | (0.8) | 3 | - | 1,417 | 1.1 |
| Temporary differences not recognised | (900) | (0.8) | 1,139 | (11.0) | 1,145 | 3.8 | 1,384 | 1.1 |
| Tax losses not recognised | 1,066 | 1.0 | 8,750 | (85.0) | 3,603 | 12.1 | 13,419 | 10.4 |
| Tax losses utilised | (393) | (0.4) | - | - | - | - | (393) | (0.3) |
| | 17,756 | 16.2 | 7,131 | (69.3) | 5,239 | 17.5 | 30,126 | 23.3 |

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 March 2014 includes a profit of HK\$62,780,000 (2013: HK\$42,743,000) which has been dealt with in the financial statements of the Company (Note 27(b)).

12. DIVIDENDS

| | 2014 HK\$'000 | 2013 HK\$'000 |
|---|------------------|------------------|
| Interim – HK1.5 cents (2013: HK1.0 cent) per ordinary share | 5,437 | 3,594 |
| Proposed final – HK14.0 cents (2013: HK10.1 cents) per ordinary share | 51,073 | 36,305 |
| | 56,510 | 39,899 |

The proposed final dividend for the current year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of the parent of HK\$125,119,000 (2013: HK\$99,255,000) and the weighted average number of ordinary shares of 361,216,731 (2013: 359,450,000) in issue during the year.

The calculation of the diluted earnings per share amount was based on the profit for the year attributable to equity holders of the parent. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

| | 2014 HK\$'000 | 2013 HK\$'000 |
|---|------------------|------------------|
| Earnings | | |
| Profit attributable to equity holders of the parent, used in the basic earnings per share calculation | 125,119 | 99,255 |

| | Number of shares | |
|--|--------------------|-------------|
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 361,216,731 | 359,450,000 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | 321,270 | – |
| | 361,538,001 | 359,450,000 |

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14. PROPERTY, PLANT AND EQUIPMENT

Group

| | Land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Computer equipment HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---|-----------------------------------|---------------------------------------|------------------------------------|-----------------------------------|--|-------------------------------|-------------------|
| 31 March 2014 | | | | | | | |
| At 31 March 2013 and 1 April 2013: | | | | | | | |
| Cost | 85,652 | 114,450 | 6,050 | 17,174 | 35,733 | 2,916 | 261,975 |
| Accumulated depreciation and impairment | (6,182) | (89,128) | (3,897) | (12,503) | (20,948) | (2,349) | (135,007) |
| Net carrying amount | 79,470 | 25,322 | 2,153 | 4,671 | 14,785 | 567 | 126,968 |
| At 1 April 2013, net of accumulated depreciation and impairment | | | | | | | |
| | 79,470 | 25,322 | 2,153 | 4,671 | 14,785 | 567 | 126,968 |
| Additions | - | 43,926 | 140 | 2,684 | 9,026 | 1,169 | 56,945 |
| Depreciation provided during the year | (1,713) | (22,927) | (1,012) | (2,847) | (6,595) | (288) | (35,382) |
| Disposals | - | (859) | (487) | (36) | (1,345) | (44) | (2,771) |
| Impairment | - | (427) | - | - | - | - | (427) |
| Exchange realignment | - | (12) | 5 | 2 | (20) | 1 | (24) |
| At 31 March 2014, net of accumulated depreciation and impairment | | | | | | | |
| | 77,757 | 45,023 | 799 | 4,474 | 15,851 | 1,405 | 145,309 |
| At 31 March 2014: | | | | | | | |
| Cost | 85,652 | 132,589 | 4,072 | 19,120 | 39,169 | 3,998 | 284,600 |
| Accumulated depreciation and impairment | (7,895) | (87,566) | (3,273) | (14,646) | (23,318) | (2,593) | (139,291) |
| Net carrying amount | 77,757 | 45,023 | 799 | 4,474 | 15,851 | 1,405 | 145,309 |

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

| | Land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Computer equipment HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---|-----------------------------------|---------------------------------------|------------------------------------|-----------------------------------|--|-------------------------------|-------------------|
| 31 March 2013 | | | | | | | |
| At 1 April 2012: | | | | | | | |
| Cost | 129,907 | 125,021 | 6,397 | 18,422 | 39,454 | 2,849 | 322,050 |
| Accumulated depreciation and impairment | (5,544) | (87,275) | (3,853) | (11,845) | (23,312) | (2,552) | (134,381) |
| Net carrying amount | 124,363 | 37,746 | 2,544 | 6,577 | 16,142 | 297 | 187,669 |
| At 1 April 2012, net of accumulated depreciation and impairment | 124,363 | 37,746 | 2,544 | 6,577 | 16,142 | 297 | 187,669 |
| Additions | – | 25,576 | 338 | 1,065 | 6,233 | 568 | 33,780 |
| Depreciation provided during the year | (1,903) | (28,408) | (765) | (2,890) | (6,023) | (300) | (40,289) |
| Disposals | (42,990) | (3,559) | – | (103) | (1,566) | – | (48,218) |
| Impairment | – | (6,080) | – | – | – | – | (6,080) |
| Exchange realignment | – | 47 | 36 | 22 | (1) | 2 | 106 |
| At 31 March 2013, net of accumulated depreciation and impairment | 79,470 | 25,322 | 2,153 | 4,671 | 14,785 | 567 | 126,968 |
| At 31 March 2013: | | | | | | | |
| Cost | 85,652 | 114,450 | 6,050 | 17,174 | 35,733 | 2,916 | 261,975 |
| Accumulated depreciation and impairment | (6,182) | (89,128) | (3,897) | (12,503) | (20,948) | (2,349) | (135,007) |
| Net carrying amount | 79,470 | 25,322 | 2,153 | 4,671 | 14,785 | 567 | 126,968 |

At 31 March 2014, certain of the Group's land and buildings with an aggregate net book value of approximately HK\$64,752,000 (2013: HK\$66,154,000) were pledged to secure general banking facilities granted to the Group (Note 24(a)(i)). Both leasehold land and buildings are situated in Hong Kong and are held under medium term leases.

The Group's land and buildings included in property, plant and equipment with net carrying amounts of HK\$74,629,000 and HK\$3,128,000 (2013: HK\$76,269,000 and HK\$3,201,000) are situated in Hong Kong and Macau, respectively, and are held under medium term leases.

15. INTANGIBLE ASSETS**Trademarks**

| | Group | |
|---|-----------------|----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| At 1 April: | | |
| Cost | 4,301 | 4,327 |
| Accumulated amortisation and impairment | (2,920) | (2,762) |
| Net carrying amount | 1,381 | 1,565 |
| Cost at beginning of year, net of accumulated amortisation and impairment | 1,381 | 1,565 |
| Additions | 188 | 146 |
| Amortisation provided during the year (Note 6) | (308) | (330) |
| Disposal of trademarks | (58) | – |
| At 31 March | 1,203 | 1,381 |
| At 31 March: | | |
| Cost | 4,237 | 4,301 |
| Accumulated amortisation and impairment | (3,034) | (2,920) |
| Net carrying amount | 1,203 | 1,381 |

16. INTERESTS IN SUBSIDIARIES

| | Company | |
|--|-----------------|----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 143,631 | 143,631 |
| Capital contribution in respect of employee share-based compensation | 12,745 | 11,698 |
| | 156,376 | 155,329 |

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and repayable on demand.

16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|--|---|---|---|----------|--|
| | | | Direct | Indirect | |
| Bauhaus Investments (BVI) Limited* | British Virgin Islands | Ordinary US\$1,000 | 100 | – | Investment holding |
| Bauhaus Holdings Limited | Hong Kong | Non-voting deferred HK\$2 and ordinary HK\$2 | – | 100 | Trading of garments and accessories |
| Tough Jeans Limited | Hong Kong | Non-voting deferred HK\$5 and ordinary HK\$2 | – | 100 | Trading of garments and accessories |
| Bauhaus (China) Limited | Hong Kong | Ordinary HK\$1 | – | 100 | Investment holding and trading of garments and accessories |
| Bauhaus Property Limited | Hong Kong | Ordinary HK\$2 | – | 100 | Property holding |
| Sky Top Investment (Group) Limited | Hong Kong | Ordinary HK\$1 | – | 100 | Property holding |
| Bauhaus Management Limited | Hong Kong | Ordinary HK\$1,000,000 | – | 100 | Provision of management services |
| Bauhaus Retail (Macau) Limited* | Macau | Ordinary MOP25,000 | – | 100 | Trading of garments and accessories |
| Tough Jeans Macao Commercial Offshore Limited | Macau | Ordinary MOP100,000 | – | 100 | Trading of garments and accessories |
| 包豪氏企業有限公司 | Taiwan | NT\$500,000 | – | 100 | Trading of garments and accessories |
| 強韌貿易(深圳)有限公司 [#] | PRC/Mainland China | HK\$12,000,000 | – | 100 | Trading of garments and accessories |
| 強韌貿易(上海)有限公司 [#] | PRC/Mainland China | HK\$8,000,000 | – | 100 | Trading of garments and accessories |
| 包浩斯貿易(北京)有限公司 [#] | PRC/Mainland China | HK\$2,000,000 | – | 100 | Trading of garments and accessories |
| 包浩斯貿易(廣州)有限公司 [#] | PRC/Mainland China | HK\$2,000,000 | – | 100 | Trading of garments and accessories |
| 汕頭市包浩斯服飾製品有限公司 [#] | PRC/Mainland China | RMB20,000,000 | – | 100 | Manufacture of garments and accessories |

* The statutory financial statements of these subsidiaries were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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17. DEFERRED TAX**Group****Deferred tax assets**

| | Decelerated tax depreciation HK\$'000 | Losses available for offsetting against future taxable profits HK\$'000 | Provision for unrealised profit on inventories HK\$'000 | Withholding taxes HK\$'000 | Other provisions HK\$'000 | Total HK\$'000 |
|---|--|---|--|----------------------------------|---------------------------------|-------------------|
| At 1 April 2012 | 3,830 | 39 | 13,210 | (6,100) | 9,498 | 20,477 |
| Deferred tax credited/(charged) to profit or loss during the year* | (30) | (11) | (1,095) | (1,100) | 171 | (2,065) |
| Exchange realignment | – | – | – | – | 75 | 75 |
| At 31 March 2013 and 1 April 2013 | 3,800 | 28 | 12,115 | (7,200) | 9,744 | 18,487 |
| Deferred tax credited/(charged) to profit or loss during the year* | (300) | 8,487 | (4,275) | 6,980 | (5,510) | 5,382 |
| Exchange realignment | – | – | – | – | 17 | 17 |
| At 31 March 2014 | 3,500 | 8,515 | 7,840 | (220) | 4,251 | 23,886 |

Deferred tax liabilities

| | Accelerated tax depreciation HK\$'000 | Provision for unrealised profit on inventories HK\$'000 | Withholding taxes HK\$'000 | Other provisions HK\$'000 | Total HK\$'000 |
|---|--|---|----------------------------------|---------------------------------|-------------------|
| At 1 April 2012 | 1,865 | – | – | – | 1,865 |
| Deferred tax credited to profit or loss during the year* | (115) | – | – | – | (115) |
| Exchange realignment | – | – | – | – | – |
| At 31 March 2013 and 1 April 2013 | 1,750 | – | – | – | 1,750 |
| Deferred tax charged/(credited) to profit or loss during the year* | (340) | (1,118) | 6,280 | (280) | 4,542 |
| Exchange realignment | – | – | – | (4) | (4) |
| At 31 March 2014 | 1,410 | (1,118) | 6,280 | (284) | 6,288 |

* The total deferred tax charged to profit or loss during the year amounted to HK\$7,660,000 (2013: HK\$1,950,000) (Note 10).

17. DEFERRED TAX *(Continued)*

At the end of the reporting period, the Group had tax losses arising in Hong Kong of HK\$28,031,000 (2013: HK\$23,972,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also had tax losses arising in Mainland China of HK\$96,369,000 (2013: HK\$96,197,000) that will expire in two to five years and losses arising in Taiwan of HK\$37,591,000 (2013: HK\$21,195,000) that will expire in ten years for offsetting against future taxable profits, respectively. Deferred tax assets have been recognised for tax losses arising in Hong Kong and Mainland China of approximately HK\$90,000 (2013: HK\$170,000) and approximately HK\$34,000,000 (2013: Nil) respectively. Deferred tax assets have not been recognised in respect of the remaining tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings generated after 31 December 2007.

A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 March 2014, deferred tax liabilities have not been provided in respect of certain of the unremitted retained earnings of the Group's subsidiaries after 1 January 2008 amounting to HK\$73,866,000 (2013: HK\$86,098,000) as the payment of dividend is not considered probable.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

18. INVENTORIES

| | Group | |
|------------------|-----------------|----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 4,092 | 7,309 |
| Work in progress | 1,490 | 1,641 |
| Finished goods | 262,845 | 250,687 |
| | 268,427 | 259,637 |

19. TRADE RECEIVABLES

| | Group 2014 HK\$'000 | 2013 HK\$'000 |
|-------------------|--|------------------|
| Trade receivables | 41,489 | 57,691 |
| Impairment | (7) | (1) |
| | 41,482 | 57,690 |

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 that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

| | Group 2014 HK\$'000 | 2013 HK\$'000 |
|-----------------|--|------------------|
| Within 90 days | 40,269 | 57,628 |
| 91 to 180 days | 155 | 37 |
| 181 to 365 days | 851 | 11 |
| Over 365 days | 207 | 14 |
| | 41,482 | 57,690 |

The movements in provision for impairment of trade receivables are as follows:

| | Group 2014 HK\$'000 | 2013 HK\$'000 |
|---------------------------------------|--|------------------|
| At beginning of reporting period | 1 | 1 |
| Amount written off as uncollectable | (1) | – |
| Provision for doubtful debts (Note 6) | 7 | – |
| At the end of reporting period | 7 | 1 |

19. TRADE RECEIVABLES (Continued)

Included in the provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$7,000 (2013: HK\$1,000) with a carrying amount of HK\$7,000 (2013: HK\$1,000). The individually impaired trade receivable relates to a customer that is in financial difficulties or in liquidation and is not expected to be recovered.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

| | Group | |
|-----------------------------------|-----------------|----------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| Neither past due nor impaired | 34,370 | 45,434 |
| Less than 3 months past due | 6,288 | 12,194 |
| 3 to less than 12 months past due | 824 | 62 |
| | 41,482 | 57,690 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|--------------------------------|-----------------|----------|-----------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Prepayments | 15,759 | 9,853 | 144 | 144 |
| Deposits and other receivables | 11,010 | 22,362 | – | – |
| | 26,769 | 32,215 | 144 | 144 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|------------------------|------------------|------------------|------------------|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 |
| Cash and bank balances | 260,221 | 197,876 | 4,468 | 311 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$57,841,000 (2013: HK\$39,272,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

22. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | Group | |
|-----------------|------------------|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 |
| Within 90 days | 36,887 | 21,979 |
| 91 to 180 days | 1,656 | 382 |
| 181 to 365 days | 173 | 692 |
| Over 365 days | 38 | 210 |
| | 38,754 | 23,263 |

The trade payables are non-interest-bearing and are normally settled on 30-day to 60-day terms.

23. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|----------------|------------------|------------------|------------------|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 |
| Other payables | 81,218 | 58,058 | 23 | 14 |
| Accruals | 25,724 | 25,993 | – | – |
| | 106,942 | 84,051 | 23 | 14 |

Other payables are non-interest-bearing and are normally settled on 30-day to 60-day terms.

24. INTEREST-BEARING BANK BORROWINGS

| Group | 2014 | | | 2013 | | |
|---|-----------------------------|----------|----------|-----------------------------|-----------|----------|
| | Effective interest rate (%) | Maturity | HK\$'000 | Effective interest rate (%) | Maturity | HK\$'000 |
| Current – secured Bank loans repayable within one year or on demand | – | – | – | 1–5 | 2013–2014 | 42,299 |

The bank loans were fully repaid during the year ended 31 March 2014.

The Company did not have any interest-bearing bank borrowings as at 31 March 2014 and 31 March 2013.

Notes:

- (a) The Group's general banking facilities and loans are secured by:
- (i) mortgages over the Group's buildings situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of approximately HK\$64,752,000 (2013: HK\$66,154,000); and
 - (ii) corporate guarantees given by the Company and a subsidiary of the Group of HK\$100,240,000 and HK\$30,000,000, respectively (2013: HK\$70,240,000 and HK\$30,000,000).
- (b) All borrowings are in Hong Kong dollars.

25. SHARE CAPITAL

Shares

| | Company | |
|---|------------------|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 |
| Authorised: 2,000,000,000 ordinary shares of HK\$0.1 each | 200,000 | 200,000 |
| Issued and fully paid: 364,810,000 (2013: 359,450,000) ordinary shares of HK\$0.1 each | 36,481 | 35,945 |

During the year, the movement in share capital was that the subscription rights attaching to 5,360,000 share options were exercised at the subscription price of HK\$1.83 per share (Note 26), resulting in the issue of 5,360,000 shares of HK\$0.1 each for a total cash consideration, before expenses of HK\$9,809,000, which resulted in additions of issued capital and share premium of HK\$536,000 and HK\$9,273,000, respectively (Note 27(b)). An amount of HK\$2,670,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Details of the Company's share option scheme and the share options issued under the scheme are included in Note 26 to the financial statements.

There was no movement in the Company's share capital during the prior year.

26. 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.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the proposed grantee). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of one to three years and ends on a date which is not later than three years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the nominal value of a share; (ii) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; and (iii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer.

On 13 January 2012, the board of directors resolved to grant a total of 11,000,000 share options to certain directors and employees of the Group to subscribe for shares of HK\$0.10 each in the Company, subject to acceptance by the grantees, under the share option scheme adopted by the Company on 22 April 2005 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 the share option at an exercise price of HK\$1.83 (2013: HK\$1.83) per share.

The following share options were outstanding under the Scheme during the year:

| | 2014 | | 2013 | |
|---------------------------|--|------------------------|--|------------------------|
| | Weighted average exercise price HK\$ per share | Number of options ‘000 | Weighted average exercise price HK\$ per share | Number of options ‘000 |
| At 1 April | 1.830 | 10,170 | 2.550 | 20,840 |
| Cancelled during the year | – | – | 3.354 | (9,840) |
| Exercised during the year | 1.830 | (5,360) | – | – |
| Forfeited during the year | 1.830 | (670) | 1.830 | (830) |
| | 1.830 | 4,140 | 1.830 | 10,170 |

The weighted average share price at the date of exercise for share options exercised during the year was HK\$1.83 per share (2013: No share options were exercised). The Group recognised a share option expense of HK\$1,047,000 (2013: HK\$5,607,000) during the year ended 31 March 2014.

26. SHARE OPTION SCHEME (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2014

| Number of options '000 | Exercise price* HK\$ per share | Exercise period |
|---------------------------|-----------------------------------|-------------------------------|
| 210 | 1.830 | 12 Jan 13 to 12 Jan 17 |
| 770 | 1.830 | 12 Jan 14 to 12 Jan 17 |
| 3,160 | 1.830 | 12 Jan 15 to 12 Jan 17 |
| 4,140 | | |

2013

| Number of options '000 | Exercise price* HK\$ per share | Exercise period |
|---------------------------|-----------------------------------|------------------------|
| 3,380 | 1.830 | 12 Jan 13 to 12 Jan 17 |
| 3,380 | 1.830 | 12 Jan 14 to 12 Jan 17 |
| 3,410 | 1.830 | 12 Jan 15 to 12 Jan 17 |
| 10,170 | | |

* 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 fair value of equity-settled share options granted in 2012 was estimated as at the date of grant, using the Black-Scholes-Merton pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | |
|---|-------------|
| Dividend yield (%) | 5.00 |
| Expected volatility (%) | 52.42–55.28 |
| Risk-free interest rate (%) | 0.42–0.63 |
| Expected life of options (year) | 3–4 |
| Initial underlying stock price (HK\$ per share) | 1.83 |

The 5,360,000 share options exercised during the year resulted in the issue of 5,360,000 ordinary shares of the Company and new share capital of HK\$536,000 and share premium of HK\$11,943,000 (before issue expenses), as further detailed in Note 25 to the financial statements.

At the end of the reporting period, the Company had 4,140,000 share options 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 4,140,000 additional ordinary shares of the Company and additional share capital of HK\$414,000 and share premium of HK\$7,162,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 4,140,000 share options outstanding under the Scheme, which represented approximately 1.1% of the Company's shares in issue as at that date.

27. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 39 of this Annual Report.

The Group's contributed surplus as at 31 March 2014 and 2013 comprised (i) the waiver of an amount of HK\$2,046,000 due to a company owned by a controlling shareholder of the Group in a prior year; (ii) the excess of HK\$1,836,000 of the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefor; (iii) a transfer of HK\$3,875,000 from the share premium account upon the group reorganisation for the year ended 31 March 2006; and (iv) net-off with the distribution of a special interim dividend of HK\$7,013,000 in a prior year.

In accordance with the relevant regulations applicable to wholly-foreign-owned enterprises in Mainland China and entities incorporated in Macau, a portion of the profits of the Company's subsidiaries which are registered in the PRC and Macau has been transferred to the reserve funds which are restricted to use.

(b) Company

| | Note | Share premium account HK\$'000 | Contributed surplus** HK\$'000 | Share option reserve*** HK\$'000 | Proposed dividends HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|--------|---|--------------------------------------|---|-----------------------------------|---------------------------------|-------------------|
| At 1 April 2012 | | 87,875 | 136,518 | 6,091 | 23,364 | 101,410 | 355,258 |
| Final 2012 dividend declared | | - | - | - | (23,364) | - | (23,364) |
| Total comprehensive income for the year | | - | - | - | - | 42,743 | 42,743 |
| Equity-settled share option arrangements | 26 | - | - | 5,607 | - | - | 5,607 |
| Interim 2013 dividend | 12 | - | - | - | - | (3,594) | (3,594) |
| Proposed final 2013 dividend | 12 | - | - | - | 36,305 | (36,305) | - |
| At 31 March 2013 and 1 April 2013 | | 87,875* | 136,518* | 11,698* | 36,305 | 104,254* | 376,650 |
| Issue of shares by exercise of share options | 25, 26 | 11,943 | - | (2,670) | - | - | 9,273 |
| Final 2013 dividend declared | | - | - | - | (36,305) | - | (36,305) |
| Total comprehensive income for the year | | - | - | - | - | 62,780 | 62,780 |
| Equity-settled share option arrangements | 26 | - | - | 1,047 | - | - | 1,047 |
| Interim 2014 dividend | 12 | - | - | - | - | (5,437) | (5,437) |
| Proposed final 2014 dividend | 12 | - | - | - | 51,073 | (51,073) | - |
| At 31 March 2014 | | 99,818* | 136,518* | 10,075* | 51,073 | 110,524* | 408,008 |

* These reserve accounts comprise the reserves of HK\$356,935,000 (2013: HK\$340,345,000) in the statement of financial position of the Company.

** The Company's contributed surplus comprises the excess of the fair value of the shares of the subsidiary acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefor which amounted to HK\$143,631,000 and the nominal value of the Company's shares issued in exchange for HK\$100,000; and net-off with the distribution of a special interim dividend totalling HK\$7,013,000 in a prior year.

*** The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in Note 26 to the financial statements. The amounts will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

28. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

| | Group | 2013 |
|---|-----------------|----------|
| | 2014 | HK\$'000 |
| | HK\$'000 | HK\$'000 |
| Bank guarantees given in lieu of utility and property rental deposits | 7,594 | 7,594 |

As at 31 March 2014, the general banking facilities granted to certain subsidiaries subject to guarantees given to banks by the Company of HK\$100,240,000 (2013: HK\$70,240,000) were utilised to the extent of HK\$15,462,000 (2013: HK\$31,318,000).

29. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group are included in Note 24 to the financial statements.

30. OPERATING LEASE ARRANGEMENTS**As lessee**

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

At 31 March 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2014 | 2013 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Within one year | 228,000 | 192,285 |
| In the second to fifth years, inclusive | 255,382 | 168,189 |
| Over five years | 7,239 | 4,210 |
| | 490,621 | 364,684 |

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 31 March 2014 (2013: Nil).

31. COMMITMENTS

The Group and the Company had no material capital commitments (2013: Nil).

32. RELATED PARTY TRANSACTIONS

- (a) The Group had the following transactions with related companies controlled by a close family member of a director of the Group during the year:

| | Notes | 2014 HK\$'000 | 2013 HK\$'000 |
|-------------------------------------|-------|------------------|------------------|
| Computer system maintenance charges | (i) | 51 | 924 |
| Purchases of computer equipment | (ii) | 57 | – |

Notes:

- (i) The computer system maintenance charges paid to related companies were determined between the parties with reference to the actual staff costs incurred.
- (ii) The purchases of computer equipment from related companies were made at prices and conditions with reference to those offered by major suppliers of the Group.

The above related party transactions constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

- (b) All compensation of key management personnel of the Group is included in the directors' remuneration and the five highest paid employees as set out respectively in Notes 8 and 9 to the financial statements.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

| | Loans and receivables | | | |
|--|---------------------------|------------------|-----------------------------|------------------|
| | Group 2014 HK\$'000 | 2013 HK\$'000 | Company 2014 HK\$'000 | 2013 HK\$'000 |
| Financial assets included in rental, utility and other non-current deposits | 77,575 | 60,628 | – | – |
| Trade receivables | 41,482 | 57,690 | – | – |
| Financial assets included in prepayments, deposits and other receivables (Note 20) | 11,010 | 22,362 | – | – |
| Due from subsidiaries | – | – | 283,524 | 256,825 |
| Cash and cash equivalents | 260,221 | 197,876 | 4,468 | 311 |
| | 390,288 | 338,556 | 287,992 | 257,136 |

Financial liabilities

| | Financial liabilities at amortised cost | | | |
|---|---|------------------|-----------------------------|------------------|
| | Group 2014 HK\$'000 | 2013 HK\$'000 | Company 2014 HK\$'000 | 2013 HK\$'000 |
| Trade payables | 38,754 | 23,263 | – | – |
| Financial liabilities included in other payables and accruals (Note 23) | 81,218 | 58,058 | 23 | 14 |
| Interest-bearing bank borrowings | – | 42,299 | – | – |
| | 119,972 | 123,620 | 23 | 14 |

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash at banks and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written financial risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its financial risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives or other financial instruments for hedging purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with a floating interest rate. The Group has no specific policy to deal with cash flow interest rate risk. However, management monitors the exposure and will consider hedging the interest rate risk exposure for significant cash flow risks should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's and the Company's equity.

| | Increase/ (decrease) % | Group Increase/ (decrease) in profit before tax HK\$'000 | Increase/ (decrease) in equity* HK\$'000 | Company Increase/ (decrease) % | Increase/ (decrease) in equity* HK\$'000 |
|------------------|------------------------------|---|---|---|---|
| 2013 | | | | | |
| Hong Kong dollar | 1 | (423) | - | 1 | - |
| Hong Kong dollar | (1) | 423 | - | (1) | - |

* Excluding retained profits

As at 31 March 2014, there is no major exposure to the risk of changes in market interest rate.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Foreign currency risk**

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. As transactions denominated in currencies other than the functional currency are minimal, the exposure to foreign currency risk is not considered significant.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

| | % | Increase/ (decrease) in profit before tax HK\$'000 | Increase/ (decrease) in equity* HK\$'000 |
|---|-----|--|---|
| 2014 | | | |
| If Hong Kong dollar weakens against RMB | (1) | 419 | – |
| If Hong Kong dollar strengthens against RMB | 1 | (419) | – |
| 2013 | | | |
| If Hong Kong dollar weakens against RMB | (1) | 1,135 | – |
| If Hong Kong dollar strengthens against RMB | 1 | (1,135) | – |

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and bank balances, deposits and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 19 to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Liquidity risk**

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking credit facilities. The Group's policy is to minimise borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

| | 2014 | | | Total HK\$'000 |
|--|-----------------------|-----------------------------------|---|-------------------|
| | On demand HK\$'000 | Less than 3 months HK\$'000 | 3 to less than 12 months HK\$'000 | |
| Trade payables | 5,304 | 33,240 | 210 | 38,754 |
| Other payables | 68,761 | 12,396 | 61 | 81,218 |
| Guarantees given to banks in connection with facilities granted to subsidiaries | 7,594 | – | – | 7,594 |
| | 81,659 | 45,636 | 271 | 127,566 |
| | 2013 | | | |
| | On demand HK\$'000 | Less than 3 months HK\$'000 | 3 to less than 12 months HK\$'000 | Total HK\$'000 |
| Interest-bearing bank borrowings | 42,299 | – | – | 42,299 |
| Trade payables | 5,992 | 17,004 | 267 | 23,263 |
| Other payables | 48,666 | 9,392 | – | 58,058 |
| Guarantees given to banks in connection with facilities granted to subsidiaries | 7,594 | – | – | 7,594 |
| | 104,551 | 26,396 | 267 | 131,214 |

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**Liquidity risk** (Continued)**Company**

| | 2014 On demand HK\$'000 | 2013 On demand HK\$'000 |
|----------------|--|-------------------------------|
| Other payables | 23 | 14 |

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2014 and 31 March 2013.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The Group's policy is to keep the current ratio above 1. The current ratios as at the end of the reporting periods were as follows:

| | 2014 HK\$'000 | 2013 HK\$'000 |
|---------------------------|--------------------------------|------------------|
| Total current assets | 601,866 | 549,040 |
| Total current liabilities | 154,870 | 161,023 |
| Current ratio | 3.9 | 3.4 |

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 June 2014.

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements, is set out below.

| | Year ended 31 March | | | | |
|--|---------------------|------------------|------------------|------------------|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 | 2010 HK\$'000 |
| RESULTS | | | | | |
| REVENUE | 1,427,113 | 1,293,677 | 1,159,872 | 1,011,704 | 793,792 |
| Cost of sales | (517,530) | (464,748) | (355,355) | (303,514) | (237,370) |
| GROSS PROFIT | 909,583 | 828,929 | 804,517 | 708,190 | 556,422 |
| Other income and gains | 2,224 | 14,995 | 4,329 | 4,518 | 3,608 |
| Compensation received for early termination of tenancies | – | 21,700 | – | – | – |
| Selling and distribution expenses | (650,137) | (607,942) | (574,936) | (458,484) | (368,927) |
| Administrative expenses | (106,639) | (115,463) | (120,063) | (99,431) | (82,139) |
| Other expenses | (5,157) | (11,438) | (8,777) | (5,994) | (6,680) |
| Finance costs | (789) | (1,400) | (1,277) | – | – |
| PROFIT BEFORE TAX | 149,085 | 129,381 | 103,793 | 148,799 | 102,284 |
| Income tax expense | (23,966) | (30,126) | (27,906) | (33,272) | (19,256) |
| PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | 125,119 | 99,255 | 75,887 | 115,527 | 83,028 |
| DIVIDENDS | 56,510 | 39,899 | 30,553 | 63,623 | 55,715 |

| | As at 31 March | | | | |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 | 2012 HK\$'000 | 2011 HK\$'000 | 2010 HK\$'000 |
| ASSETS AND LIABILITIES | | | | | |
| TOTAL ASSETS | 852,537 | 759,140 | 705,469 | 622,896 | 512,047 |
| TOTAL LIABILITIES | (161,158) | (162,773) | (188,488) | (127,958) | (86,109) |
| | 691,379 | 596,367 | 516,981 | 494,938 | 425,938 |