

bauhaus

interim report 2007

BAUHAUS INTERNATIONAL (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 483)

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Financial Highlights

Key Financial Ratios	Notes	Period	Period	Change +/-	
		4-9/2007	4-9/2006		
Performance					
Gross Margin	(%)	1	65.9	63.1	2.8% pts.
Adjusted Gross Margin	(%)	2	67.9	66.1	1.8% pt.
Net Profit Margin	(%)	3	9.1	9.5	-0.4% pt.
Adjusted Net Profit Margin	(%)	4	11.1	12.4	-1.3% pt.
Return on Average Equity					
(Annualised)	(%)	5	14.3	14.6	-0.3% pt.
Return on Average Assets					
(Annualised)	(%)	6	12.3	12.6	-0.3% pt.
Operating					
Inventory Turnover Days					
(Annualised)		7	214	221	-7 days
Debtors' Turnover Days					
(Annualised)		8	14	12	2 days
Creditors' Turnover Days					
(Annualised)		9	28	15	13 days
Per Share Data					
Earnings Per Share	(HK cents)	10	6.4	5.9	8.5%
Dividend Per Share					
Interim	(HK cents)		2.5	2.5	—
			As at	As at	
			30/9/2007	31/3/2007	

Liquidity

Current Ratio		11	4.6	6.8	-32.4%
Quick Ratio		12	2.9	4.5	-35.6%

Per Share Data

Book Value Per Share	(HK cents)	13	87.9	91.8	-4.2%
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Notes:

1. "Gross Margin" is based on gross profit divided by turnover during the period.
2. "Adjusted Gross Margin" is based on gross profit excluding net provision for slow-moving inventories of HK\$5.2 million (2006: HK\$6.5 million) divided by turnover during the period.
3. "Net Profit Margin" is calculated as net profit divided by turnover during the period.
4. "Adjusted Net Profit Margin" is based on net profit excluding net provision for slow-moving inventories of HK\$5.2 million (2006: HK\$6.5 million) divided by turnover during the period.
5. "Return on Average Equity" represents net profit during the period divided by average of opening and closing balance for shareholders' equity.
6. "Return on Average Assets" represents net profit during the period divided by average of opening and closing balance for total assets.
7. "Inventory Turnover Days" is based on average of opening and closing balance of inventories divided by cost of sales and then multiplied by number of days during the period.
8. "Debtors' Turnover Days" is based on average of opening and closing balance of trade and bills receivables divided by turnover and then multiplied by number of days during the period.
9. "Creditors' Turnover Days" is based on average of opening and closing balance of trade and bills payables divided by purchases and then multiplied by number of days during the period.
10. "Earnings Per Share" is calculated based on the weighted average number of 359,450,000 shares (2006: 350,650,000 shares) in issue during the period under review.
11. "Current Ratio" represents current assets divided by current liabilities.
12. "Quick Ratio" represents current assets less inventories then divided by current liabilities.
13. "Book Value Per Share" represents shareholders' equity divided by the total number of issued shares at the balance sheet dates of 359,450,000.

Corporate Information

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 Tong She Man, Winnie
(Vice-Chairman)
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. Chung Chi Keung, CPA, FCCA

Qualified Accountant

Mr. Chung Chi Keung, CPA, FCCA

Authorised Representatives

Mr. Wong Yui Lam
Madam Tong She Man, Winnie

Members of Audit Committee

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

Members of Remuneration Committee

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

Members of Nomination Committee

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

Principal Auditors

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

Compliance Adviser

Sun Hung Kai International Limited
Level 12, One Pacific Place
88 Queensway
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

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

Hong Kong Branch Share Registrar and Transfer Office

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

Information for Investors

Listing information

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

Share Information

Board lot size	:	2,000 shares
Authorised shares	:	2,000,000,000 shares
Outstanding shares as of 30 September 2007	:	359,450,000 shares
Par value	:	HK\$0.10

	4-9/2007	4-9/2006
Basic earnings per share	HK 6.4 cents	HK 5.9 cents
Dividend per share		
Interim	HK 2.5 cents	HK 2.5 cents

Key dates

2007 annual results announcement	:	16 July 2007
Closure of Register of Members	:	21 August 2007 to 23 August 2007 (both days inclusive)
2007 annual general meeting	:	23 August 2007
Payment of 2007 final and special dividends	:	24 September 2007
2008 interim results announcement	:	18 December 2007
Closure of Register of Members	:	9 January 2008 to 11 January 2008 (both days inclusive)
Payable of 2008 interim dividend on or about	:	25 January 2008

Internet Website : www.bauhaus.com.hk

Financial year end : 31 March

Interim period end : 30 September

Condensed Consolidated Income Statement

For the six months ended 30 September 2007

The board of directors (the "Directors") of Bauhaus International (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2007, prepared on the basis set out in note 1 to the Interim Financial Statements below, together with the comparative figures for the corresponding period.

These Interim Financial Statements have not been audited, but have been reviewed by the Company's audit committee.

	Notes	Six months ended 30 September	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
REVENUE	3	254,136	219,456
Cost of sales		(86,732)	(80,919)
GROSS PROFIT		167,404	138,537
Other income and gains	4	2,535	2,891
Selling and distribution costs		(108,657)	(90,359)
Administrative expenses		(34,611)	(25,302)
Other expenses		(405)	(1,471)
Finance costs	5	—	(158)
PROFIT BEFORE TAX	6	26,266	24,138
Tax	7	(3,146)	(3,326)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		23,120	20,812
DIVIDEND	8		
Interim		8,986	8,766
DIVIDEND PER SHARE	8		
Interim		HK2.5 cents	HK2.5 cents
EARNINGS PER SHARE — BASIC	9	HK6.4 cents	HK5.9 cents

Condensed Consolidated Balance Sheet

30 September 2007

		30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		42,771	31,009
Prepaid land lease payments		7,096	7,174
Intangible assets		1,770	1,898
Available-for-sale financial asset		5,400	3,900
Deferred tax assets		7,421	6,989
Rental, utility and other non-current deposits		37,507	30,395
Total non-current assets		101,965	81,365
CURRENT ASSETS			
Inventories	10	104,499	98,248
Trade and bills receivables	11	19,639	19,201
Prepayments, deposits and other receivables	12	17,177	11,116
Prepaid land lease payments, current portion		155	155
Tax recoverable		1,230	2,205
Cash and cash equivalents	13	131,696	161,099
Total current assets		274,396	292,024
CURRENT LIABILITIES			
Trade and bills payables	14	13,211	9,553
Accruals and other payables	15	32,129	27,868
Due to a related company	19(b)	—	198
Dividend payable		8,994	—
Tax payable		5,178	5,272
Total current liabilities		59,512	42,891
NET CURRENT ASSETS		214,884	249,133

Condensed Consolidated Balance Sheet

30 September 2007

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES	316,849	330,498
NON-CURRENT LIABILITIES		
Deferred tax liabilities	966	682
Total non-current liabilities	966	682
Net assets	315,883	329,816
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	16	35,945
Reserves	279,938	263,318
Proposed dividends	—	30,553
Total equity	315,883	329,816

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2007

	Attributable to equity holders of the parent								
	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds HK\$'000	Proposed dividends HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 April 2006 (audited)		35,065	77,447	744	407	—	21,916	155,403	290,982
Exchange realignment		—	—	—	291	—	—	—	291
Total income for the period recognised directly in equity		—	—	—	291	—	—	—	291
Net profit for the period		—	—	—	—	—	—	20,812	20,812
Total income for the period		—	—	—	291	—	—	20,812	21,103
Final dividend declared and paid		—	—	—	—	—	(9,117)	—	(9,117)
Special dividend declared and paid		—	—	—	—	—	(12,799)	—	(12,799)
Interim dividend declared	8	—	—	—	—	—	—	(8,766)	(8,766)
At 30 September 2006 (unaudited)		35,065	77,447	744	698	—	—	167,449	281,403
At 1 April 2007 (audited)		35,945	87,875	744	1,390	1,146	30,553	172,163	329,816
Exchange realignment		—	—	—	2,429	57	—	—	2,486
Total income for the period recognised directly in equity		—	—	—	2,429	57	—	—	2,486
Net profit for the period		—	—	—	—	—	—	23,120	23,120
Total income for the period		—	—	—	2,429	57	—	23,120	25,606
Transfer to reserve funds		—	—	—	—	48	—	(48)	—
Final dividend declared and paid		—	—	—	—	—	(10,783)	—	(10,783)
Special dividend declared and paid		—	—	—	—	—	(19,770)	—	(19,770)
Interim dividend declared	8	—	—	—	—	—	—	(8,986)	(8,986)
At 30 September 2007 (unaudited)		35,945	87,875*	744*	3,819*	1,251*	—	186,249*	315,883

* These reserve accounts comprise the consolidated reserves of HK\$279,938,000 (31 March 2007: HK\$263,318,000) in the condensed consolidated balance sheet.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2007

	Notes	Six months ended 30 September	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Net cash inflow from operating activities		18,168	1,317
Net cash outflow from investing activities		(19,237)	(5,204)
Net cash outflow from financing activities		(30,545)	(20,847)
<hr/>			
NET DECREASE IN CASH AND CASH EQUIVALENTS		(31,614)	(24,734)
Cash and cash equivalents at beginning of period		161,099	139,660
Effect of foreign exchange rate changes, net		2,211	224
<hr/>			
CASH AND CASH EQUIVALENTS AT END OF PERIOD		131,696	115,150
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ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	13	86,277	71,374
Non-pledged time deposits with original maturity of less than three months	13	45,419	43,776
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		131,696	115,150
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Notes to Condensed Consolidated Financial Statements

30 September 2007

1. Group Reorganisation, Basis of Presentation and Preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 October 2004 under the Companies Law of the Cayman Islands.

On 21 April 2005, pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 May 2005, the Company acquired the entire issued share capital in Bauhaus Investments (BVI) Limited ("Bauhaus (BVI)"), the then holding company of the subsidiaries, in consideration for the aggregate allotment and issuance of 1,000,000 ordinary shares of HK\$0.1 each in the share capital of the Company to the then shareholders of Bauhaus (BVI). The Company then became the holding company of the companies now comprising the Group (the "Group Reorganisation").

Further details of the Group Reorganisation are set out in the Company's listing prospectus (the "Prospectus") dated 29 April 2005.

The shares of the Company were listed on the Stock Exchange on 12 May 2005.

The Group Reorganisation above involved companies under common control, and the Group resulting from the Group Reorganisation is regarded and accounted for as a continuing group. Accordingly, the Interim Financial Statements have been prepared on the merger basis as if the Company had been the holding company of the companies comprising the Group since 1 April 2004. Under this basis, the Company has been treated as the holding company of its subsidiaries pursuant to the Group Reorganisation for the financial years presented, rather than from the date of acquisition of the subsidiaries. In the opinion of the Directors, the Interim Financial Statements prepared on the above basis present more fairly the results, cash flows and state of affairs of the Group as a whole.

These Interim Financial Statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation adopted in the preparation of the Interim Financial Statements are the same as those used in the annual financial statements for the year ended 31 March 2007, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRS") (which also include HKASs and Interpretations) in current period for the first time as disclosed in note 2 below. These Interim Financial Statements should be read in conjunction with the 2007 annual report.

Notes to Condensed Consolidated Financial Statements

30 September 2007

2. Impact of New and Revised Hong Kong Financial Reporting Standards

The following new and revised HKFRSs are adopted for the first time for the current period's financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transfer

The adoption of the above new and revised HKASs, HKFRS and Interpretations has had no material impact on the accounting policies of the Group and the methods of computation in the Interim Financial Statements.

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Group's business and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods. The Group has not early adopted these standards, amendments and interpretations for the six months ended 30 September 2007. The Group has already commenced an assessment of their impact but is not yet in a position to state whether they would have a material impact on its Group's results and financial positions.

3. Segment Information

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

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

3. Segment Information *(continued)*

Each of the Group's geographical segments represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of the other geographical segments. The Group's customer-based geographical segments are as follows:

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

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of customers. 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.

With respect to the Group's secondary reporting by business segment, the Group has three business segments and each of them represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. The Group's business segments comprise:

- (a) Retail operation which is engaged in retail business through the operations of the Group's retail outlets;
- (b) Wholesale operation which is engaged in the sale of garments and accessories to customers for distribution; and
- (c) Franchise business which is engaged in the sale of garments and accessories to the designated franchisees for their own operations of retail business in the designated locations.

Notes to Condensed Consolidated Financial Statements

30 September 2007

3. Segment Information *(continued)*

Geographical segments

An analysis of the Group's turnover and contribution to operating results by geographical segments is presented below.

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
TURNOVER		
Hong Kong and Macau	182,007	166,059
Taiwan	36,884	22,643
Mainland China	23,735	13,511
Japan	9,221	10,659
Elsewhere	13,361	12,578
less: Inter-segment sales	(11,072)	(5,994)
	254,136	219,456
RESULTS		
Hong Kong and Macau	20,256	20,588
Taiwan	5,107	318
Mainland China	7,965	4,904
Japan	2,780	3,685
Elsewhere	2,480	2,541
	38,588	32,036
Interest income	1,382	1,242
Unallocated corporate expenses	(13,704)	(8,982)
Finance costs	—	(158)
	26,266	24,138
Taxation	(3,146)	(3,326)
	23,120	20,812

3. Segment Information *(continued)*

Business segments

An analysis of the Group's turnover by business segments is presented below.

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
TURNOVER		
Retail operation	210,064	182,858
Wholesale operation	23,201	23,603
Franchise business	20,871	12,995
	254,136	219,456

4. Other Income and Gains

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Other income:		
Interest income	1,382	1,242
Others	754	1,649
	2,136	2,891
Gains:		
Foreign exchange differences, net	399	—
	2,535	2,891

5. Finance Costs

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank overdrafts	—	3
Interest on bank loans wholly repayable within five years	—	137
Others	—	18
		158

Notes to Condensed Consolidated Financial Statements

30 September 2007

6. Profit Before Tax

Profit before tax is arrived after charging the following:

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Cost of inventories sold	81,556	74,441
Provision for slow-moving inventories, net	5,176	6,478
Depreciation	5,972	5,847
Loss on disposal of fixed assets, net	224	533
Amortisation of prepaid land lease payments	78	78
Amortisation of intangible assets	182	170
Rental deposits written off	—	631
Rental expenses under operating leases in respect of equipments:	268	—
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	50,423	40,525
Contingent rents	7,084	4,506
	57,507	45,031
Employee benefits expenses (including directors' remuneration)		
Wages, salaries and other benefits	48,019	39,480
Pension scheme contributions	2,122	1,772
	50,141	41,252

7. Tax

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Current tax — Hong Kong	1,596	4,649
Current tax — Elsewhere	1,683	151
Deferred tax credit	(133)	(1,474)
Total tax charge for the period	3,146	3,326

Hong Kong profits tax has been provided at a rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8. Dividend

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interim — HK2.5 cents (2006: HK2.5 cents) per ordinary share	8,986	8,766

9. Earnings Per Share

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$23,120,000 (2006: HK\$20,812,000) and the weighted average number of ordinary shares in issue during the period of 359,450,000 (2006: 350,650,000).

Diluted earnings per share amounts have not been presented as no diluting events existed during the periods ended 30 September 2006 and 2007.

10. Inventories

	30 September	31 March
	2007 (Unaudited) HK\$'000	2007 (Audited) HK\$'000
Raw materials	19,886	16,995
Work in progress	359	2,227
Finished goods	84,254	79,026
	104,499	98,248

11. Trade and Bills Receivables

Retail sales are made on cash terms or by credit card with very short credit terms. Wholesale sales 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. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management of the Group. In view of the aforementioned and the fact the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group's bills receivable are normally settled on 30-day to 60-day terms. Trade and bills receivables are non-interest-bearing.

Notes to Condensed Consolidated Financial Statements

30 September 2007

11. Trade and Bills Receivables *(continued)*

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

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Within 90 days	19,577	18,170
91 to 180 days	62	1,031
	19,639	19,201

12. Prepayments, Deposits and Other Receivables

The carrying amounts of the prepayments, deposits and other receivables approximate to their fair values.

13. Cash and Cash Equivalents

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Cash and bank balances	86,277	105,497
Non-pledged time deposits with original maturity of less than three months when acquired	45,419	55,602
Cash and cash equivalents	131,696	161,099

14. Trade and Bills Payables

An aged analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Within 90 days	13,121	9,194
91 to 180 days	26	346
181 to 365 days	64	13
	13,211	9,553

14. Trade and Bills Payables *(continued)*

The trade payables are non-interest-bearing and are normally settled on 30-day to 60-day terms. The carrying amounts of trade and bills payables approximate to their fair values.

15. Accruals and Other Payables

Accruals and other payables are non-interest-bearing and are normally settled on 30-day to 60-day terms. The carrying amounts of the accruals and other payables approximate to their fair values.

16. Share Capital

Shares

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Authorised:		
2,000,000,000 (31 March 2007: 2,000,000,000) ordinary shares of HK\$0.1 each	200,000	200,000
Issued and fully paid:		
359,450,000 (31 March 2007: 359,450,000) ordinary shares of HK\$0.1 each	35,945	35,945

Shares options 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.

During the six months ended 30 September 2007, no option has been granted or agreed to be granted pursuant to the Scheme.

Notes to Condensed Consolidated Financial Statements

30 September 2007

17. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	5,608	4,907

The Group or the Company had no other significant contingent liabilities at the balance sheet date (31 March 2007: Nil).

18. Commitments

(i) Commitments under operating leases

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

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Within one year	94,950	88,512
In the second to fifth year, inclusive	72,823	59,296
	167,773	147,808

The operating lease rentals of certain retail shops are based on the higher of a fixed rental or 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.

(ii) Other commitment

The Group or the Company had no other significant capital commitments at the balance sheet date (31 March 2007: Nil).

19. Related Party Transactions

(a) Transactions with related parties

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Rental expenses paid to a minority shareholder	—	28
Rental expenses paid to a related company	99	—
Purchases of computer equipment from a related company	744	527
Computer system maintenance charges paid to a related company	512	931

(b) At 30 September 2007, there was no balance with related parties at the balance sheet date (31 March 2007: HK\$198,000). The balance was unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel of the Group

	Six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Short term employee benefits	1,896	1,344
Post-employment benefits	33	33
Total compensation paid to key management personnel	1,929	1,377

20. Approval of the Interim Financial Statements

The Interim Financial Statements were approved and authorised for issue by the Directors on 18 December 2007.

Management Discussion and Analysis

Business and Financial Review

Retail Operation

The Group's retail operation maintained strong in the six months ended 30 September 2007, with total turnover up 14.9% to about HK\$210.1 million (2006: HK\$182.9 million). Retail operation in Hong Kong, which accounted for about 69.1% of the Group's turnover during the period under review, sustained steady growth of about 5.9%, supported by its diverse retail network covering prime shopping areas and effort to customise outlets in strategic areas for optimum utilisation of space and keeping rentals in check at all times.

As for the retail operation in Taiwan, it continued to record encouraging results. During the period under review, turnover from the segment jumped a remarkable 56.0%, thanks to enhanced management effort, intensive training provided to sales teams and solid support of an extensive retail network. The Group sustained its position as the leading trendy fashion retailer in Taiwan with sales performance surpassing the industry average.

The Group took an important strategic move last year to set up self-managed retail operation in Shanghai to capture the immense potential of the market. The retail operation has grown steadily with the Group's own brands have been gradually gaining acceptance among the high-spending consumers they target. The Group also started self-managed retail operation in Macau in April 2007, which recorded encouraging sales performance during the period under review.

As at 30 September 2007, the Group had the following self-managed retail outlets:

	As at 30 September	
	2007	2006
Hong Kong	48	46
Taiwan	21	18
Mainland China	4	1
Macau	1	—
Total number of outlets	74	65
Aggregate floor area (sq.ft.)	90,951	76,665

Wholesale Operation

The turnover from the Group's wholesale operation dropped slightly by about 1.7% to about HK\$23.2 million during the period under review (2006: HK\$23.6 million). The decrease was mainly attributable to fluctuating retail demands in the European and Japanese markets. To minimise the impact of fluctuation in overseas demands on its wholesale business, the Group has been diversifying its customer base aiming for balance among different regions. At the Group's enhanced effort to develop businesses in Southeast Asia during the period under review, the region reported growth in sales that almost fully compensated the drop in other areas. The Group continued to participate in different international fashion shows and streamlined certain distribution channels to ensure sales efficiency. As at 30 September 2007, the Group's wholesale businesses covered over 20 countries in Southeast Asia, the Middle East, Europe and North America.

Franchise Business

Franchise business in China continues to be one of the Group's growth engines. As demand continued to rise in the country during the period under review, so did the Group's franchise network. Turnover from the segment grew an impressive 60.8% to about HK\$20.9 million for the six months ended 30 September 2007 (2006: HK\$13.0 million). Years of dedicated effort of the Group in establishing systematic and well-coordinated franchise networks in different markets in China have seen "TOUGH" emerged as an acclaimed brand in the country. As at 30 September 2007, the Group had 46 franchised outlets (2006: 20) operating in the PRC and Macau.

Segment Information

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

Gross Profit

The Group's gross profit increased by 20.9% to about HK\$167.4 million in the six months ended 30 September 2007 against about HK\$138.5 million in the last corresponding period. As for gross margin, it improved to 65.9% from about 63.1% in the same period last year. The wider margin was primarily the result of the increased average retail price of the Group's own brand products and the increased proportion of these products in overall sales. The Group's own brand products also boast higher average margin than goods of other brands sold by the Group. Furthermore, as a result of more effective inventory control, net provision for slow-moving inventories dropped by 20.0% to about HK\$5.2 million (2006: HK\$6.5 million).

Management Discussion and Analysis

Operating Expenses

The Group's operating expenses surged by about 22.5% to about HK\$143.7 million during the six months ended 30 September 2007 (2006: HK\$117.3 million), representing 56.5% of total turnover (2006: 53.4%). One of the major operating expenses of the Group, rental expenses soared by about 27.8% to about HK\$57.5 million during the period under review (2006: HK\$45.0 million), mainly attributable to increase in market rents, number of stores and gross shop areas. The rental expenses, accounting for about 40.0% (2006: 38.4%) of the Group's total expenses for the review period, represented a comparable about 22.6% of the Group's turnover (2006: 20.5%). Heeding the impact of increase in rental expenses on its profit margin, the Group is prudent in adding outlets and has kept rental cost under control through shop optimisation and relocation.

Staff cost is another key operating cost, which increased by about 21.3% to about HK\$50.1 million during the six months ended 30 September 2007 (2006: HK\$41.3 million). Realising that human resources is a vital to supporting its sustainable expansion, the Group has kept investing in its people and made sure it offers competitive remuneration packages to attract and retain quality employees.

As part of its continuous effort to reinforce brand equity, the Group organised an array of promotional and public relation events during the period under review to publicise the opening of its new flagship shop in April 2007. As a result, advertising, promotion and exhibition expenses increased by about 20.0% to about HK\$3.6 million (2006: HK\$3.0 million).

To manage cost increment effectively, the Group has kept streamlining its local and overseas distribution networks and enforcing stringent cost control.

Net Profit

The Group's net profit attributable to shareholders reached about HK\$23.1 million for the six months ended 30 September 2007, up about 11.1% from about HK\$20.8 million in the same period last year. Net profit margin, however, dropped slightly from about 9.5% to about 9.1% as a result of increased operating costs, especially rentals. Although some operating conditions were challenging, both the local and overseas markets continued to provide opportunities for the Group to sustain growth. With prudence in managing risks and adopting solid development approaches, the Group is confident of achieving sustainable profit growth in coming years.

Capital Structure

As at 30 September 2007, the Group had net assets of approximately HK\$315.9 million (31 March 2007: HK\$329.8 million), comprising non-current assets of about HK\$102.0 million (31 March 2007: HK\$81.4 million), net current assets of about HK\$214.9 million (31 March 2007: HK\$249.1 million) and non-current liabilities of about HK\$1.0 million (31 March 2007: HK\$0.7 million).

The Group had no borrowings as at 30 September 2007 (31 March 2007: Nil).

Liquidity and Financial Resources

As at 30 September 2007, the Group had cash and cash equivalents of approximately HK\$131.7 million (31 March 2007: HK\$161.1 million) and had no bank borrowings (31 March 2007: Nil). As at 30 September 2007, the Group had aggregate banking facilities of approximately HK\$19.0 million (31 March 2007: HK\$19.0 million) comprising interest-bearing bank overdraft and borrowings, rental and utility guarantees as well as import and export facilities, of which about HK\$13.2 million had not been utilised at the balance sheet date.

Cash Flows

For the six months ended 30 September 2007, net cash inflow from operating activities was about HK\$18.2 million (2006: HK\$1.3 million). Resulting from strong increase in sales level, the operating cash flows substantially improved. Net cash outflow from investing activities significantly increased from about HK\$5.2 million in 2006 to about HK\$19.2 million in 2007 as a result of increase in capital expenditure for new shop decoration. Net cash outflow from financing activities during the period under review attributed to the payment of 2006/07 final and special dividend of about HK\$30.5 million.

Security

As at 30 September 2007, the Group's banking facilities were secured by certain of its leasehold buildings and prepaid land lease payments with aggregate carrying value of approximately HK\$6.6 million (31 March 2007: HK\$6.7 million) and HK\$3.4 million (31 March 2007: HK\$3.5 million), respectively.

Management Discussion and Analysis

Contingent Liabilities

As at 30 September 2007, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK\$5.6 million (31 March 2007: HK\$4.9 million). The Group or the Company had no other significant contingent liabilities at the balance sheet date (31 March 2007: Nil).

Capital Commitment

The Group or the Company had no significant capital commitments at the balance sheet date (31 March 2007: Nil).

Human Resources

Including all directors, the Group had 1,241 employees as at 30 September 2007 (31 March 2007: 999). To attract and retain high performance staff, the Group had provided competitive remuneration packages with performance bonuses, mandatory provident fund, insurance and medical coverage as well as entitlements to share options to be granted under a share option scheme based on employees' performance, experience and prevailing market rate. Remuneration packages are reviewed regularly. Regarding staff development, the Group provides regular in-house training to retail staff and subsidised them on external training programmes.

Foreign Exchange Risk Management

The Group's sales and purchases during the period were mostly denominated in Hong Kong dollar, US dollar and Renminbi. The Group is exposed to minimal foreign currency exchange risk and does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. However, the Group will continuously monitor its foreign exchange position and, when necessary, will hedge its foreign exchange exposure arising from contractual commitments in sourcing apparel from overseas suppliers.

Use of Proceeds

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 12 May 2005, after deduction of related issuance expenses, amounted to about HK\$112.4 million. As at 30 September 2007, these proceeds were applied in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

	Per Prospectus HK\$'000	Utilised HK\$'000	Balances as at 30 September 2007 HK\$'000
Expansion of distribution network	46,000	(46,000)	—
Expansion and upgrade of production facilities	15,000	(6,791)	8,209
Development of "80/20" brandname	14,000	(11,582)	2,418
Marketing of in-house brandname	13,000	(10,840)	2,160
Diversification into high-end fashion market	4,000	(4,000)	—
Enhancement of in-house design and merchandising team	2,000	(2,000)	—
Sourcing of goods and fabrics	8,000	(8,000)	—
General working capital	10,400	(10,400)	—
	112,400	(99,613)	12,787

The unutilised balance was placed with banks by the Company as short term bank deposits.

Material Acquisition and Disposal of Subsidiaries and Associated Companies

There were no material acquisition or disposal of subsidiaries and associated companies by the Group for the six months ended 30 September 2007.

Disclosures under Listing Rules 13.13 to 13.19

There was no advance to entity, no financial assistance, and no guarantee to affiliated companies of the Company as at 30 September 2007 which was discloseable under Rules 13.13 and 13.19 of the Listing Rules.

Management Discussion and Analysis

Prospects

As the Chinese economy continues to grow rapidly and the Group's self-managed retail shops in the country starts to contribute revenues, sales from the China operation will grow and translate into significant gains for the Group in the years to come. The Group will seek to expand its presence gradually in major cities of China including Shanghai and Beijing by opening at least 4 additional stores in Beijing and 3 in Shanghai by 2008. It will also expand the coverage of its franchise business in the country to boost popularity of the "TOUGH" and "SALAD" brands in the PRC. In the coming half year, the Group plans to open at least 10 new franchised stores in major cities of China.

Although China will be the key growth driver of the Group in the medium and long term, the Group sees maintained healthy growth for the Hong Kong market and expects to derive stable revenue and cash flow from the market. Seeking to continue the satisfactory performance of its Hong Kong business in the first half of this year, the management will open more stores in the market to maintain growth momentum of the business. 10 new retail shops will be opened during the last quarter of 2007 and in the first quarter of 2008.

Starting self-managed retail operation in Macau in April 2007 was an important strategic move of the Group with the aim of capturing the city's booming economy. The shop reported encouraging sales performance during the period under review. To continue to seize business opportunities as well as boost its brands in Macau, the Group will open 4 more self-managed retail shops in the city by 2008.

Facing rising rental cost, the Group will continue to improve operational efficiency through shop optimization and relocation, thereby keep increment of rental expense in line with annual sales growth.

Wholesale business has always been one of the Group's business focuses. To maintain a balanced clientele for sustaining growth momentum, the Group will continue its customer diversification strategy. The newly developed Southeast Asia region market recorded satisfactory results and the Group's distributor plans to open 1 more retail shop in Singapore to cater to customer demand. In the second half of the financial year, the Group will participate in certain international fashion shows held in Barcelona, Spain to increase its market presence as well as explore potential markets for business expansion.

In October 2007, the Group has made Forbes Asia's Annual "Best 200 Under a Billion" list, demonstrating the Group's proven track record and rewarding earnings performance.

Looking ahead, the Directors believe that with the Group gaining foothold as well as expanding its footprint in the China market and the Hong Kong market reporting robust growth, the Group can look forward to expanding in both scale and profitability in the next few years. The Group will continue to strengthen its brand image and distribution network so as to realise the goals of becoming a leading trendy fashion house and bringing quality fashion to consumers in different parts of the world. More importantly, the Group will continue to explore promising business opportunities to sustain growth and ultimately create value for all its shareholders.

Dividend

The Directors declared to pay an interim dividend of HK2.5 cents per ordinary share for the six months ended 30 September 2007 (2006: HK2.5 cents) payable on or about 25 January 2008 to shareholders whose names appear on the register of members of the Company on 11 January 2008.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 9 January 2008 to Friday, 11 January 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 8 January 2008.

Other Information

Directors' Interests In Securities

At 30 September 2007, 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO"), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(a) Long positions in ordinary shares of the Company

Name of director	Number of shares held, capacity and nature of interest			Total	Approximate percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Through a discretionary trust/as beneficiary or trustee of trust		
Mr. Wong Yui Lam	—	29,752,000 <i>(note 1)</i>	179,376,000 <i>(note 1)</i>	209,128,000	58.18%
Madam Tong She Man, Winnie	—	33,226,000 <i>(note 2)</i>	179,376,000 <i>(note 2)</i>	212,602,000	59.15%
Mr. Yeung Yat Hang	2,748,000	—	—	2,748,000	0.76%

Notes:

- 29,752,000 shares are held by Wonder View Limited ("Wonder View"), the entire issued share capital of which is beneficially owned by Mr. Wong Yui Lam. 179,376,000 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 and Madam Tong She Man, Winnie, both being executive directors of the Company.
- 33,226,000 shares are held by Great Elite Corporation ("Great Elite"), the entire issued share capital of which is beneficially owned by Madam Tong She Man, Winnie. 179,376,000 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 and Madam Tong she Man, Winnie, both being executive directors of the Company.

(b) 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%
	Madam Tong She Man, Winnie	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
	Madam Tong She Man, Winnie	Beneficial owner (note)	2 non-voting deferred shares of HK\$1 each	40% of the issued non-voting deferred shares
Bauhaus Holdings Limited	Mr. Wong Yui Lam	Beneficial owner (note)	1 non-voting deferred shares of HK\$1 each	50% of the issued non-voting deferred shares
	Madam Tong She Man, Winnie	Beneficial owner (note)	1 non-voting deferred shares of HK\$1 each	50% of the issued non-voting deferred shares

Notes:

Mr. Wong Yui Lam and Madam Tong She Man, Winnie are non-voting shareholders of these companies. The holders of these non-voting deferred shares are not entitled to any dividends and have no voting rights.

Save as disclosed above, as at 30 September 2007, none of the directors and their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) 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.

Directors' Rights to Acquire Shares or Debentures

At no time during the period were rights to acquire benefits by means of the acquisitions of shares in or debentures of the Company granted to any director or their respective spouse 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.

Other Information

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

At 30 September 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Position	Number of shares			Approximate percentage of the Company's issued share capital
		Directly beneficially owned	Through discretionary trust/as beneficiary or trustee of trust	Number of ordinary shares held	
Huge Treasure (note 1)	Long position	179,376,000	—	179,376,000	49.90%
East Asia International Trustees Limited ("EAIT") (note 2)	Long position	—	179,376,000	179,376,000	49.90%
Wonder View (note 3)	Long position	29,752,000	—	29,752,000	8.28%
Great Elite (note 4)	Long position	33,226,000	—	33,226,000	9.24%
Deutsche Bank Aktiengesellschaft	Long position	30,962,000	—	30,962,000	8.61%
Galaxy China Opportunities Fund	Long position	29,396,000	—	29,396,000	8.18%

Notes:

1. The 179,376,000 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 and Madam Tong She Man, Winnie, both being executive directors of the Company.
2. EAIT is a licensed trustee in the British Virgin Islands and acts as trustee of The Wong & Tong Family Trust. By virtue of its capacity as trustee of The Wong & Tong Family Trust, EAIT is deemed to be interested in the shares held by Huge Treasure (as trustee of The Wong & Tong Unit Trust) under the SFO.
3. Wonder View is a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mr. Wong Yui Lam.
4. Great Elite is a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Madam Tong She Man, Winnie.

Save as disclosed above, as at 30 September 2007, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ interests in securities” above, has an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Corporate Governance

The Company has complied with the applicable code provision of Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2007 except that the Company does not have a separate Chairman and Chief Executive Officer and Mr. Wong Yui Lam (“Mr. Wong”) currently holds both positions.

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

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the Company’s code of conduct for dealing in securities of the Company by the Directors. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months period ended 30 September 2007.

Purchase, Sale or Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed the Company’s listed shares during the six months ended 30 September 2007.

Other Information

Audit Committee

The Company established an audit committee on 22 April 2005 with terms of references in compliance with the CG Code. The audit committee comprises three independent non-executive directors, namely, Mr. Mak Wing Kit ("Mr. Mak"), Mr. Chu To Ki and Dr. Wong Yun Kuen. Mr. Mak is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the Group's financial reporting and auditing affairs and internal control systems.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and has also discussed internal control and financial reporting matters, including the review of the Interim Financial Statements for the six months ended 30 September 2007.

By Order of the Board
Wong Yui Lam
Chairman

Hong Kong, 18 December 2007