

# **bauhaus**

*interim report 2012*

**BAUHAUS INTERNATIONAL (HOLDINGS) LIMITED**

(incorporated in the Cayman Islands with limited liability)

(Stock Code 483)



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Key Financial Ratios		Notes	Period 4-9/2012	Period 4-9/2011	Change +/-
<b>Performance</b>					
Gross Margin	(%)	1	<b>66.2</b>	71.7	-5.5% pts.
Net Profit Margin	(%)	2	<b>2.1</b>	3.2	-1.1% pts.
Return on Average Equity (Annualised)	(%)	3	<b>4.0</b>	6.3	-2.3% pts.
Return on Average Assets (Annualised)	(%)	4	<b>2.9</b>	4.4	-1.5% pts.
<b>Operating</b>					
Inventory Turnover Days (Annualised)		5	<b>350</b>	368	-18 days
Debtors' Turnover Days (Annualised)		6	<b>12</b>	13	-1 day
Creditors' Turnover Days (Annualised)		7	<b>36</b>	36	-
<b>Liquidity and Gearing</b>					
Current Ratio		8	<b>2.3</b>	1.6	43.8%
Quick Ratio		9	<b>0.6</b>	0.4	50.0%
Gearing Ratio	(%)	10	<b>4.5</b>	11.1	-6.6% pts.
<b>Per Share Data</b>					
Book Value Per Share	(HK cents)	11	<b>141.4</b>	127.6	10.8%
Earnings Per Share	(HK cents)	12	<b>2.9</b>	4.2	-31.0%
Interim Dividend Per Share	(HK cents)		<b>1.0</b>	2.0	-50.0%

Notes:

- 1 "Gross Margin" is based on gross profit divided by turnover for the period.
- 2 "Net Profit Margin" is calculated as the profit for the period attributable to owners of the parent divided by turnover for the period.
- 3 "Return on Average Equity" represents the annualised profit for the period attributable to owners of the parent divided by average of opening and closing balance of shareholders' equity.
- 4 "Return on Average Assets" represents the annualised profit for the period attributable to owners of the parent divided by average of opening and closing balance of total assets.
- 5 "Inventory Turnover Days" is based on average of opening and closing balance of inventories divided by cost of sales and then multiplied by number of days during the period.
- 6 "Debtors' Turnover Days" is based on average of opening and closing balance of trade receivables divided by turnover and then multiplied by number of days during the period.
- 7 "Creditors' Turnover Days" is based on average of opening and closing balance of trade payables divided by purchases and then multiplied by number of days during the period.
- 8 "Current Ratio" represents current assets divided by current liabilities.
- 9 "Quick Ratio" represents current assets less inventories then divided by current liabilities.
- 10 "Gearing Ratio" represents total interest-bearing bank borrowings divided by total assets.
- 11 "Book Value Per Share" represents shareholders' equity divided by the total number of issued shares at the end of reporting period of 359,450,000 (2011: 359,450,000).
- 12 "Earnings Per Share" is calculated as the profit for the period attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the period under review of 359,450,000 (2011: 359,450,000).

### **Name of the Company**

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

### **Directors**

#### **Executive directors:**

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

#### **Independent non-executive directors:**

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

### **Company Secretary**

Mr. Li Kin Cheong, CPA, FCCA

### **Qualified Accountant**

Mr. Li Kin Cheong, CPA, FCCA

### **Authorised Representatives**

Mr. Wong Yui Lam  
Madam Lee Yuk Ming

### **Audit Committee**

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

### **Remuneration Committee**

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

### **Nomination Committee**

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

### **Principal Auditors**

Ernst & Young, *Certified Public Accountants*  
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

### **Investor Relation**

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

## 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

		<b>As at 30 September 2012 No. of shares</b>	<b>As at 31 March 2012 No. of shares</b>
<b>Shares</b>			
Authorised shares	:	<b>2,000,000,000</b>	2,000,000,000
Issued shares	:	<b>359,450,000</b>	359,450,000
		<b>FY 2012/13 (Half-year) HK cents</b>	<b>FY 2011/12 (Half-year) HK cents</b>
<b>Basic earnings per share</b>	:	<b>2.9</b>	4.2
<b>Dividend per share</b>			
Interim	:	<b>1.0</b>	2.0

## Key dates

2011/12 annual results announcement	:	21 June 2012
Closure of Register of Members for 2011/12 annual general meeting	:	14 August 2012 to 16 August 2012 (both days inclusive)
2011/12 annual general meeting	:	16 August 2012
Closure of Register of Members for 2011/12 proposed final dividends	:	22 August 2012 to 24 August 2012 (both days inclusive)
Payment of 2011/12 proposed final dividends	:	20 September 2012
2012/13 interim results announcement	:	23 November 2012
Closure of Register of Members for 2012/13 interim dividends	:	16 January 2013 to 18 January 2013 (both days inclusive)
Payable of 2012/13 interim dividend on or about	:	7 February 2013

**Official website** : [www.bauhaus.com.hk](http://www.bauhaus.com.hk)

**Financial year end** : 31 March

**Interim period end** : 30 September

## 06 Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2012

		Six months ended 30 September	
	Notes	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
REVENUE	3	<b>481,034</b>	465,025
Cost of sales		<b>(162,462)</b>	(131,422)
GROSS PROFIT		<b>318,572</b>	333,603
Other income and gains	4	<b>38,334</b>	2,677
Selling and distribution costs		<b>(278,721)</b>	(257,091)
Administrative expenses		<b>(58,613)</b>	(57,438)
Other expenses		<b>(1,624)</b>	(755)
Finance costs	5	<b>(940)</b>	(293)
PROFIT BEFORE TAX	6	<b>17,008</b>	20,703
Income tax expense	7	<b>(6,742)</b>	(5,712)
<b>PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b>10,266</b>	14,991
OTHER COMPREHENSIVE INCOME:			
Currency translation differences		<b>177</b>	3,258
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b>10,443</b>	18,249
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
Basic		<b>HK2.9 cents</b>	HK4.2 cents
Diluted		<b>HK2.9 cents</b>	HK4.2 cents
DIVIDENDS	9	<b>3,595</b>	7,189

## 07 Condensed Consolidated Statement of Financial Position

As at 30 September 2012

	Notes	As at 30 September 2012 (Unaudited) HK\$'000	As at 31 March 2012 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>144,323</b>	187,669
Intangible assets		<b>1,478</b>	1,565
Rental, utility and other non-current deposits		<b>71,381</b>	78,072
Deferred tax assets		<b>27,104</b>	20,477
<b>Total non-current assets</b>		<b>244,286</b>	287,783
<b>CURRENT ASSETS</b>			
Inventories		<b>352,301</b>	269,449
Trade receivables	10	<b>33,343</b>	28,653
Prepayments, deposits and other receivables		<b>34,488</b>	30,056
Tax recoverable		<b>1,366</b>	2,441
Held-to-maturity debt securities	11	<b>922</b>	920
Cash and cash equivalents		<b>46,345</b>	86,167
<b>Total current assets</b>		<b>468,765</b>	417,686
<b>CURRENT LIABILITIES</b>			
Trade payables	12	<b>65,356</b>	24,609
Other payables and accruals		<b>88,275</b>	102,302
Interest-bearing bank borrowings	13	<b>31,992</b>	46,758
Tax payable		<b>17,273</b>	12,954
<b>Total current liabilities</b>		<b>202,896</b>	186,623
<b>NET CURRENT ASSETS</b>		<b>265,869</b>	231,063
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>510,155</b>	518,846
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>1,815</b>	1,865
<b>NET ASSETS</b>		<b>508,340</b>	516,981
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	14	<b>35,945</b>	35,945
Reserves		<b>468,800</b>	457,672
Proposed dividends		<b>3,595</b>	23,364
<b>TOTAL EQUITY</b>		<b>508,340</b>	516,981



## 08 Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2012

Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Reserve funds HK\$'000	Proposed dividends HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 April 2011 (audited)	35,945	87,875	744	1,509	18,369	9,125	56,434	284,937	494,938
Total comprehensive income for the period	-	-	-	-	3,258	-	-	14,991	18,249
Equity-settled share option arrangements	15	-	-	1,927	-	-	-	-	1,927
Final dividend declared and paid	-	-	-	-	-	-	(38,461)	-	(38,461)
Special dividend declared and paid	-	-	-	-	-	-	(17,973)	-	(17,973)
Interim dividend	9	-	-	-	-	-	7,189	(7,189)	-
At 30 September 2011 (unaudited)	35,945	87,875	744	3,436	21,627	9,125	7,189	292,739	458,680
At 1 April 2012 (audited)	35,945	87,875	744	6,091	23,566	9,835	23,364	329,561	516,981
Total comprehensive income for the period	-	-	-	-	177	-	-	10,266	10,443
Equity-settled share option arrangements	15	-	-	4,280	-	-	-	-	4,280
Final dividend declared and paid	-	-	-	-	-	-	(23,364)	-	(23,364)
Interim dividend	9	-	-	-	-	-	3,595	(3,595)	-
At 30 September 2012 (unaudited)	35,945	87,875*	744*	10,371*	23,743*	9,835*	3,595	336,232*	508,340

\* These reserve accounts comprise the consolidated reserves of HK\$468,800,000 (31 March 2012: HK\$457,672,000) in the condensed consolidated statement of financial position.

## 09 Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2012

	Six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash flows used in operating activities	<b>(38,799)</b>	(40,029)
Net cash flows from/(used in) investing activities	<b>37,027</b>	(91,598)
Net cash flows from/(used in) financing activities	<b>(38,130)</b>	27,080
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(39,902)</b>	(104,547)
Cash and cash equivalents at beginning of period	<b>86,167</b>	153,934
Effect of foreign exchange rate changes, net	<b>80</b>	2,963
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>46,345</b>	52,350
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>46,345</b>	52,350

### 1. BASIS OF PRESENTATION AND PREPARATION

These unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) of the Bauhaus International (Holdings) Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2012 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “*Interim Financial Reporting*”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and basis of preparation adopted in the preparation of the Interim Financial Statements are the same as those used in the annual financial statements for the year ended 31 March 2012, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards (“HKFRS”) (which also include HKASs and Interpretations) in current period for the first time as disclosed in note 2 below. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

These Interim Financial Statements have not been audited, but have been reviewed by the Company’s audit committee and should be read in conjunction with the 2012 annual report.

### 2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURE

The Group has adopted the following new and revised HKFRSs and amendments (the “New Standards”) for the first time in the preparation of these Interim Financial Statements.

HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers to Financial Assets</i>

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

## 2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> <sup>1</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>2</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>2</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>2</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> <sup>3</sup>
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> <sup>2</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> <sup>2</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>4</sup>
HKFRS 10	<i>Consolidated Financial Statements</i> <sup>2</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>2</sup>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>2</sup>
HKFRS 13	<i>Fair Value Measurement</i> <sup>2</sup>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>2</sup>
Annual Improvement Project	<i>Annual Improvements to HKFRSs 2009-2011 Cycle</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2015

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

### 3. OPERATING SEGMENT INFORMATION

The Group was engaged in the manufacture and trading of garments and accessories.

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

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

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

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

Segment liabilities exclude deferred tax liabilities, tax payable, interest-bearing bank borrowings and other unallocated corporate liabilities as these liabilities are managed on a group basis.

Segment non-current assets exclude deferred tax assets and other unallocated corporate non-current assets as these assets 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 prevailing market prices.

#### **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 period under review, no major customer information is presented.

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## 3. OPERATING SEGMENT INFORMATION (continued)

	Hong Kong and Macau HK\$'000	Mainland China HK\$'000	Taiwan HK\$'000	Elsewhere HK\$'000	Total HK\$'000
<b>For the six months ended 30 September 2012 (Unaudited)</b>					
<b>Segment revenue:</b>					
Sales to external customers	313,068	72,342	77,599	18,025	481,034
Intersegment sales	–	4,014	54,470	597	59,081
	313,068	76,356	132,069	18,622	540,115
<i>Reconciliation:</i>					
Elimination of intersegment sales					(59,081)
Revenue					481,034
<b>Segment results:</b>					
<i>Reconciliation:</i>					
Interest income					99
Unallocated income					16,409
Finance costs					(940)
Unallocated expenses					(26,367)
Profit before tax	37,095	(5,816)	(8,891)	5,419	27,807
<b>Other segment information:</b>					
Capital expenditure	13,226	4,098	4,105	56	21,485
Unallocated capital expenditure					999
Total capital expenditure					22,484
Depreciation	6,828	5,288	6,309	–	18,425
Unallocated depreciation					3,103
Total depreciation					21,528
<b>As at 30 September 2012 (Unaudited)</b>					
<b>Segment assets:</b>					
<i>Reconciliation:</i>					
Deferred tax assets					27,104
Tax recoverable					1,366
Held-to-maturity debt securities					922
Unallocated assets					146,658
Total assets	303,862	130,352	100,100	2,687	537,001
<b>Segment liabilities:</b>					
<i>Reconciliation:</i>					
Deferred tax liabilities					1,815
Tax payable					17,273
Interest-bearing bank borrowings					31,992
Unallocated liabilities					18,810
Total liabilities	73,021	46,940	14,268	592	134,821
<b>Segment non-current assets:</b>					
<i>Reconciliation:</i>					
Deferred tax assets					27,104
Unallocated non-current assets					92,461
Total non-current assets	79,533	31,401	12,890	897	124,721

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## 3. OPERATING SEGMENT INFORMATION (continued)

	Hong Kong and Macau HK\$'000	Mainland China HK\$'000	Taiwan HK\$'000	Elsewhere HK\$'000	Total HK\$'000
<b>For the six months ended 30 September 2011 (Unaudited)</b>					
<b>Segment revenue:</b>					
Sales to external customers	291,824	84,086	77,149	11,966	465,025
Intersegment sales	26	3,445	52,980	–	56,451
	291,850	87,531	130,129	11,966	521,476
<i>Reconciliation:</i>					
Elimination of intersegment sales					(56,451)
Revenue					465,025
<b>Segment results:</b>					
	32,231	1,148	7,426	2,196	43,001
<i>Reconciliation:</i>					
Interest income					229
Finance costs					(293)
Unallocated expenses					(22,234)
Profit before tax					20,703
<b>Other segment information:</b>					
Capital expenditure	9,604	13,282	9,194	34	32,114
Unallocated capital expenditure					59,489
Total capital expenditure					91,603
Depreciation	6,291	5,258	3,926	–	15,475
Unallocated depreciation					1,690
Total depreciation					17,165
<b>As at 31 March 2012 (Audited)</b>					
<b>Segment assets:</b>					
	260,119	130,946	85,712	13,468	490,245
<i>Reconciliation:</i>					
Deferred tax assets					20,477
Tax recoverable					2,441
Held-to-maturity debt securities					920
Unallocated assets					191,386
Total assets					705,469
<b>Segment liabilities:</b>					
	47,068	46,419	9,986	6,046	109,519
<i>Reconciliation:</i>					
Deferred tax liabilities					1,865
Tax payable					12,954
Interest-bearing bank borrowings					46,758
Unallocated liabilities					17,392
Total liabilities					188,488
<b>Segment non-current assets:</b>					
	78,214	35,841	15,370	963	130,388
<i>Reconciliation:</i>					
Deferred tax assets					20,477
Unallocated non-current assets					136,918
Total non-current assets					287,783

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**4. OTHER INCOME AND GAINS**

	<b>Group</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Compensation received for early termination of tenancies	<b>21,700</b>	–
Gain on disposal of property, plant and equipment, net	<b>15,189</b>	–
Interest income	<b>99</b>	229
Foreign exchange gains, net	<b>261</b>	1,165
Sundry income	<b>1,085</b>	1,283
	<b>38,334</b>	2,677

**5. FINANCE COSTS**

	<b>Group</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans wholly repayable within five years	<b>940</b>	293



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**6. PROFIT BEFORE TAX**

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

	<b>Group</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>140,536</b>	115,071
Provision for slow-moving inventories, net (included in cost of sales)	<b>21,926</b>	16,351
Depreciation	<b>21,528</b>	17,165
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	<b>124,974</b>	114,461
Contingent rents	<b>22,753</b>	21,310
	<b>147,727</b>	135,771
Rental expenses under operating leases in respect of equipment:		
Minimum lease payments	<b>329</b>	299
Contingent rents	<b>51</b>	130
	<b>380</b>	429
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and other benefits	<b>93,540</b>	87,212
Equity-settled share option expense	<b>4,280</b>	1,927
Pension scheme contributions	<b>5,866</b>	5,327
	<b>103,686</b>	94,466
Loss on disposal of property, plant and equipment, net	–	570
Amortisation of intangible assets	<b>162</b>	177
Write-off of rental deposits	<b>1,462</b>	7

**7. INCOME TAX EXPENSE**

	<b>Group</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current tax		
– Hong Kong	<b>5,029</b>	5,467
– Elsewhere	<b>8,274</b>	10,076
Deferred tax credit	<b>(6,561)</b>	(9,831)
Total tax charge for the period	<b>6,742</b>	5,712

Hong Kong profit tax has been provided at a rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2012. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries/jurisdictions, in which the Group operates.

**8. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT**

The calculation of basic earnings per share is based on the profit for the period attributable to equity holders of the parent of HK\$10,266,000 (2011: HK\$14,991,000) and the weighted average number of ordinary shares of 359,450,000 (2011: 359,450,000) in issue during the six months ended 30 September 2012.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 September 2011 and 2012 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the amounts of basic earnings per share presented.

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**9. DIVIDENDS**

A final dividend of HK\$23,364,000 for the year ended 31 March 2012 (2011: final and special dividends of HK\$56,434,000 in aggregate) was paid in September 2012.

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interim – HK1.0 cent (2011: HK2.0 cents)		
per ordinary share	<b>3,595</b>	7,189

The Directors declared to pay an interim dividend of HK1.0 cent per ordinary share for the six months ended 30 September 2012 (2011: HK2.0 cents) payable on or about Thursday, 7 February 2013 to shareholders whose names appear on the register of members of the Company on Friday, 18 January 2013. The interim dividend is not reflected as a dividend payable as of 30 September 2012, but will be reflected as an appropriation of retained earnings of the Company for the year ending 31 March 2013.

**10. TRADE RECEIVABLES**

Retail sales are made on cash terms or by credit card with very short credit terms. Wholesales are made to customers with general credit terms ranging from 30 days to 60 days, except for certain well-established customers with a long business relationship with the Group, where the terms are extended, while no credit terms were granted to sales to franchisees. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed. In view of the aforementioned and the fact the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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**10. TRADE RECEIVABLES** *(continued)*

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

	<b>Group</b>	
	<b>As at</b>	As at
	<b>30 September</b>	31 March
	<b>2012</b>	2012
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>33,298</b>	28,373
91 to 180 days	<b>33</b>	1
181 to 365 days	<b>–</b>	266
Over 365 days	<b>12</b>	13
	<b>33,343</b>	28,653

**11. HELD-TO-MATURITY DEBT SECURITIES**

	<b>Group</b>	
	<b>As at</b>	As at
	<b>30 September</b>	31 March
	<b>2012</b>	2012
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Unlisted bonds, at amortised cost	<b>922</b>	920
Current portion	<b>(922)</b>	(920)
Non-current portion	<b>–</b>	–

These unlisted bonds have an aggregate nominal value of RMB740,000 (31 March 2012: RMB740,000), bear interest at a rate of 2.70% (31 March 2012: 2.70%) per annum and have been settled in October 2012.

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**12. TRADE PAYABLES**

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

	<b>Group</b>	
	<b>As at</b>	As at
	<b>30 September</b>	31 March
	<b>2012</b>	2012
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>63,185</b>	23,860
91 to 180 days	<b>1,630</b>	329
181 to 365 days	<b>405</b>	313
Over 365 days	<b>136</b>	107
	<b>65,356</b>	24,609

**13. INTEREST-BEARING BANK BORROWINGS**

	<b>Group</b>	
	<b>As at</b>	As at
	<b>30 September</b>	31 March
	<b>2012</b>	2012
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Analysed into bank loans repayable:		
Within one year or on demand	<b>28,240</b>	33,388
In the second year	<b>3,752</b>	13,370
	<b>31,992</b>	46,758

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**13. INTEREST-BEARING BANK BORROWINGS** *(continued)*

The interest-bearing bank borrowings were classified as current liabilities as the loan agreements contain an overriding clause that provides the lenders with an unconditional right to demand repayment at any time at their own discretion. The analysis presented above is based on scheduled repayment dates set out in the notices for repayment schedule issued by the banks and ignore the effect of any repayment on demand clause.

*Notes:*

- (a) The Group's bank loans are secured by:
- (i) mortgages over the Group's leasehold land and buildings, which had an aggregate carrying value at the end of the reporting period of approximately HK\$66,853,000 (31 March 2012: HK\$102,693,000); and
  - (ii) corporate guarantees given by the Company and a Group's subsidiary of HK\$70,240,000 (31 March 2012: HK\$70,240,000) and HK\$25,000,000 (31 March 2012: HK\$25,000,000), respectively.
- (b) At the end of the reporting period, the bank loans were bearing interest at variable rates ranging from 1% to 5% (31 March 2012: from 1% to 7%) per annum.
- (c) All borrowings are in Hong Kong dollars.

As at the end of the reporting period, the Company did not have any interest-bearing bank borrowings.

**14. SHARE CAPITAL**

	<b>Company</b>	
	<b>As at</b>	As at
	<b>30 September</b>	31 March
	<b>2012</b>	2012
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.1 each	<b>200,000</b>	200,000
Issued and fully paid:		
359,450,000 ordinary shares of HK\$0.1 each	<b>35,945</b>	35,945

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**15. SHARE OPTION SCHEME**

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

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

	<b>Group and Company</b>			
	<b>For the six months ended 30 September 2012 (Unaudited)</b>		<b>For the year ended 31 March 2012 (Audited)</b>	
	<b>Weighted average exercise price per share HK\$</b>	<b>Number of share options '000</b>	<b>Weighted average exercise price per share HK\$</b>	<b>Number of share options '000</b>
At beginning of period/year	<b>2.550</b>	<b>20,840</b>	3.354	9,840
Granted	–	–	1.830	11,000
Exercised	–	–	–	–
Cancelled	<b>(3.354)</b>	<b>(9,840)</b>	–	–
At end of period/year	<b>1.830</b>	<b>11,000</b>	2.550	20,840

On 16 August 2012, the shareholders of the Company resolved in the 2012 annual general meeting to cancel a total of 9,840,000 share options previously granted to certain directors and employees of the Group to subscribe for shares of HK\$0.10 each in the Company under the Scheme on 2 December 2010 and remained outstanding as at 31 March 2012.

The Group recognised a share option expense of HK\$4,280,000 in aggregate during the six months ended 30 September 2012 (2011: HK\$1,927,000).

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**16. CONTINGENT LIABILITIES**

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

	<b>Group</b>	
	<b>As at</b>	As at
	<b>30 September</b>	31 March
	<b>2012</b>	2012
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Bank guarantees given in lieu of utility and property rental deposits	<b>6,936</b>	5,502

Save as disclosed elsewhere in the Interim Financial Statements, the Company did not have any significant contingent liabilities as at the end of the reporting period.

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

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

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

	<b>Group</b>	
	<b>As at</b>	As at
	<b>30 September</b>	31 March
	<b>2012</b>	2012
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>212,055</b>	236,617
In the second to fifth year, inclusive	<b>201,314</b>	258,255
Over five years	<b>5,707</b>	7,013
	<b>419,076</b>	501,885



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

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.

No operating lease arrangements were entered into by the Company as at 30 September 2012 (31 March 2012: Nil).

**(ii) Other commitment**

In addition to the operating lease commitments detailed above, the Group and the Company had no material capital commitments contracted, but not provided for in the Interim Financial Statements as at 30 September 2012 (31 March 2012: Nil).

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

	<b>Group</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Computer system maintenance charges paid to related companies	<b>291</b>	705
Purchases of computer equipment from related companies	<b>–</b>	770

**18. RELATED PARTY TRANSACTIONS** *(continued)***(b) Compensation of key management personnel**

	<b>Group</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Short-term employee benefits	<b>2,274</b>	1,938
Equity-settled share option expense	<b>547</b>	513
Post-employment benefits	<b>31</b>	28
<b>Total compensation paid to key management personnel</b>	<b>2,852</b>	2,479

**19. COMPARATIVE AMOUNTS**

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

**20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

The Interim Financial Statements were approved and authorised for issue by the Directors on 23 November 2012.

## BUSINESS REVIEW

The Group encountered substantial difficulties in various markets during the six months ended 30 September 2012. Adversely affected by the global economic slowdown, European debt crisis and certain domestic policy issues, the retail performance in various markets within which the Group operated was disappointing. The consolidated turnover of the Group increased just slightly to approximately HK\$481.0 million (2011: HK\$465.0 million) for the six months ended 30 September 2012. During the period under review, the Group recorded a positive same-store-growth rate of about 3.2%. In response to the economic slowdown and unhealthily high level of slow-moving inventories, the Group proactively offered more intense promotional discounts on products to galvanise sales and to reduce inventories to a healthier level. The gross margin was then significantly trimmed by about 5.5 percentage points to approximately 66.2% (2011: 71.7%) for the six months ended 30 September 2012. Besides, the operating costs, particularly the rental and labour costs, continued to surge at a high level. As a result, the net profit for the six months ended 30 September 2012 dropped to about HK\$10.3 million (2011: HK\$15.0 million) and the net profit margin was further squeezed to about 2.1% (2011: 3.2%).

In view of the sluggish retail sentiment and soaring operating costs, the Group maintained a comparable scale of its retail networks during the period under review. As at 30 September 2012, the Group had a total of 246 shops in operation (31 March 2012: 244).

	<b>As at 30 September 2012</b>	<b>As at 31 March 2012</b>	<b>Changes</b>
<b>Self-managed outlets</b>			
Hong Kong & Macau	82	79	+3
Taiwan	86	78	+8
Mainland China	39	45	-6
	<b>207</b>	<b>202</b>	<b>+5</b>
<b>Franchised outlets</b>			
Mainland China	39	42	-3
<b>TOTAL</b>	<b>246</b>	<b>244</b>	<b>+2</b>

### **Hong Kong and Macau**

The retail operations in Hong Kong and Macau, which accounted for about 65.1% (2011: 62.8%) of the Group's turnover, sustained sales growth of approximately 7.3% to roughly HK\$313.1 million (2011: HK\$291.8 million) during the period under review. The Group also recorded a positive same-store-growth rate of about 10.5% for the six months ended 30 September 2012. The Group was fine-tuning its shop mix by introducing more attractive branded shops, gradually renovating its existing shop design in a more lively and attractive style, closing down certain underperforming shops and relocating shops to other prime shopping locations with lower rentals. The Group remains committed to maintaining a robust and diverse retail network aimed at fuelling stable growth over the long term. Together with a one-off compensation received from landlords totalling about HK\$21.7 million for early termination of certain tenancies, segment profit before tax of the Group's Hong Kong and Macau operations was about HK\$37.1 million (2011: HK\$32.2 million) for the six months ended 30 September 2012.

### **Mainland China**

The Group continued to consolidate and eliminate underperforming sales outlets in Mainland China. During the period under review, turnover from Mainland China dropped to about HK\$72.3 million (2011: HK\$84.1 million). The segment incurred losses of about HK\$5.8 million (2011: profit of about HK\$1.1 million) for the six months ended 30 September 2012. As at 30 September 2012, the Group operated its self-managed retail shops in Beijing, Shanghai, Guangzhou, Nanjing and Suzhou and maintained a sizable franchise network spanning about 20 second-tier cities in Mainland China. Actually, the challenges within the domestic market during the period under review were serious. Although the sales performance appeared to have gradually stabilised with a positive same-store-growth rate of about 5.8% recorded in the period under review after elimination of many problematic retail outlets during the previous year, the growth momentum was still volatile and cost-rising operating conditions continued. It was expected to take a longer time to recover stronger growth and to resume profit in the region. The Group has paid special attention to proactively monitor the performance and operating effectiveness of its shop portfolio.

### Taiwan

The Group performed considerably worse in the Taiwan market during the six months ended 30 September 2012. Adversely affected by an economic slowdown, the retail performance in Taiwan rapidly and seriously deteriorated. The Group recorded a negative same-store-growth rate of about 22.7% during the period under review. Although the total number of shops operated by the Group in Taiwan rose by 8 to 86 in the first-half of the fiscal year, the total sales in Taiwan merely achieved a slight growth of 0.6% to about HK\$77.6 million (2011: HK\$77.1 million). To stimulate retail sales and reduce slow-moving inventories, the Group greatly increased the promotional activities and discounts to retail consumers. Hence, gross margin inevitably dropped. As a result of sluggish sales growth, a drop in gross margin and soaring operating costs, the segment incurred losses of about HK\$8.9 million (2011: profit of about HK\$7.4 million) during the period under review. The Group closely monitored the effectiveness of its shop portfolio in a regular basis and altered its portfolio mix in order to react promptly to changing market conditions. The Group would also continue to create stronger brand equity for the Group's in-house labels. In what has proven to be an effective element of the Group's strategy in Taiwan, most of the shops were located within reputable department stores in major Taiwan cities.

### Elsewhere

The Group extended its business coverage to several countries, with a particular focus on Asia, through wholesale operations. The turnover from the segment improved substantially by about 50% to about HK\$18.0 million (2011: HK\$12.0 million). The encouraging result was mainly attributable to the significant growth in sales to the Japanese market. However, due to the unstable economy in Japan, the sales growth in that region is expected to be quite volatile in the future. The Group plans to maintain the current scale of its operations in the country to address the demand from existing customers.

## FINANCIAL REVIEW

### Turnover

The aggregate turnover of the Group rose by approximately 3.4% to around HK\$481.0 million (2011: HK\$465.0 million) for the six months ended 30 September 2012, which comprised about HK\$450.3 million (2011: HK\$429.0 million) in sales from retail operations, roughly HK\$12.7 million (2011: HK\$24.0 million) in sales from the franchise business and about HK\$18.0 million (2011: HK\$12.0 million) in sales from the wholesale business. The retail business was the major sales contributor, accounting for approximately 93.6% (2011: 92.3%) of total turnover.

During the period under review, the Group's in-house branded products accounted for about 76% (2011: 82%) of total turnover of the Group. The drop in sales mix was mainly due to a significant increase in sales from import brands following the launch of "SUPERDRY" licensed brand specialty shops.

### Operating Segment Information

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

### Gross Profit

The Group's gross profit dropped to approximately HK\$318.6 million (2011: HK\$333.6 million) for the six months ended 30 September 2012 and gross margin greatly narrowed by 5.5 percentage points to around 66.2% (2011: 71.7%) when compared with the same period last year. Owing to a stagnant retail performance, the Group had to significantly increase the extent and frequency of sales promotions to retail customers to galvanise sales growth and to reduce unhealthy high level of slow-moving inventories.

### Exceptional Other Income and Gain

During the six months ended 30 September 2012, the Group received compensation of about HK\$21.7 million (2011: Nil) in aggregate from landlords for early termination of certain rental leases in Hong Kong and Macau with the Group. In addition, the Group recorded a net gain of about HK\$15.2 million (2011: Nil) in respect of disposal of property, plant and equipment. The disposal gain was mainly contributed by the sales of certain under-utilised properties in Hong Kong for an aggregate consideration of about HK\$59.4 million. These properties were originally acquired to serve as warehouses, car parking spaces and staff quarters for the Group's retail operation. However, in light of the recent economic slowdown and slow sales growth, the properties were in low utilisation and were expected to be continued in the foreseeable future. Therefore, the Group realised the redundant properties for cash to improve working capital and to facilitate resource allocation in a more productive manner.

### **Operating Expenses and Finance Costs**

Operating expenses increased by about 7.5% to approximately HK\$339.0 million (2011: HK\$315.3 million) during the six months ended 30 September 2012, equivalent to roughly 70.5% of total turnover (2011: 67.8%). Rent for land and buildings was about HK\$147.7 million (2011: HK\$135.8 million), which accounted for about 30.7% (2011: 29.2%) of the Group's turnover and equivalent to about 43.6% (2011: 43.1%) of the Group's total expenses during the period under review. The increase was mainly because of rising market rentals. During the period under review, the Group continued to strategically relocate and consolidate certain shops to gradually moderate rental increment and to enhance sales area utilisation.

Staff cost was another major operating expense that increased to approximately HK\$103.7 million (2011: HK\$94.5 million) during the six months ended 30 September 2012. Staff cost-to-sales ratio also came up to about 21.6% (2011: 20.3%) for the six months ended 30 September 2012. Inflationary operating environments and shortage of skillful retail sales staff pushed up the wages in general. Through effective use of incentive systems to motivate sales staff for better efficiency and cost control measures, they helped the Group to contain the staff cost-to-sales ratio at an acceptable level.

Depreciation charges rose to approximately HK\$21.5 million (2011: HK\$17.2 million) for the six months ended 30 September 2012. Marketing expenses, including advertising, promotion and exhibition expenses, were reduced to approximately HK\$11.1 million (2011: HK\$15.7 million) for the period under review since the Group intended to focus more resources during the traditional peak sales season in the second-half of the fiscal year. In addition, the finance cost was about HK\$0.9 million (2011: HK\$0.3 million), which represented the interest expenses paid for bank borrowings.

### **Net Profit**

The Group's net profit declined by about 31.3% from approximately HK\$15.0 million in the corresponding period of 2011 to approximately HK\$10.3 million for the six months ended 30 September 2012. Net profit margin also slid from about 3.2% to about 2.1%.

## CAPITAL STRUCTURE

As at 30 September 2012, the Group had net assets of approximately HK\$508.3 million (31 March 2012: HK\$517.0 million), comprising non-current assets of approximately HK\$244.3 million (31 March 2012: HK\$287.8 million), net current assets of approximately HK\$265.8 million (31 March 2012: HK\$231.1 million) and non-current liabilities of approximately HK\$1.8 million (31 March 2012: HK\$1.9 million).

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2012, the Group had cash and cash equivalents of about HK\$46.3 million (31 March 2012: HK\$86.2 million).

As at 30 September 2012, the Group had aggregate banking facilities of about HK\$107.0 million (31 March 2012: HK\$111.5 million) comprising interest-bearing bank overdraft, mortgage loans and revolving loans, rental and utility guarantees as well as import facilities, of which about HK\$57.5 million had not been utilised as at the end of the reporting period. In particular, the Group had bank borrowings of about HK\$32.0 million as at 30 September 2012 (31 March 2012: HK\$46.8 million), which were in Hong Kong dollars, repayable within three years or on demand and bearing interest at variable rates ranging from 1% to 5% (31 March 2012: from 1% to 7%) per annum.

The gearing ratio of the Group at the end of the reporting period, representing a percentage of total interest-bearing bank borrowings to total assets, amounted to about 4.5% (31 March 2012: 6.6%).

## CASH FLOWS

For the six months ended 30 September 2012, net cash flows used in operating activities was approximately HK\$38.8 million (2011: HK\$40.0 million), which mainly attributed to a substantial increase in inventory level. Net cash inflow from investing activities of about HK\$37.0 million (2011: cash outflow of HK\$91.6 million) were mainly contributed by proceeds on disposal of certain redundant properties for better corporate resource allocation during the period under review. Net cash flows used in financing activities during the period under review amounted to about HK\$38.1 million (2011: cash inflow of HK\$27.1 million). It was mainly attributable to payment of 2011/12 final dividends and partial repayment of bank borrowings.



## SECURITY

As at 30 September 2012, 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\$66.9 million (31 March 2012: HK\$102.7 million) and cross guarantees from the Company and certain subsidiaries of the Group.

## CAPITAL COMMITMENT

As at 30 September 2012, the Group and the Company had no material capital commitments in respect of acquisition of items of property, plant and equipment contracted, but not provided for in the financial statements (31 March 2012: Nil).

## CONTINGENT LIABILITIES

As at 30 September 2012, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK\$6.9 million (31 March 2012: HK\$5.5 million). Save as disclosed elsewhere in the Interim Financial Statements, the Company had no material contingent liabilities as at the end of the reporting period (31 March 2012: Nil).

## HUMAN RESOURCES

Including all directors, the Group had 1,550 employees as at 30 September 2012 (31 March 2012: 1,659). To attract and retain high quality staff, the Group provided competitive remuneration packages with performance bonuses, mandatory provident fund, insurance and medical coverage as well as entitlements to share options to be granted under a share option scheme based on employees' performance, experience and the prevailing market rate. Remuneration packages were reviewed regularly. Regarding staff development, the Group provided regular in-house training to retail staff and subsidised them on external training programmes.

## FOREIGN EXCHANGE RISK MANAGEMENT

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

## PROSPECTS

The challenges that the retail sector was confronted with are expected to persist in the second half of the financial year. Consequently, we anticipate that customer traffic will continue to be erratic, consumption sentiment will lean towards cautionary and operating expenditures will remain high in the short-term. Amid such an uncertain environment, the Group will seek to consolidate its operations, raise overall efficiency, and enhance brand image through the introduction of desirable products that are backed by effective marketing and promotions.

Having successfully introduced several product lines during the past year, including leather jackets and accessories that placed us at the forefront of the market, we will continue to direct resources toward developing and promoting such popular products as they possess high growth prospects and enable higher sales. Consistent with this strategy, we launched the “Salad – Carry Me” campaign in October 2012 for the “Salad” brand leather handbag line, which links “Salad” with a refreshing, friendly and joyful image. In addition to immediately stimulating sales, the campaign has also helped elevate Salad’s position to that of a premium brand for young working ladies.

Apart from the aforesaid campaign, the Group also sought other means of raising the profile of the Salad brand, including the use of print advertising, eye-catching billboards at popular shopping destinations and new media. Such a comprehensive and carefully orchestrated approach not only increased exposure and encouraged customer traffic but also enhanced awareness of the Group’s in-house brands as a whole. As we fully believe that brand reputation and sales performance go hand in hand, we will continue to direct efforts towards brand building by tapping a large number of promotional channels and projecting a fashionable image that is popular and that our target customers identify with.

In view of the challenging times ahead, we anticipate that sales in key markets will remain uncertain and therefore believe that maintaining a prudent approach towards business development will be essential. We aim to enhance inventory turnover by better aligning stock ordering with current market demand. In the face of escalating rent and labour costs, particularly in Hong Kong and Mainland China, we will focus on bolstering the performance of existing retail stores rather than rapidly expanding our sales network. The Group will, however, relocate certain sales points to more cost-effective locations to achieve greater efficiency, and open additional sales outlets to reduce stocks of slow-moving inventories and improve cash flow. Last but not least, we will closely advance business development in parallel with the development of the market, carefully monitor and control costs and allocate resources efficiently and effectively to enhance overall performance.

The Directors declared to pay an interim dividend of HK1.0 cent per ordinary share for the six months ended 30 September 2012 (2011: HK2.0 cents) payable on or about **Thursday, 7 February 2013** to shareholders whose names appear on the register of members of the Company on **Friday, 18 January 2013**.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from **Wednesday, 16 January 2013 to Friday, 18 January 2013**, 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, 15 January 2013**.

**DIRECTORS' INTERESTS IN SECURITIES**

At 30 September 2012, the interests and short positions of the directors of the Company in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

**(a) Long positions in ordinary shares of the Company**

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation	Through a discretionary trust/as beneficiary or trustee of trust		
Mr. Wong Yui Lam	500,000	29,900,000 <i>(note)</i>	180,000,000 <i>(note)</i>	210,400,000	58.53%
Mr. Yeung Yat Hang	3,748,000	–	–	3,748,000	1.04%

*Note:*

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

**(b) Long positions in share options of the Company**

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

**(c) Long positions in shares of associated corporations**

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

*Note:*

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

Save as disclosed above, as at 30 September 2012, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporation that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed below in the section of "Share Option Scheme", at no time during the six months ended 30 September 2012 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.

## SHARE OPTION SCHEME

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

The following table discloses movements in the Company's share options outstanding during the six months ended 30 September 2012:

Name or category of participant	Number of share options					At 30 September 2012	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share
	At 1 April 2012	Granted during the period	Exercised during the period	Expired during the period	Cancelled during the period				
<b>Directors</b>									
Madam Lee Yuk Ming	250,000	-	-	-	(250,000)	-	2 Dec 10	2 Dec 11 to 2 Dec 15	3.354
	250,000	-	-	-	(250,000)	-	2 Dec 10	3 Dec 12 to 2 Dec 15	3.354
	300,000	-	-	-	(300,000)	-	2 Dec 10	3 Dec 13 to 2 Dec 15	3.354
	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
	1,600,000	-	-	-	(800,000)	800,000			
Mr. Yeung Yat Hang	200,000	-	-	-	(200,000)	-	2 Dec 10	2 Dec 11 to 2 Dec 15	3.354
	200,000	-	-	-	(200,000)	-	2 Dec 10	3 Dec 12 to 2 Dec 15	3.354
	200,000	-	-	-	(200,000)	-	2 Dec 10	3 Dec 13 to 2 Dec 15	3.354
	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
	1,200,000	-	-	-	(600,000)	600,000			
<b>Other employees</b>									
In aggregate	2,310,000	-	-	-	(2,310,000)	-	2 Dec 10	2 Dec 11 to 2 Dec 15	3.354
	2,310,000	-	-	-	(2,310,000)	-	2 Dec 10	3 Dec 12 to 2 Dec 15	3.354
	3,820,000	-	-	-	(3,820,000)	-	2 Dec 10	3 Dec 13 to 2 Dec 15	3.354
	3,210,000	-	-	-	-	3,210,000	13 Jan 12	12 Jan 13 to 12 Jan 17	1.830
	3,210,000	-	-	-	-	3,210,000	13 Jan 12	12 Jan 14 to 12 Jan 17	1.830
	3,180,000	-	-	-	-	3,210,000	13 Jan 12	12 Jan 15 to 12 Jan 17	1.830
	18,040,000	-	-	-	(8,440,000)	9,600,000			
<b>Others</b>									
In aggregate	-	-	-	-	-	-	-	-	-
	20,840,000	-	-	-	(9,840,000)	11,000,000			

Notes to the table of share options outstanding during the six months ended 30 September 2012:

\* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

At the end of the reporting period, the Company had 11,000,000 share options, which represented approximately 3.1% of the Company's shares in issue as at the date of this report, outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 11,000,000 additional ordinary shares of the Company and additional share capital of HK\$1,100,000 and share premium of HK\$19,030,000 (before issue expenses).

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

At 30 September 2012, 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				Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporation	Through discretionary trust/as beneficiary or trustee of trust	Total number of ordinary shares held	
Huge Treasure (note 1)	Long position	180,000,000	–	–	180,000,000	50.08%
East Asia International Trustees Limited ("EAIT") (note 2)	Long position	–	–	180,000,000	180,000,000	50.08%
Wonder View (note 3)	Long position	29,900,000	–	–	29,900,000	8.32%
Great Elite Corporation ("Great Elite") (note 4)	Long position	34,068,000	–	–	34,068,000	9.48%
Webb David Michael (note 5)	Long position	4,646,000	18,037,000	–	22,683,000	6.31%

### 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.

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.
5. 18,037,000 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. Webb David Michael.

Save as disclosed above, as at 30 September 2012, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in securities" above, has an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

### **CORPORATE GOVERNANCE**

The Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 September 2012 except for not having a separate Chairman and Chief Executive Officer of the Group. Both positions are currently held by Mr. Wong Yui Lam ("Mr. Wong").

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



### **MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 (the “Model Code”) to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 September 2012.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 September 2012.

### **REVIEW OF FINANCIAL INFORMATION**

An audit committee of the Company (the “Audit Committee”) comprising three independent non-executive directors was established on 22 April 2005 with written terms of reference. The Audit Committee has reviewed and discussed with management the accounting principles and practices adopted by the Group, internal control and financial reporting matters, including the review of the Interim Financial Statements for the six months ended 30 September 2012.

### **SUFFICIENCY OF PUBLIC FLOAT**

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

### **APPRECIATION**

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

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

Hong Kong, 23 November 2012