bauhaus

interim report 2006

BAUHAUS INTERNATIONAL (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 483)

Contents

Financial Highlights

Key Financial Ratios		Notes	Period 4-9/2006	Period 4-9/2005	Change +/-
Performance					
Gross Margin	(%)	1	63.1	64.7	-1.6 % pt.
Adjusted Gross Margin	(%)	2	66.1	65.1	1.0 % pt.
Net Profit Margin	(%)	3	9.5	9.8	-0.3 % pt.
Adjusted Net Profit Margin	(%)	4	12.4	10.1	2.3 % pts.
Return on Average Equity (Annualised)	(%)	5	14.6	17.6	-3.0 % pts.
Return on Average Assets (Annualised)	(%)	6	12.6	13.8	-1.2 % pt.
Operating					
Inventory Turnover Days (Annualised)		7	221	235	-14 days
Debtors' Turnover Days (Annualised)		8	12	11	1 day
Creditors' Turnover Days (Annualised)		9	15	17	-2 days
Per Share Data					
Earnings Per Share	(HK cents)	10	5.9	5.4	9.3 %
Dividend Per Share					
Interim	(HK cents)		2.5	2.5	
Special Interim	(HK cents)		–	2.0	
			2.5	4.5	

			As at 30/9/2006	As at 31/3/2006	
Liquidity and Gearing					
Current Ratio		11	4.9	7.4	-33.8 %
Quick Ratio		12	2.9	4.9	-40.8 %
Gearing Ratio	(%)	13	1.4	1.1	0.3 % pt.
Per Share Data					
Book Value Per Share	(HK cents)	14	80.3	83.0	-3.3 %

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 against slow-moving inventory of HK$6.5 million (2005: HK$0.7 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 against slow-moving inventory of HK$6.5 million (2005: HK$0.7 million) divided by turnover during the period.

5 "Return on Average Equity" represents annualised net profit during the period divided by average of opening and closing balance for shareholders' equity.

6 "Return on Average Assets" represents annualised 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 for 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 for 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 for 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 350,650,000 shares (2005: 325,513,115 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 balance then divided by current liabilities.

13 "Gearing Ratio" represents total interest-bearing borrowings divided by total assets.

14 "Book Value Per Share" represents shareholders' equity divided by the total number of issued shares of 350,650,000 at the balance sheet dates.

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)*
Madam Tong She Man, Winnie
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 Hong Kong Stock Exchange
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 2006	:	350,650,000 shares
Par value	:	HK$0.10

		4-9/2006	4-9/2005
Basic earnings per share	:	**HK 5.9 cents**	HK 5.4 cents
Dividend per share			
Interim	:	**HK 2.5 cents**	HK 2.5 cents
Special interim	:	**–**	HK 2.0 cents
TOTAL		**HK 2.5 cents**	HK 4.5 cents

Key dates

2006 annual results announcement	:	13 July 2006
Closure of Register of Members	:	23 August 2006 to 25 August 2006 *(both days inclusive)*
2006 annual general meeting	:	25 August 2006
Payment of 2006 final and special dividends	:	8 September 2006
2007 interim results announcement	:	15 December 2006
Closure of Register of Members	:	10 January 2007 to 12 January 2007 *(both days inclusive)*
Payable of 2007 interim dividend on or about	:	26 January 2007
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 2006

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 2006, 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.

Condensed Consolidated Income Statement

	Notes	Six months ended 30 September 2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
REVENUE			
Sales of garment products and accessories	3	**219,456**	180,679
Cost of sales		**(80,919)**	(63,772)
GROSS PROFIT		**138,537**	116,907
Other revenue and gains	4	**2,891**	2,741
Selling and distribution costs		**(90,359)**	(76,482)
Administrative expenses		**(25,302)**	(22,248)
Other expenses		**(1,471)**	(232)
Finance costs	5	**(158)**	(233)
PROFIT BEFORE TAX	6	**24,138**	20,453
Tax	7	**(3,326)**	(2,814)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**20,812**	17,639
DIVIDENDS	8		
Interim		**8,766**	8,766
Special interim		**–**	7,013
		8,766	15,779
DIVIDEND PER SHARE	8		
Interim		**HK2.5 cents**	HK2.5 cents
Special interim		**–**	HK2.0 cents
		HK2.5 cents	HK4.5 cents
EARNINGS PER SHARE – BASIC	9	**HK5.9 cents**	HK5.4 cents

Condensed Consolidated Balance Sheet

30 September 2006

	Notes	30 September 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**30,917**	32,635
Prepaid land lease payments		**7,251**	7,329
Intangible assets		**1,711**	1,272
Available-for-sale financial asset		**3,900**	3,900
Deferred tax assets		**5,544**	4,163
Rental, utility and other non-current deposits		**25,305**	25,655
Total non-current assets		**74,628**	74,954
CURRENT ASSETS			
Inventories	*10*	**109,230**	85,776
Trade and bills receivables	*11*	**17,220**	11,331
Prepayments, deposits and other receivables		**17,189**	12,500
Prepaid land lease payments, current portion		**155**	155
Tax recoverable		**1,345**	1,316
Cash and cash equivalents	*12*	**115,150**	139,660
Total current assets		**260,289**	250,738
CURRENT LIABILITIES			
Trade and bills payables	*13*	**8,119**	6,319
Tax payable		**4,366**	2,690
Accruals and other payables		**27,012**	21,246
Due to a related company		**–**	180
Interest-bearing bank borrowings		**4,591**	3,527
Dividend payable		**8,771**	–
Total current liabilities		**52,859**	33,962
NET CURRENT ASSETS		**207,430**	216,776

Condensed Consolidated Balance Sheet

30 September 2006

	Notes	30 September 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**282,058**	291,730
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**655**	748
Total non-current liabilities		**655**	748
Net assets		**281,403**	290,982
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*14*	**35,065**	35,065
Reserves		**246,338**	234,001
Proposed dividends		**–**	21,916
Total equity		**281,403**	290,982

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2006

	Notes	Six months ended 30 September 2006 (Unaudited) HK$'000	2006 (Unaudited) HK$'000
Net cash inflow/(outfolw) from operating activities		**1,317**	(7,364)
Net cash outflow from investing activities		**(5,204)**	(6,810)
Net cash inflow/(outflow) from financing activities		**(20,847)**	108,411
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(24,734)**	94,237
Cash and cash equivalents at beginning of period		**139,660**	26,032
Effect of foreign exchange rate changes, net		**224**	167
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**115,150**	120,436
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*12*	**71,374**	59,713
Non-pledged time deposits with original maturity of less than three months	*12*	**43,776**	60,723
		115,150	120,436

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2006

		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	Proposed dividends HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 April 2005 (audited)		100	3,875	3,882	350	–	135,224	143,431	–	143,431
Share issue expenses*		–	(18,400)	–	–	–	–	(18,400)	–	(18,400)
Exchange realignment		–	–	–	184	–	–	184	–	184
Total income for the period recognised directly in equity		–	(18,400)	–	184	–	–	(18,216)	–	(18,216)
Net profit for the period		–	–	–	–	–	17,639	17,639	–	17,639
Total income for the period		–	(18,400)	–	184	–	17,639	(577)	–	(577)
Issue of shares		10,465	120,347	–	–	–	–	130,812	–	130,812
Capitalisation of the share premium account		24,500	(24,500)	–	–		–	–	–	–
Transfer to contributed surplus		–	(3,875)	3,875	–	–	–	–	–	–
Interim divided declared	8	–	–	–	–	–	(8,766)	(8,766)	–	(8,766)
Special interim dividend declared and paid	8	–	–	(7,013)	–	–	–	(7,013)	–	(7,013)
At 30 September 2005 (unaudited)		35,065	77,447	744	534	–	144,097	257,887	–	257,887
At 1 April 2006 (audited)		35,065	77,447	744	407	21,916	155,403	290,982	–	290,982
Exchange realignment		–	–	–	291	–	–	291	–	291
Total income for the period recognised directly in equity		–	–	–	291	–	–	291	–	291
Net Profit for the period		–	–	–	–	–	20,812	20,812	–	20,812
Total income for the period		–	–	–	291	–	20,812	21,103	–	21,103
Final dividend declared and paid		–	–	–	–	(9,117)	–	(9,117)	–	(9,117)
Special dividend declared and paid		–	–	–	–	(12,799)	–	(12,799)	–	(12,799)
Interim dividend declared	8	–	–	–	–	–	(8,766)	(8,766)	–	(8,766)
At 30 September 2006 (unaudited)		**35,065**	**77,447***	**744****	**698****	**–**	**167,449****	**281,403**	**–**	**281,403**

* The share issue expenses were incurred for the purpose of the Company's placement and new listing. Upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited on 12 May 2005, the whole amount was charged to the Company's share premium account.

** These reserves accounts comprise consolidated reserves of the Group of HK$246,338,000 (31 March 2006: HK$234,001,000) included in the condensed consolidated balance sheet.

1. Group Reorganisation and Basis of Presentation

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 issue 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 Main Board of the Stock Exchange on 12 May 2005.

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 (the "Listing Rules") on the Stock Exchange.

The Group resulting from the Group Reorganisation is regarded and accounted for as a continuity entity. 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 should be read in conjunction with the 2005/06 annual report.

2. Accounting Policies

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 2006, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining Whether an Arrangement Contains a Lease

The adoption of the above new and revised HKASs, HKFRS and Interpretations has no material impact on the accounting policies of the Group and the methods of computation in the Group's 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 2007 or later periods. The Group has not early adopted these standards, amendments and interpretations for the six months ended 30 September 2006. 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 the following segment formats:

(i) on a primary segment reporting basis, by geographical segment; and

(ii) on a secondary segment reporting basis, by business segment.

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

(b) Taiwan

(c) Japan

(d) Mainland China

(e) Elsewhere

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of customers. Intersegment sales 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 each of which 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 business segments comprise:

(a) Retail operation which is engaged in the retailing businesses 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 retailing businesses in the designated locations.

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	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
TURNOVER		
Hong Kong	**166,059**	145,215
Taiwan	**22,643**	15,870
Japan	**10,659**	6,326
Mainland China	**13,511**	7,355
Elsewhere	**12,578**	10,900
less: Inter-segment sales	**(5,994)**	(4,987)
	219,456	180,679
RESULTS		
Hong Kong	**20,588**	21,080
Taiwan	**318**	201
Japan	**3,685**	1,831
Mainland China	**4,904**	2,875
Elsewhere	**2,541**	2,062
	32,036	28,049
Interest income	**1,242**	1,898
Unallocated corporate expenses	**(8,982)**	(9,261)
Finance costs	**(158)**	(233)
Profit before taxation	**24,138**	20,453
Taxation	**(3,326)**	(2,814)
Profit for the period	**20,812**	17,639

Business segments

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

TURNOVER		
Retail operation	**182,858**	155,350
Wholesale operation	**23,603**	17,974
Franchise business	**12,995**	7,355
	219,456	180,679

4. Other Revenue and Gains

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Other revenue:		
Interest income	**1,242**	1,898
Rental income	**–**	25
Others	**1,649**	812
	2,891	2,735
Gains:		
Net gain on disposal of fixed assets	**–**	6
	2,891	2,741

5. Finance Costs

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank overdrafts	**3**	13
Interest on bank loans wholly repayable within five years	**137**	214
Others	**18**	6
	158	233

6. Profit Before Tax

Profit before tax was determined after charging the following:

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Depreciation	**5,847**	4,441
Net loss on disposal of fixed assets	**533**	–
Amortisation of prepaid land lease payments	**78**	78
Amortisation of intangible assets	**170**	200
Intangible assets written off	**–**	17
Rental deposits written off	**631**	–
Provision against slow-moving inventories, net	**6,478**	674
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	**40,525**	33,734
Contingent rents	**4,506**	2,584
	45,031	36,318
Staff costs (including directors' emoluments)		
Wages, salaries and other benefits	**39,480**	34,763
Pension scheme contributions	**1,772**	1,316
	41,252	36,079

7. Tax

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current – Hong Kong	**4,649**	3,669
Current – Elsewhere	**151**	223
Deferred	**(1,474)**	(1,078)
Tax charge for the period	**3,326**	2,814

Hong Kong profits tax has been provided at a rate of 17.5% (2005: 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 jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The corporate income tax ("CIT") applicable to the four subsidiaries located in the Mainland China ranges from 15% to 18%. Two of these subsidiaries are entitled to tax holidays for full exemption of CIT for the first two profit-making years, followed by a 50% reduction of CIT for the succeeding three years. One of these two subsidiaries has commenced the first profitable year while the tax holiday of the other one already expired in 1996.

Income tax for the subsidiary in Taiwan is calculated at applicable tax rate of 25%. In addition, a further 10% income tax is charged on any undistributed earnings as at each calendar year end date for that subsidiary. However, no financial impact is resulted from this requirement as the Taiwan subsidiary has unutilised tax losses.

No Macau profits tax has been provided as the Macau subsidiary of the Company is exempted from Macau Complementary Tax (2005: Nil).

8. Dividends

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interim – HK2.5 cents (2005: HK2.5 cents) per ordinary share	**8,766**	8,766
Special interim – Nil (2005: HK2.0 cents) per ordinary share*	**–**	7,013
	8,766	15,779

* *The special interim dividend was distributed out of the contributed surplus of the Company arising as a result of the Group Reorganisation.*

9. Earnings per Share

The calculation of basic earnings per share is based on the profit for the period attributable to equity holders of the parent of HK$20,812,000 (2005: HK$17,639,000) and the weighted average number of 350,650,000 (2005: 325,513,115) ordinary shares in issue during the period.

Diluted earnings per share has not been presented as no diluting events existed during the periods ended 30 September 2005 and 2006.

10. Inventories

	30 September 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
Finished goods	**84,563**	66,980
Work in progress	**1,839**	5,819
Raw materials	**22,828**	12,977
	109,230	85,776

11. Trade and Bills Receivables

Retail sales are made on cash terms or from credit cards 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.

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

	30 September 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
Within 90 days	**14,985**	10,658
91 to 180 days	**1,577**	257
181 to 365 days	**658**	416
	17,220	11,331

12. Cash and Cash Equivalents

	30 September 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
Cash and bank balances	**71,374**	76,491
Non-pledged time deposits with original maturity of less than three months	**43,776**	63,169
	115,150	139,660

13. 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 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
Within 90 days	**7,841**	6,279
91 to 180 days	**278**	40
	8,119	6,319

14. Share Capital

Shares

	30 September 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
Authorised:		
2,000,000,000 (31 March 2006: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
350,650,000 (31 March 2006: 350,650,000) ordinary shares of HK$0.1 each	**35,065**	35,065

14. Share Capital *(continued)*

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 2006, no option has been granted or agreed to be granted pursuant to the Scheme.

15. Contingent Liabilities

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

	30 September 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**4,499**	3,202

The Group or the Company had no other significant contingent liabilities at the balance sheet date (31 March 2006: Nil).

16. 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 2006 (Unaudited) HK$'000	31 March 2006 (Audited) HK$'000
Within one year	**74,940**	69,325
In the second to fifth year, inclusive	**55,333**	51,524
	130,273	120,849

16. 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.

(ii) Other commitment

As at 30 September 2006, the Group's capital contribution committed to two wholly-foreign-owned subsidiaries incorporated in the People's Republic of China (the "PRC") amounted to HK$9,902,000 (31 March 2006: Nil).

The Group or the Company had no other significant capital commitments at the balance sheet date (31 March 2006: Nil).

17. Related Party Transactions

(a) Transactions with related parties

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Rental expenses paid to a minority shareholder	**28**	21
Purchases of computer equipment from a related company	**527**	806
Computer system maintenance charges paid to a related company	**931**	794

(b) Balance with a related party

	30 September 2006	31 March 2006
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Amount due to a related company	**–**	8

The amount due to a related company was trading in nature and repayable under normal trading terms. This amount was unsecured and interest-free. The related company is a company in which a close family member of a company's director has beneficial interests.

17. Related Party Transactions *(continued)*

(c) Compensation of key management personnel of the Group

	Six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Short term employee benefits	**1,344**	1,946
Post-employment benefits	**33**	24
Total compensation paid to key management personnel	**1,377**	1,970

18. Comparative Amounts

During the period, the Group considered it more appropriate to reclassify certain expenses and segment information in order to better reflect the underlying nature and allow a more appropriate presentation of the Group's results. The major changes consist of the reclassification of certain sales related expenses from administrative expenses to selling and distribution costs. Accordingly, the relevant comparative amounts of selling and distribution costs and administrative expenses and segment information have been reclassified to conform with the current period's presentation.

19. Approval of the Interim Financial Statements

The Interim Financial Statements were approved and authorised for issue by the Directors on 15 December 2006.

Management Discussion and Analysis

Business and financial review

Retail operation

The Group's retail operation grew a strong about 17.7% to about HK$182.9 million for the six months ended 30 September 2006 from about HK$155.3 million in prior period. Retail operation in Hong Kong, which accounted for about 75.6% of the Group's turnover during the period under review, sustained a double-digit growth of about 14.5%. As part of its brand building and network optimization strategy, the Group reallocated certain retail outlets during the review period to prime shopping areas with acceptable rentals in order to improve operating efficiency.

In Taiwan, consumer sentiment was weak. However, at enhanced management effort, the Group offering extensive training to the sales teams and the support of a wide retail network, Taiwan's retail sales performance surpassed the industrial average, which jumped remarkably by about 59.1%. In September 2006, the Group opened its first self-managed "TOUGH" retail outlet in Shanghai, which is an important step towards capturing rapid growing markets in Mainland China.

As at 30 September 2006, the Group self managed 46 retail outlets in Hong Kong under the tradenames of "BAUHAUS", "TOUGH", "SALAD", "80/20" and "LIBRE" (2005: 42), 18 retail outlets in Taiwan under the tradenames of "TOUGH", "SALAD" and "80/20" (2005: 15) and 1 "TOUGH" outlet in Shanghai (2005: Nil).

Wholesale operation

The Group's wholesale operation also recorded an impressive growth of about 31.1% to about HK$23.6 million during the period under review (2005: HK$18.0 million). The growth was mainly contributed by very encouraging about 69.8% increase in sales in Japan, the Group's largest overseas market, thanks to improved brand equity and effective networking efforts. In the past, the Group sold only its in-house brandname bags to the Japan market. During the review period, however, the Group entered into an 5-year apparel distribution agreement with a major Japanese fashion retail chain to distribute "TOUGH", brand products in Japan. The agreement marked the Group's official entry into the Japan apparels market, which is generally seen as one of the most difficult markets to penetrate for foreign fashion brands.

The Group continues to actively develop other overseas markets. During the period under review, it participated in certain famous international fashion shows. In addition, it has been streamlining certain distribution channels to ensure long-term sales efficiency. As at 30 September 2006, the Group's wholesale businesses have covered over 20 countries spanning from Southeast Asia, the Middle East, Europe to America.

Franchise business
Franchise business in China continues to be one of the Group's growth engines. With demand rising rapidly and its franchise network in the country expanding accordingly, turnover from the business again achieved explosive growth of about 75.7% to about HK$13.0 million for the six months ended 30 September 2006 (2005: HK$7.4 million). After years of dedicated efforts in establishing systematic and well-coordinated franchise networks in different markets in China, "TOUGH" is now an acclaimed brand in the country. As at 30 September 2006, the Group had franchise agreements with independent franchisees to operate 20 franchised stores (2005: 15) in the PRC and Macau.

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

Gross profit
During the period under review, the Group recorded gross profit of about HK$138.5 million (2005: HK$116.9 million). Resulting from dilution by increase in turnover contribution from the wholesale and franchise operation and increase in provision on slowing moving inventories of about HK$6.5 million during the period under review (2005: HK$0.7 million), gross margin dropped from about 64.7% in prior period to about 63.1%. However, with strong retail sentiment in local market, the Group plans to increase retail price of certain in-house brand products in coming second half of the financial year. Therefore, it is expected the downward pressure on gross margin can be neutralized for the year ending 31 March 2007.

Operating expenses
The Group's operating expenses surged by about 18.2% to about HK$117.3 million during the six months ended 30 September 2006 (2005: HK$99.2 million). During the period under review, apart from stringent cost control, the Group also devoted great efforts to streamline both its local and overseas distribution networks to improve operating efficiency. As a result, the growth in operating expenses for the six months ended 30 September 2006 were kept below the sales growth and the overall operating expenses as a percentage of sales was about 53.4%, with a drop of about 1.5% from about 54.9% in prior period.

Rental expenses is one of the major operating expenses of the Group, which soared by about 24.0% to about HK$45.0 million during the period under review (2005: HK$36.3 million), mainly attributable to increase in number of stores and market rents. The Group is prudent in adding outlets and control rental cost growth through shop optimization and reallocation. The rental expense increment was then successfully kept in line with sales growth and was about 20.5% of turnover during the six months ended 30 September 2006 (2005: 20.1%).

To support sustainable expansion of the Group's business, the Group must invest in expanding and maintaining competitive sales force. Riding on the investment in human resources, staff cost increased steadily by about 14.3% to about HK$41.3 million during the six months ended 30 September 2006 (2005: HK$36.1 million).

Besides, the Group maintained constant effort in promoting brand image and awareness. However, because of absence of certain large one-off public promotional events in relation to new listing of the Company in prior period, advertising, promotion and exhibition expenses dropped substantially by about 28.3% to about HK$3.0 million (2005: HK$4.2 million).

Net profit

The Group's net profit attributable to shareholders reached about HK$20.8 million for the six months ended 30 September 2006, up about 18.0% from about HK$17.6 million in the prior period. The net profit margin dropped slightly from about 9.8% to about 9.5%, however, the net profit growth has started to catch up with the turnover growth during the period under review. Although the operating environment occupies with challenges, both the local and overseas markets still provides plenty of opportunities for the Group's sustainable growth. With appropriate and cautious approaches, the Group can capture market potential in deliberate pace and gradually reflect in the bottom line.

Capital structure

As at 30 September 2006, the Group had net assets of approximately HK$281.4 million (31 March 2006: HK$291.0 million), comprising non-current assets of about HK$74.6 million (31 March 2006: HK$75.0 million), net current assets of about HK$207.4 million (31 March 2006: HK$216.8 million) and non-current liabilities of about HK$0.6 million (31 March 2006: HK$0.8 million).

The Group's gearing ratio as at 30 September 2006, representing a percentage of total interest-bearing borrowings to total assets, amounted to about 1.4% (31 March 2006: 1.1%).

Liquidity and financial resources

As at 30 September 2006, the Group had cash and cash equivalents of approximately HK$115.2 million (31 March 2006: HK$139.7 million) and total interest-bearing bank borrowings of approximately HK$4.6 million (31 March 2006: HK$3.5 million). All the borrowings are repayable within one year and are charged at floating rates. As at 30 September 2006, the Group had aggregate banking facilities of approximately HK$15.0 million (31 March 2006: HK$14.3 million) comprising interest-bearing bank overdraft and borrowings, rental and utility guarantees as well as import and export facilities, of which about HK$4.5 million was unutilised at the balance sheet date.

Cash flows

For the six months ended 30 September 2006, net cash inflow from operating activities was about HK$1.3 million (30 September 2005: outflow of about HK$7.4 million). As a result of strong increase in sales level, the operating cash flows improved significantly. Net cash outflow from investing activities dropped from about HK$6.8 million in 2005 to about HK$5.2 million in 2006 mainly resulting from a drop in capital expenditure. Net cash outflow from financing activities during the period under review mainly attributed to the payment of 2005/06 final and special dividend of about HK$21.9 million while prior period's cash inflow from financing activities mainly represented the receipt of net proceeds from the Group's initial public offering of new shares of about HK$112.4 million.

Security

As at 30 September 2006, the Group's bank borrowings were secured by certain of its leasehold buildings and prepaid land lease payments with aggregate carrying value of approximately HK$6.8 million (31 March 2006: HK$6.9 million) and HK$3.5 million (31 March 2006: HK$3.6 million), respectively.

Contingent liabilities

As at 30 September 2006, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$4.5 million (31 March 2006: HK$3.2 million). The Group or the Company had no other significant contingent liabilities at the balance sheet date (31 March 2006: Nil).

Capital commitment

As at 30 September 2006, the Group had capital contribution commitment to two wholly-foreign-owned subsidiaries incorporated in the PRC amounted to about HK$9.9 million (31 March 2006: Nil). The Group or the Company had no other significant capital commitments at the balance sheet date (31 March 2006: Nil).

Human resources

Including all Directors, the Group had a total of 1,219 employees as at 30 September 2006 (31 March 2006: 1,136). To attract and retain high performance staff, the Group provides competitive remuneration packages including 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 on a regular basis. Regarding staff development, the Group provides regular in-house training to retail staff and subsidies for external training programme.

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 to purchase 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. The proceeds were applied in accordance with the proposed applications set out in the Prospectus as follows:

	Per Prospectus HK$'000	**Utilised** HK$'000	**Balances as at 30 September 2006** HK$'000
Expansion of distribution network	46,000	(24,022)	21,978
Expansion and upgrade of production facilities	15,000	(3,750)	11,250
Development of "80/20" brandname	14,000	(4,129)	9,871
Marketing of in-house brandname	13,000	(5,380)	7,620
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	(61,681)	50,719

The unutilised balance was placed by the Company in 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 2006.

Disclosures under listing rules 13.13 to 13.19

There were no advance to entity, no financial assistance, and no guarantees to affiliated companies of the Company as at 30 September 2006 which were discloseable under Rules 13.13 and 13.19 of the Listing Rules.

Prospects

The Group is optimistic that growth momentum will continue for all of its business segments in the second half of the financial year. To improve overall profit margin, the Group will continue to implement cost control measures and prudently select new store locations. The Group's target is to maintain overall operating expenses at a consistent and reasonable proportion to total turnover.

By constantly introducing quality styles and brandnames to satisfy the different needs of customers, the Group aims to maintain sustainable growth for its well-established retail business in Hong Kong and Taiwan. In terms of retail network expansion in Hong Kong, the Group just added a "TOUGH" shop in Causeway Bay and a "SALAD" shop in Tai Koo Shing in forth quarter 2006. Furthermore, a brand new concept store "BAUHAUS ELITE" targeting the high-end ladies wear segment was opened in Harbour City, Tsim Sha Tsui in November 2006. The new line features up-and-coming fashion labels from around the world. As for the Taiwan market, one new counter at Sogo Department Store is planned to open in the first quarter of 2007.

Riding on the "TOUGH" and "SALAD" brands gaining popularity in Mainland China, the Group will continue to extend with prudence its franchise business coverage in the country. The Group has opened or confirmed to open 6 new "TOUGH" franchise stores in Beijing, Wuhan, Wenzhou, Chengdu, Chongqing and Macau in late 2006. Apart from "TOUGH" stores, the management also intends to open franchise stores under the "SALAD" brand in the long run. To ensure continual success of its franchise business in an enormous market like the PRC, the Group will make sure franchised stores are managed adhering to stringent quality, pricing and inventory control. In addition, encouraged by the smooth operation of the first self-managed retail shop, the management plans to open further 2 "TOUGH" and 1 "SALAD" self-managed retail outlets in Shanghai in the first quarter of 2007.

To expand its wholesale operation worldwide, the Group will continue to strengthen existing markets and explore new markets. The apparel distribution agreement signed with a well-established Japanese distributor has not only opened the Group to the lucrative Japan apparels market, but is a clear indication of the market's recognition of the Group's superior product quality. The Group's Japanese partner will open the first "TOUGH" apparel shop in Omotesando, Japan in the first quarter of 2007. A prime high-end fashion district in Tokyo, Omotesando is the best place for introducing the "TOUGH" brand to the fashionable in Japan. The management of Group will assist in the preparation work to ensure the opening and subsequent operation of the shop will be successful.

Looking ahead, the Group will continue to strengthen its brand image and distribution network so as to realize the goals of becoming a leading trendy fashion house and bringing quality fashion to different parts of the world. The Group's focus is to achieve sustainable growth through cultivating strong in-house brandnames. With the "TOUGH" brand having forged strong foothold across the globe, the "SALAD" brand will be the Group's next focus and the Hong Kong market will continue to be the springboard for the brand. Backed by stable growth in well-established markets like Hong Kong and Taiwan, the Group can comfortably pace entry of its brand and business into profitable markets around the world.

Dividend

The Directors declared to pay an interim dividend of HK2.5 cents per ordinary share for the six months ended 30 September 2006 (2005: Interim dividend of HK2.5 cents and special interim dividend of HK2.0 cents) payable on or about 26 January 2007 to shareholders whose names appear on the register of members of the Company on 12 January 2007.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 10 January 2007 to Friday, 12 January 2007, 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, 9 January 2007.

Directors' Interests in Securities

As at 30 September 2006, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of 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")) which were 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") of the Listing Rules, were as follows:

(a) Positions in ordinary shares of the Company

		Number of shares					
Name of director	Long/short position	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Through a discretionary trust/as beneficiary or trustee of trust	Total	Approximate percentage of the Company's issued share capital
Mr. Wong Yui Lam	Long position	2,100,000 *(note 1)*	37,626,000 *(note 1)*	34,152,000 *(note 1)*	175,178,000 *(note 1)*	249,056,000	71.03%
Madam Tong She Man, Winnie	Long position	2,100,000 *(note 2)*	34,152,000 *(note 2)*	37,626,000 *(note 2)*	175,178,000 *(note 2)*	249,056,000	71.03%
Mr. Yeung Yat Hang	Long position	2,840,000	–	–	–	2,840,000	0.81%

Notes:

1. 2,100,000 shares are jointly held by Mr. Wong Yui Lam and his spouse, Madam Tong She Man, Winnie, both being executive directors of the Company. 34,152,000 shares are held by Wonder View Limited ("Wonder View"), the entire issued share capital of which is beneficially owned by Mr. Wong Yui Lam. 175,178,000 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 the executive directors of the Company. Mr. Wong Yui Lam is also deemed to be interested in the 37,626,000 shares through the interest of his spouse, Madam Tong She Man, Winnie under the SFO.

2. 2,100,000 shares are jointly held by Madam Tong She Man, Winnie and her spouse, Mr. Wong Yui Lam, both being executive directors of the Company. 37,626,000 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. 175,178,000 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 the executive directors of the Company. Madam Tong She Man, Winnie, is also deemed to be interested in the 34,152,000 shares through the interest of her spouse, Mr. Wong Yui Lam under the SFO.

Directors' Interests in Securities *(continued)*

(b) Long positions in shares of associated corporations

Name of associated corporation	Name of director	Capacity	Number of shares in the associated corporation	Percentage of shareholding in the associated corporation
Huge Treasure (as trustee of The Wong & Tong Unit Trust)	Mr. Wong Yui Lam	Beneficial owner	1 share of US$1 Long position	50%
	Madam Tong She Man, Winnie	Beneficial owner	1 share of US$1 Long position	50%
Tough Jeans Limited	Mr. Wong Yui Lam	Beneficial owner *(note)*	3 non-voting deferred shares of HK$1 each Long position	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 Long position	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 Long position	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 Long position	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 shareholders 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 2006, 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 in the register maintained 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.

Other Information

Directors' Rights To Acquire Shares or Debentures

Save as disclosed in the share option scheme disclosures in note 14 to the Interim Financial Statements, 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 arrangements to enable the directors to acquire such rights in any other body corporate.

Substantial Shareholders and Other Persons' Interests in Securities

As at 30 September 2006, the following shareholders (other than the directors and chief executive of the Company whose interests and short positions in the shares and underlying shares of the Company are set out above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to the SFO:

		Number of shares			
Name of shareholder	**Position**	**Directly beneficially owned**	**Through discretionary trust/as beneficiary or trustee of trust**	**Total**	**Approximate percentage of the Company's issued share capital**
Huge Treasure *(note 1)*	Long position	175,178,000	–	175,178,000	49.96%
East Asia International Trustees Limited ("EAIT") *(note 2)*	Long position	–	175,178,000	175,178,000	49.96%
Wonder View *(note 3)*	Long position	34,152,000	–	34,152,000	9.74%
Great Elite *(note 4)*	Long position	37,626,000	–	37,626,000	10.73%

Substantial Shareholders and Other Persons' Interests in Securities

(continued)

Notes:

1. The 175,178,000 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 established by Mr. Wong Yui Lam and Madam Tong She Man, Winnie, for the benefit of the issue of Mr. Wong Yui Lam and Madam Tong She Man, Winnie.

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 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, an executive director and the chairman of the Company.

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, an executive director of the Company.

Save as disclosed above, as at 30 September 2006, no person, other than the directors or chief executives of the Company, whose interests are set out in the section "Directors' interests in securities" above, has any interests or short positions in the shares or underlying shares of the Company that was required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Corporate Governance

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2006 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 2006.

Other Information

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 shares during the six months ended 30 September 2006.

Audit Committee

The Company established an audit committee on 22 April 2005 with written terms of reference 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 and Mr. Mak is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting and auditing affairs and internal control systems of the Group.

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 2006.

Remuneration Committee and Nomination Committee

The Company established a remuneration committee and a nomination committee on 22 April 2005 with written terms of references in compliance with CG Code.

The remuneration committee comprises three independent non-executive directors, namely, Mr. Chu To Ki, Mr. Mak Wing Kit and Dr. Wong Yun Kuen. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the directors and senior management of the Company.

The nomination committee also comprises three independent non-executive directors, namely, Mr. Chu To Ki, Mr. Mak Wing Kit and Dr. Wong Yun Kuen. The primary duties of the nomination committee are to make recommendations to the board of directors on appointment of directors and management of board succession.

By Order of the Board
Wong Yui Lam
Chairman

Hong Kong, 15 December 2006