bauhaus

annual report 2007

BAUHAUS INTERNATIONAL (HOLDINGS) LIMITED

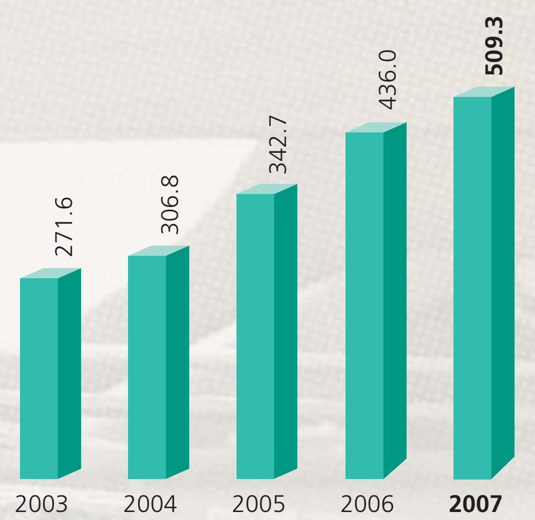
(incorporated in the Cayman Islands with limited liability)

(Stock Code : 483)

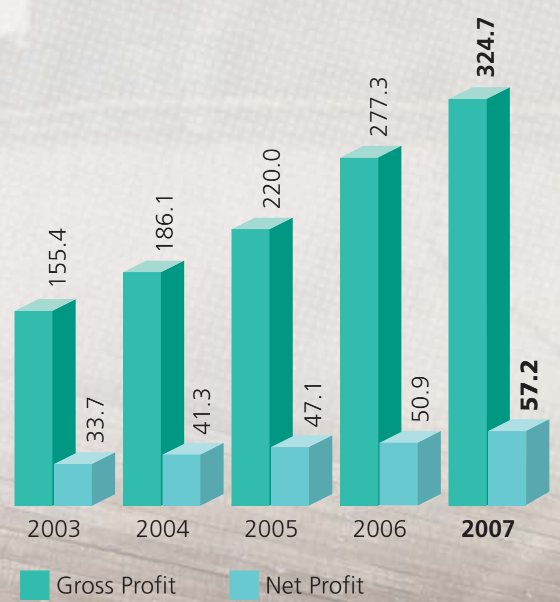
Vision and Strategies

Our vision for fashion is to dress up one's life with style. We target at young consumers with fashion consciousness. Our positioning is the leading trendy fashion house and we are dedicated to bring quality fashion to different parts of the world.

Sales Growth (HK$ Million)



Gross Profit & Net Profit (HK$ Million)



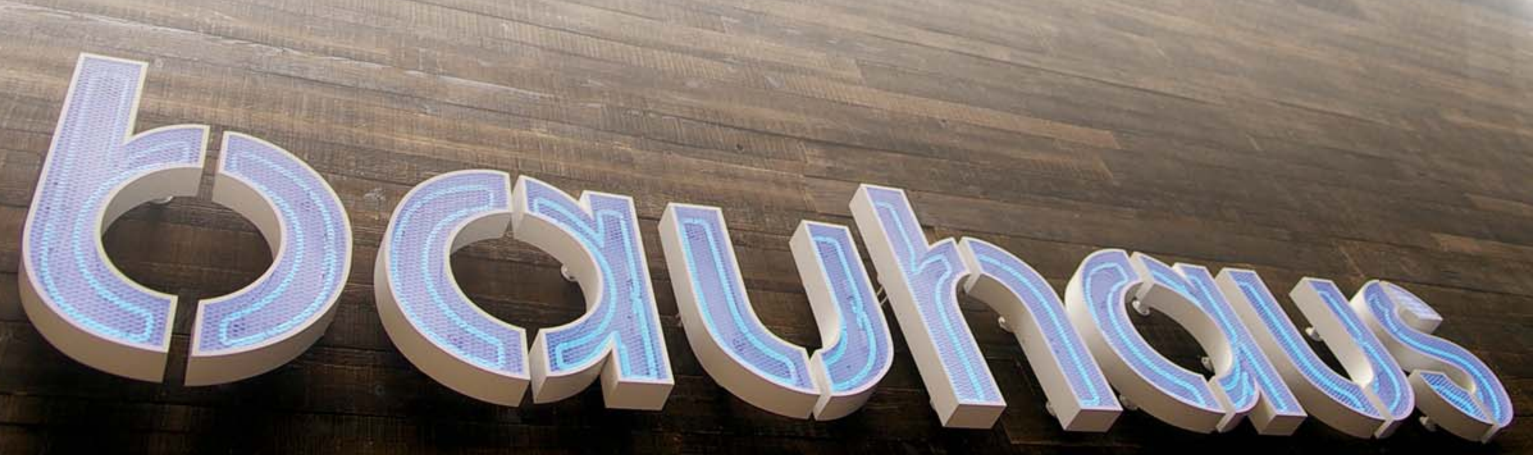
Segmental Information

Turnover (HK$ Million)

Market	2007	2006	% change
Retail Operation			
Hong Kong	383.6	355.4	↑ 7.9%
Taiwan	42.8	28.2	↑ 51.8%
People's Republic of China ("PRC")	2.7	—	—
	429.1	383.6	↑ 11.9%
Wholesale Operation			
Japan	25.6	11.1	↑ 130.6%
Elsewhere	25.9	23.6	↑ 9.7%
	51.5	34.7	↑ 48.4%
Franchise Business			
PRC & Macau	28.7	17.7	↑ 62.1%
	509.3	436.0	↑ 16.8%

Number of self-managed retail outlets

	Hong Kong	Taiwan	Shanghai	TOTAL
As at 31 March 2007				
BAUHAUS	28	—	—	**28**
TOUGH	4	13	2	**19**
SALAD	8	2	—	**10**
80/20	3	3	—	**6**
ELITE	1	—	—	**1**
	44	**18**	**2**	**64**
Aggregate floor area (in Sq. feet)	**63,291**	**10,471**	**1,560**	**75,322**



Five Year Financial Summary

A summary of the consolidated results and assets and liabilities of the Group for the year, as extracted from the current year's consolidated financial statements, and the pro forma consolidated results and assets and liabilities of the Group for the four preceding years, as extracted from the pro forma consolidated financial statements of the Group and the Company's annual report or listing prospectus dated 29 April 2005 which also set out the details of the basis of presentation and are restated/reclassified as appropriate, is set out below.

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**509,248**	436,008	342,726	306,768	271,630
Cost of sales	**(184,580)**	(158,746)	(122,767)	(120,637)	(116,210)
Gross profit	**324,668**	277,262	219,959	186,131	155,420
Other income and gains	**4,931**	4,156	1,501	428	919
Selling and distribution costs	**(198,036)**	(169,954)	(128,209)	(105,457)	(94,496)
Administrative expenses	**(58,953)**	(48,387)	(35,571)	(27,716)	(26,580)
Other expenses	**(5,848)**	(1,622)	(910)	(2,556)	(115)
Finance costs	**(236)**	(397)	(201)	(28)	(154)
Share of profits and losses of associates	**—**	—	—	599	3,932
PROFIT BEFORE TAX	**66,526**	61,058	56,569	51,401	38,926
Tax	**(9,301)**	(10,197)	(10,012)	(10,096)	(5,209)
PROFIT FOR THE YEAR	**57,225**	50,861	46,557	41,305	33,717
Attributable to:					
Equity holders of the parent	**57,225**	50,861	47,065	41,305	33,717
Minority interests	**—**	—	(508)	—	—
	57,225	50,861	46,557	41,305	33,717
ASSETS AND LIABILITIES					
TOTAL ASSETS	**373,389**	325,692	194,944	159,299	142,874
TOTAL LIABILITIES	**(43,573)**	(34,710)	(51,513)	(24,160)	(40,372)
	329,816	290,982	143,431	135,139	102,502

		Notes	FY 06/07	FY 05/06	Change +/–
Key Financial Ratios					
Performance					
Gross Margin	(%)	1	**63.8**	63.6	+0.2% pt.
Adjusted Gross Margin	(%)	2	**66.1**	64.0	+2.1% pts.
Net Profit Margin	(%)	3	**11.2**	11.7	–0.5 % pt.
Adjusted Net Profit Margin	(%)	4	**13.6**	12.0	+1.6% pts.
Return on Average Equity	(%)	5	**18.4**	23.4	–5.0% pts.
Return on Average Assets	(%)	6	**16.4**	19.5	–3.1% pts.
Operating					
Inventory Turnover Days		7	**182**	173	+9 days
Debtors' Turnover Days		8	**11**	9	+2 days
Creditors' Turnover Days		9	**18**	16	+2 days
Liquidity and Gearing					
Current Ratio		10	**6.8**	7.4	–8.1%
Quick Ratio		11	**4.5**	4.9	–8.2%
Gearing Ratio	(%)	12	**—**	1.1	–1.1% pts.
Per Share Data					
Book Value Per Share	(HK cents)	13	**91.76**	82.98	+10.6%
Earnings Per Share	(HK cents)	14	**16.26**	15.05	+8.0%
Dividend Per Share					
Interim	(HK cents)		**2.50**	2.50	0.0%
Special Interim	(HK cents)		**—**	2.00	–100.0%
Proposed Final	(HK cents)		**3.00**	2.60	+15.4%
Proposed Special	(HK cents)		**5.50**	3.65	+50.7%
			11.00	10.75	+2.3%

Notes:

1. "Gross Margin" is based on gross profit divided by turnover during the year.
2. "Adjusted Gross Margin" is based on gross profit excluding net provision for slow-moving inventories of HK$11.8 million (2006: HK$1.7 million) divided by turnover during the year.
3. "Net Profit Margin" is calculated as net profit divided by turnover during the year.
4. "Adjusted Net Profit Margin" is based on net profit excluding net provision for slow-moving inventories of HK$11.8 million (2006: HK$1.7 million) divided by turnover during the year.
5. "Return on Average Equity" represents net profit during the year divided by average of opening and closing balance of shareholders' equity.
6. "Return on Average Assets" represents net profit during the year divided by average of opening and closing balance of total assets.
7. "Inventory Turnover Days" is based on average of opening and closing balance of inventories divided by cost of sales and then multiplied by number of days during the year.
8. "Debtors' Turnover Days" is based on average of opening and closing balance of trade and bills receivables divided by turnover and then multiplied by number of days during the year.
9. "Creditors' Turnover Days" is based on average of opening and closing balance of trade and bills payables divided by purchases and then multiplied by number of days during the year.
10. "Current Ratio" represents current assets divided by current liabilities.
11. "Quick Ratio" represents current assets less inventories then divided by current liabilities.
12. "Gearing Ratio" represents total interest-bearing borrowings divided by total assets.
13. "Book Value Per Share" represents shareholders' equity divided by the total number of issued shares at the balance sheet date of 359,450,000 (2006: 350,650,000).
14. "Earnings Per Share" is calculated based on the profit for the year attributable to ordinary equity holders of the parent of HK$57,225,000 (2006: HK$50,861,000) and the weighted average number of ordinary shares in issue during the year under review of 351,951,918 (2006: 338,047,123).

NAME OF THE COMPANY
Bauhaus International (Holdings) Limited
包浩斯國際（控股）有限公司

DIRECTORS
Executive directors:
Mr. Wong Yui Lam *(Chairman and Chief Executive Officer)*
Madam Tong She Man, Winnie *(Vice-Chairman)*
Madam Lee Yuk Ming
Mr. Yeung Yat Hang

Independent non-executive directors:
Mr. Chu To Ki
Mr. Mak Wing Kit
Dr. Wong Yun Kuen

COMPANY SECRETARY
Mr. Chung Chi Keung, CPA, FCCA

QUALIFIED ACCOUNTANT
Mr. Chung Chi Keung, CPA, FCCA

AUTHORISED REPRESENTATIVES
Mr. Wong Yui Lam
Madam Tong She Man, Winnie

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

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

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

PRINCIPAL AUDITORS
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8 Finance Street, Central
Hong Kong

COMPLIANCE ADVISER
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Level 12, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS
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Hong Kong

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

REGISTERED OFFICE
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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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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
Authorised shares:	2,000,000,000 shares
Outstanding shares as of 31 March 2007:	359,450,000 shares
Par value:	HK$0.10

	FY 2006/07	FY 2005/06
Basic earnings per share:	HK16.26 cents	HK15.05 cents
Dividend per share		
Interim:	HK2.50 cents	HK2.50 cents
Special interim:	—	HK2.00 cents
Proposed final:	HK3.00 cents	HK2.60 cents
Proposed special:	HK5.50 cents	HK3.65 cents
TOTAL	HK11.00 cents	HK10.75 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 dividend:	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)*
Payment of 2007 interim dividend:	26 January 2007
2007 annual results announcement:	16 July 2007
Closure of Register of Members:	21 August 2007 to 23 August 2007 *(both days inclusive)*
2007 annual general meeting:	23 August 2007
Payable of proposed final and special dividends:	24 September 2007

Internet website: www.bauhaus.com.hk

Financial year end: 31 March

On behalf of the board of directors (the "Board"), I am delighted to present to you the annual results of Bauhaus International (Holdings) Limited ("Bauhaus") and together with its subsidiaries (the "Group") for the year ended 31 March 2007.

In spite of the challenging operating environment during the year under review, including rising rentals, increasing production and staff costs, by embracing consistent high standards in operations and management, the Group again achieved outstanding business performance. Both turnover and net profit reported double-digit growth for the third consecutive year. We are pleased to report that during the year under review, the Group's turnover increased by 16.8% to HK$509.3 million, while gross margin reached 63.8%. Although the operating environment in Hong Kong continued to be tough, our innovative branding strategy and diversified marketing methods have enabled us to achieve sustainable and overall healthy growth. Net profit increased by 12.4% to HK$57.2 million and net margin remained stable at about 11.2%.

To reward our shareholders for their continuous support, the Board has resolved to recommend the payment of a final dividend and a special dividend of HK3.0 cents and HK5.5 cents per share, respectively. Together with the interim dividend of HK2.5 cents per share paid during the year, total dividends for the year will be HK11.0 cents per share, which is consistent with the Group's long-term dividend policy of distributing not less than 30% of its net profit as dividends.

Dedicated to realise the vision of dressing up one's life with style, Bauhaus continued to inject new ideas, cultures and concepts into its designs. During the year, enormous efforts were spent on setting up various new concept stores:

– "ELITE", our new high-end fashion concept store offering premium overseas labels, was opened in Tsim Sha Tsui in November 2006; and

– First "BAUHAUS" flagship concept store was opened in Causeway Bay in April 2007. This four-storey mega store features Bauhaus' own brands – "TOUGH", "SALAD" and "80/20", together with other new and promising fashion labels from overseas, and is also complemented by a gallery displaying selected contemporary art pieces.

In addition, the Group also expanded its marketing team substantially to ensure sufficient support in implementing various new strategies introduced during the year. The management believes investing in Bauhaus' corporate image and strengthening its own brands are crucial to the long term development of the Group's business both inside and outside Hong Kong.

As a leading trendy fashion house, Bauhaus' mission is to bring quality fashion to customers in different parts of the world. Remaining focused to this mission over the years, we have extended our footprints across the world, including in the PRC, Japan, South East Asia, the Middle East, Europe and the Americas. We started in many of these markets supplying bags and/or apparels to retail chains through local fashion wholesalers. However in recent years, with an increasing recognition of our brand value, these international distributors and fashion retailers, being our long term business partners, became highly interested in opening retail shops under the "TOUGH" brandname in their respective cities. Following the various "TOUGH" outlets in Europe opened few years ago, in March 2007, the Group's first "TOUGH" apparel shop was opened in Omotesando, Japan. By the end of July 2007, "TOUGH" will also make its debut in Singapore and the Philippines.

The Group's PRC business continued to grow during the year as demand for quality apparel continued to increase, driven by improving living standards of the PRC households. In light of the consistently outstanding performance, the management devoted extra efforts into developing the PRC market during the year. To accelerate growth and strengthen the Group's brand image in the country, the Group opened our first self-managed "TOUGH" outlet in Shanghai in September 2006, with the second one started operation in March 2007. Apart from running our directly owned stores in Shanghai, the Group will also continue to apply our proven franchise model in other parts of the country. As at 31 March 2007, the Group had a total of 35 franchise outlets across the country, as targeted for the year.

We believe for an apparel enterprise to succeed in the market, it has to have high quality products and effective branding supports and sales strategies. Looking ahead, the Group will continue to focus on product development and implementation of innovative branding strategies. The Group's first bag and accessories specialty store in Hong Kong – "ATTACHMENT", commenced its business operation in June 2007. By diversifying its brands and products, the Group is creating room for its business to grow in the Hong Kong market. The Group will also direct more resources to accelerate penetration of markets around the world, especially in the PRC. Boasting quality products, innovative marketing and strong brand recognition in major fashion centers around the world, Bauhaus is well positioned to make strides in those markets, speeding towards becoming the top fashion house in the Asia-Pacific region.

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their continuous trust and support. And in particular, I would like to express my sincere gratitude to our competent and dedicated staff for their magnificent work over the past year. Our staff are indeed our most valuable assets. Moving forward, we will continue to provide quality products and services to our customers and strive for better results for the Group.

Wong Yui Lam
Chairman

Hong Kong, 16 July 2007

BUSINESS REVIEW

Retail Operation

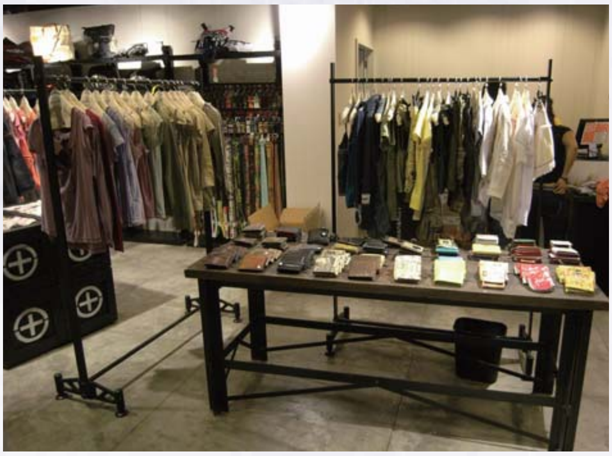
The Group's retail operation achieved a strong growth of about 11.8% to about HK$429.0 million for the year ended 31 March 2007 from about HK$383.6 million in the prior year. As at 31 March 2007, the Group self-managed 44 retail outlets in Hong Kong under the tradenames "BAUHAUS", "TOUGH", "SALAD", "80/20" and "ELITE" (2006: 46), 18 retail outlets in Taiwan under the tradenames of "TOUGH", "SALAD" and "80/20" (2006: 17) and 2 "TOUGH" retail outlets in Shanghai (2006: Nil).

Retail operation in Hong Kong, which accounted for about 75.3% of the Group's turnover for the year under review, achieved a fast organic growth of about 7.8%. As part of its brand building and network optimisation strategy to improve operational efficiency, the Group relocated certain retail outlets to prime shopping areas for optimal space at more reasonable rentals.

In Hong Kong, the Group's attempt to venture into high-end fashion market with the brand name "LIBRE!" in the past few years had not been satisfactory. Thus, during the year under review, the Group ceased this loss-making business and allocated its resources to the more profitable segments. As the majority of the impaired assets of "LIBRE!" had been provided for in the previous year, no material assets write-off was required for the current year. The Group, however, is determined to diversify its retail business vertically by claiming a place in the high-end trendy wear market. In November 2006, the Group launched a new premium shop "ELITE". Sales in the new brand shop were satisfactory and rose steadily since the shop opened.

In Taiwan, while consumer sentiment was just fair, at enhanced management effort and sales staff training and with the backing of a wide retail network, the Group's retail sales in Taiwan surpassed the industry average and reported a remarkable surge of about 51.8% against last year. The Group operates retail outlets in reputable department stores in Taiwan. Unfortunately, one of those department store chains in Taiwan in which the Group has outlets was placed under court jurisdiction. As a result, certain trade receivables due from the department stores to the Group have been subject to a freezing order from the local court. Up to the date of this report at the best knowledge of the Directors, the trade debtor will likely be put into liquidation proceedings by the court. The amounts due from the debtor are unsecured and the Group is likely to be ranked as a general creditor. Accordingly, the Group has made a full provision of about HK$3.8 million on such receivables in the current financial year. The Group is closely monitoring the progress of further legal proceeding.

As for the development of retail business in the PRC, the Group took an important step to capture the huge and rapidly growing China markets during the year. Soon after the Group opened its first self-managed "TOUGH" retail store in Shanghai in September 2006, a second store started operation in the same city at the end of March 2007.



Wholesale Operation

The Group's wholesale operation also recorded impressive growth in turnover of about 48.4% to about HK$51.5 million in the current year (2006: HK$34.7 million). The growth was mainly contributed by very encouraging about 130.3% increase in sales in Japan, the Group's largest overseas market, thanks to improved brand equity and the Group's effective networking efforts. In the past, the Group sold only its in-house brand name bags to Japan. During the year, the Group signed a 5-year apparel distribution agreement with a major Japanese fashion retail chain to distribute "TOUGH" brand products in the country. The agreement marked the Group's formal entry into the Japan apparel market, which has been generally seen as one of the most difficult markets to be penetrated into by foreign fashion brands. In addition, the Group has been streamlining certain overseas distribution channels to ensure long-term sales efficiency. As at 31 March 2007, the Group's wholesale business covered over 20 countries in Southeast Asia, the Middle East, Europe and North America.


TOUGH
Jeansmith


TOUGH
Jeansmith
TOUGH Jeansmith


SALAD LTD.


TOUGH Jeansmith


TOUGH
Jeansmith

Franchise Business

Franchise business in the PRC continued to be one of the key growth engines of the Group. With domestic demand persistently strong and supported by an expanding Group's franchise network in the country, the Group's turnover from the business segment again raised meteorically by about 62.1% to about HK$28.7 million for the year ended 31 March 2007 (2006: HK$17.7 million). After years of dedicated efforts in establishing systematic and well-coordinated franchise networks in different parts of in China, "TOUGH" is now an acclaimed brand in the country. As at 31 March 2007, the Group had 35 franchised stores (2006: 18) in the PRC and Macau.

FINANCIAL REVIEW

Turnover

The Group achieved about 16.8% growth in turnover during the year under review. Its sales reached HK$509.3 million (2006: HK$436.0 million), resulting mainly from sustained sales growth in all major markets including Hong Kong, Taiwan, the PRC and Japan.

Gross Profit

During the year under review, the Group recorded gross profit of about HK$324.7 million (2006: HK$277.3 million). With the improved consumption sentiment in the local market, the Group increased retail price of some of its own label products in the second-half of the financial year. This move neutralised the adverse impact from the provision for slowing moving inventories made during the year ended 31 March 2007 of about HK$11.8 million. The gross margin remained stable at about 63.8% (2006: 63.6%).

Operating Expenses

The Group's operating expenses surged by about 19.4% to about HK$263.1 million during the year ended 31 March 2007 (2006: HK$220.4 million). During the year under review, apart from exercising stringent cost control, the Group also devoted great efforts to streamline both its local and overseas distribution networks to improve operational efficiency. As a result, the growth in operating expenses for the year was kept in line with sales growth and overall operating expenses as a percentage of sales was about 51.7% (2006: 50.6%).

Rental is one of the major operating expenses of the Group. It soared by about 23.5% to about HK$99.8 million during the year under review (2006: HK$80.8 million), mainly attributable to increase in market rents. The Group has been prudent in adding outlets and kept rental cost growth under control through shop optimisation and relocation. The rental expense increment was at a steady rate about 19.6% of turnover during the year ended 31 March 2007 (2006: 18.5%).

To support sustainable expansion of the Group's business and counter spirited rivalry, the Group invested in expanding and maintaining a competitive sales force. As a result, staff cost including directors' remuneration increased moderately by about 14.3% to about HK$94.3 million during the year ended 31 March 2007 (2006: HK$82.5 million).

Moreover, the Group continued to promote the images and consumer awareness of its brands. Expenses on advertising, promotion and exhibition remained consistent at about HK$7.4 million (2006: HK$7.3 million).

Segment information

Detailed segment turnover and contribution to profit before tax of the Group are shown in note 4 to the audited consolidated financial statements.


SALAD LT

Net Profit

The Group's net profit attributable to shareholders reached about HK$57.2 million for the year ended 31 March 2007, up about 12.4% from about HK$50.9 million in the previous year. The net profit margin was maintained stable at about 11.2% (2006: 11.7%). Although the operating environment continues to be challenging, the Group sees ample opportunities in both the local and overseas markets for growing its business development. The Group will strategically expand to capture additional market share and is confident that its efforts will eventually be reflected favourably on its bottom line.

CAPITAL STRUCTURE

As at 31 March 2007, the Group had net assets of approximately HK$329.8 million (2006: HK$291.0 million), comprising non-current assets of about HK$81.4 million (2006: HK$75.0 million), net current assets of about HK$249.1 million (2006: HK$216.8 million) and non-current liabilities of about HK$0.7 million (2006: HK$0.8 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2007, the Group had cash and cash equivalents of approximately HK$161.1 million (2006: HK$139.7 million). The Group had repaid all of its bank borrowings during the year (2006: HK$3.5 million). As at 31 March 2007, the Group had aggregate banking facilities of approximately HK$19.0 million (2006: HK$14.3 million) comprising interest-bearing bank overdraft, utility guarantees and import and export facilities, of which HK$13.8 million had not been utilised.

CASH FLOWS

For the year ended 31 March 2007, net cash inflow from operating activities was about HK$55.0 million (2006: HK$30.2 million), attributable to increase in the Group's revenue. Net cash outflow from investing activities dropped from HK$15.2 million in 2006 to HK$11.4 million in 2007 because the Group's shop optimization strategy had helped to reduce capital expenditure on the retail outlets. Net cash outflow from financing activities during the year amounted to HK$22.9 million was mainly resulted from payment of dividends and repayment of bank borrowings. During the year under review, the Company obtained gross proceeds of about HK$11.4 million from issuance of new shares to controlling shareholders. The strong positive cash inflow last year was mainly from receipt of proceeds of approximately HK$130.8 million from the Company's initial public offering of shares.

SECURITY

As at 31 March 2007, 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$6.7 million (2006: HK$6.9 million) and HK$3.5 million (2006: HK$3.6 million) respectively.

CAPITAL COMMITMENT

As at 31 March 2007, neither the Group nor the Company had any significant capital commitment.

CONTINGENT LIABILITIES

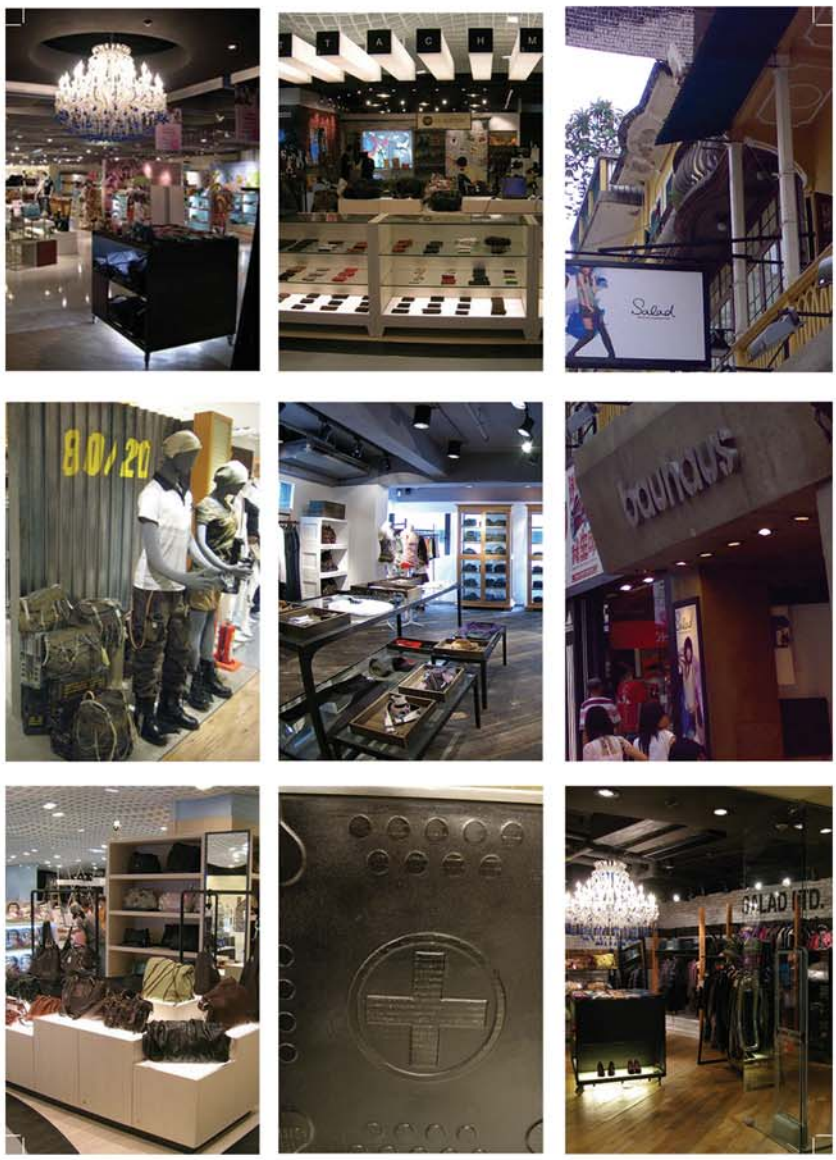
As at 31 March 2007, the Group had contingent liabilities in respect of bank guarantees given in lieu of utility and rental deposits amounting to approximately HK$4.9 million (2006: HK$3.2 million). The Company had no contingent liabilities as at the balance sheet date (2006: Nil).

HUMAN RESOURCES

Including all directors, the Group had 999 employees as at 31 March 2007 (2006: 1,136). To attract and retain high performance staff, the Group had provided competitive remuneration packages with performance bonuses, mandatory provident fund, insurance and medical coverage as well as entitlements to share options to be granted under a share option scheme based on employees' performance, experience and prevailing market rate. Remuneration packages 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 year 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 monitor its foreign exchange position and, when necessary, will hedge foreign exchange exposure arising from contractual commitments in sourcing apparel from overseas suppliers.


Salad
bauhaus

DIRECTORS

Executive Directors

Mr. Wong Yui Lam, aged 49, is the Co-founder and Chairman of the Group. He is responsible for the overall development and strategic planning of the Group. Mr. Wong conceived the concept and brandname "TOUGH", the first in-house brand of the Group, and is responsible for overall development including design and direction of the brand. Mr. Wong has over 14 years of experience in the fashion industry in Hong Kong. He was awarded the Teacher's Certificate by Sir Robert Black College of Education in 1981.

Madam Tong She Man, Winnie, aged 48, is the Co-founder and Vice-Chairman of the Group. Madam Tong is responsible for the overall management of retail networks and daily operations of the Group. She is also responsible for the overall merchandising functions of the Group. Madam Tong conceived the concept and brandname "SALAD", the second in-house brand of the Group and is responsible for the overall brand development including product design and brand direction. Madam Tong has over 14 years of experience in the fashion industry in Hong Kong. Madam Tong was awarded the diploma by Hong Kong Shue Yan College (Department of Journalism) in 1983.

Madam Lee Yuk Ming, aged 39, is the General Manager of the Group. She is responsible for implementation of corporate strategies and management of co-ordination among different departments of the Group. Madam Lee is also responsible for accounting and financial control functions of the Group. Madam Lee obtained a diploma in Management Studies from the Hong Kong Polytechnic University/Hong Kong Management Association in September 1998. Madam Lee has over 17 years of experience in different areas including accounting, financial and management in Hong Kong. She joined the Group in April 2002.

Mr. Yeung Yat Hang, aged 30, is the Operation Manager of the Group. Mr. Yeung oversees the negotiation and management of the leases of the Group's retail outlets. Mr. Yeung is also responsible for liaising with the Group's franchisees in PRC and managing ad hoc projects like warehouse sales. He joined the Group in May 1994 and had been a personal assistant to Mr. Wong Yui Lam for over 6 years.

Independent Non-Executive Directors

Dr. Wong Yun Kuen, aged 49, was appointed as an Independent Non-Executive Director on 1 May 2005. Dr. Wong received his Doctorate degree from Harvard University in 1989. Dr. Wong has worked in financial industries in the United States ("US") and Hong Kong for many years, and is a member of Hong Kong Securities Institute. Dr. Wong is an executive director of UBA Investments Limited, and an independent non-executive director of Golden Resorts Group Limited, Grand Field Group Holdings Limited, Ultra Group Holdings Limited, Poly Investments Holdings Limited, Harmony Asset Limited, Tak Shun Technology Group Limited, Kong Sun Holdings Limited and Climax International Company Limited. Dr. Wong was also an independent non-executive director of Apex Capital Limited (formerly known as Haywood Investments Limited) until 7 July 2005. All the aforesaid companies are listed on the Main Board of the Stock Exchange of Hong Kong Limited.

Mr. Chu To Ki, aged 41, was appointed as an Independent Non-Executive Director on 1 May 2005. Mr. Chu graduated from the University of Hong Kong in June 1998 with Postgraduate Certificate in Laws and obtained from Manchester Metropolitan University a Bachelor Degree in Laws in September 1999. Mr. Chu was admitted as a solicitor of the High Court of Hong Kong in March 2000. Mr. Chu has over 17 years of working experience in the legal field in Hong Kong. Mr. Chu is currently a solicitor at Messrs. Tso Au Yim & Yeung.

Mr. Mak Wing Kit, aged 39, was appointed as an Independent Non-Executive Director on 1 May 2005. Mr. Mak graduated from the Boston University in US in 1997 with a Master Degree of Science in Administrative Studies. Mr. Mak is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Mak has over 13 years of auditing, accounting, company secretarial and financial controlling experience in Hong Kong. Mr. Mak is currently the financial controller of a private company based in Hong Kong and PRC.

SENIOR MANAGEMENT

Mr. Chan Chi Keung, aged 56, is the General Manager — Production of the Group and the legal representative of Kai Yip Manufactory Limited and 汕頭市包浩斯服飾製品有限公司 "Bauhaus PRC". Mr. Chan is responsible for the supervision of production processes carried out at the production site operated by the Group in the PRC and the sourcing of raw materials from suppliers in the PRC. Mr. Chan has over 21 years of manufacturing experience in the clothing and fashion accessory industry. Mr. Chan joined the Group in August 2001. Mr. Chan is the spouse of Madam Ho Kin Ching.

Madam Ho Kin Ching, aged 53, is the Production Manager of the Group and a director of Bauhaus PRC. Madam Ho is responsible for administration and inventory control of production site. She has over 21 years of experience in the clothing and fashion accessory industry. She joined the Group in August 2001. Madam Ho is the spouse of Mr. Chan Chi Keung.

Mr. Yao Tao Yee, James, aged 51, is the Sales and Marketing Director of the Group. Mr. Yao has proven experience in the fashion industry since 1976. His all rounded experience includes merchandising, design and image, retail operation, sales and marketing. Mr. Yao's experience is not only limited to domestic market but he has worked for many international corporations to explore business opportunity in Pacific Rim as well as Europe. He joined the Group since December 2005 to oversee the export department and in-house brand "80/20".

Mr. Chan Chung Kai, aged 42, is the Strategic Marketing Director of the Group. Mr. Chan is responsible for the Group's strategic marketing plans, buying strategies and procurement of trendy fashion labels. Mr. Chan has over 15 years experience in strategic marketing, brand development and visual merchandising and he had successfully introduced certain foreign brands into Hong Kong market with overwhelming responses. Prior to joining the Group in January 2007, Mr. Chan gained extensive strategic marketing experience in a fashion group.

Madam Fan Ching Shan, Susan, aged 44, is the Design and Merchandising Director of the Group. She is responsible for all activities concerning design direction, product planning, material and factory sourcing, production capacity planning as well as garment merchandising. Madam Fan obtained a diploma in management studies from the Hong Kong Management Association/HK Polytechnic University in 1999. Madam Fan has over 22 years of product development, merchandising, sales and marketing experience in Hong Kong and overseas markets. She joined the Group in July 2001.

Mr. Chung Chi Keung, aged 44, is the Financial Controller, Company Secretary and Qualified Accountant of the Group. He is responsible for accounting and company secretarial matters of the Group. Mr. Chung is a fellow member of the Association of Chartered Certified Accountants, an associate member of Hong Kong Institute of Certified Public Accountants and a Certified Public Accountant in Hong Kong. He obtained an endorsement certificate in Accountancy from the Hong Kong Polytechnic University in 1989. Mr. Chung has over 17 years of working experience in auditing, financial accounting and taxation in Hong Kong. He joined the Group in September 2004.

Mr. Li Kin Cheong, aged 31, is the Finance Manager of the Group. He is responsible for Group's financial management and reporting affairs. Mr. Li is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants and holds a Bachelor of Arts in Accountancy from the Hong Kong Polytechnic University. He has over 9 years' professional experience in accounting, auditing, corporate finance and company secretarial matters. Prior to joining the Group, he was a manager of an international accounting firm. He joined the Group in June 2005.

Ms. Yue Sau Han, Shirley, aged 33, is the Retail Operation Manager of the Group. Ms. Yue is responsible for management of the Group's retail operations in Hong Kong. She has over 10 years solid experience in retail industry and specialises in fashion sales and promotion affairs. She had joined the Group since July 2000 and assisted the Group for 4 years until June 2004 to develop a sound and effective retail chains. She then re-joined the Group in August 2005.

Madam Chan Wai Chun, Candy, aged 41, is the Administration Manager of the Group. She is responsible for the overall administration and management of human resources of the Group. Madam Chan has over 17 years of shop management and administration experience in Hong Kong. She has been with the Group since the opening of its first Bauhaus shop in 1991.

The board of directors (the "Board") is committed to maintaining high standard of corporate governance practices. Underlying this commitment is the Board's belief that good corporate governance is a reflection of the integrity, transparency and high ethical standards of a responsible business. Throughout the year ended 31 March 2007, the Company has complied with the applicable code provision of Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange except for the deviation from provision A.2.1 in respect of the roles of chairman and chief executive officer of the Company. Explanations for such non-compliance are discussed later in the section "Chairman and Chief Executive Officer" in this Corporate Governance Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

The Board is charged with the mission of promoting success and providing effective leadership of the Company. All Directors are aware of their collective and individual responsibilities to the shareholders and the duty to act in good faith of the Company.

The Board is responsible for formulating overall strategic direction of the Company, setting objectives for the management, monitoring and controlling the performance of the management. The management of the Company implements the strategic development and deals with operational matters of the Group under the delegation and authority of the Board.

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive directors. The Board considers that all the independent non-executive directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the shareholders of the Company.

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

Each of the independent non-executive directors has taken up the role as an independent non-executive director for an initial term of one year commencing from 1 May 2005 and is subject to retirement and re-election in accordance with the articles of association of the Company.

As at 31 March 2007, the Board comprised seven directors including four executive directors and three independent non-executive directors. The biographical details of the Directors are set out in the "Directors and Senior Management" section of this Annual Report.

The members of the Board for the year ended 31 March 2007 and up to the date of this report are as follows:

Executive directors
Mr. Wong Yui Lam *(Chairman and Chief Executive Officer)*
Madam Tong She Man, Winnie *(Vice-Chairman)*
Madam Lee Yuk Ming
Mr. Yeung Yat Hang

Independent non-executive directors
Mr. Chu To Ki
Mr. Mak Wing Kit
Dr. Wong Yun Kuen

The relationship among the members of the Board, if any, are disclosed under the section headed "Directors and Senior Management" of this Annual Report.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The roles of the chairman (the "Chairman") and chief executive officer (the "CEO") of the Company are not separated and are performed by the same person. Mr. Wong Yui Lam ("Mr. Wong") held and is currently holding both positions. Being the founder of the Group, Mr. Wong has substantial experience in fashion business industry. The Board considers that the present structure provides the Group with strong and consistent leadership which facilitates the development of the Group's business strategies and execution of its business plans in a most efficient and effective manner. The Board believes that it is in the best interest of the Company and its shareholders as a whole that Mr. Wong continues to assume the roles of the Chairman and the CEO.

BOARD MEETINGS

Board meetings are scheduled in advance and notice of 14 days together with the agenda have been given to facilitate maximum attendance of the Directors. At the meeting, the Directors were provided with the relevant documents to be considered and approved. Draft minutes of Board meeting are circulated to all Directors for comments. The company secretary of the Company is responsible for keeping minutes for the meetings of the Board.

Six Board meetings were held during the year under review and details of the Directors' attendance, on a named basis, are set out as follows:

Member of the Board	Attendance
Mr. Wong Yui Lam	6 out of 6
Madam Tong She Man, Winnie	6 out of 6
Madam Lee Yuk Ming	6 out of 6
Mr. Yeung Yat Hang	5 out of 6
Mr. Chu To Ki	5 out of 6
Mr. Mak Wing Kit	5 out of 6
Dr. Wong Yun Kuen	5 out of 6

BOARD COMMITTEES

Remuneration Committee

The primary duties of remuneration committee are to make recommendations to the Board on the policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration, to review, determine and approve the terms of remuneration packages, performance-based bonus and other compensation to all executive directors and senior management of the Company.

The Board established a remuneration committee on 22 April 2005 with terms of references in compliance with the CG Code. The remuneration committee comprises three independent non-executive directors, namely, Mr. Mak Wing Kit, Mr. Chu To Ki and Dr. Wong Yun Kuen. Mr. Mak Wing Kit is the chairman of the remuneration committee. The committee members may call any meetings at any time when necessary or desirable.

Two meetings of the remuneration committee were held during the year under review and details of the Directors' attendance, on a named basis, are set out as follows:

Member of the Board	Attendance
Mr. Chu To Ki	2 out of 2
Mr. Mak Wing Kit	2 out of 2
Dr. Wong Yun Kuen	2 out of 2

During the year under review, the remuneration committee considered and reviewed remuneration policy, which is to enable the Group to retain and motivate staff to meet corporate goals and to support continuous development of the Group. The remuneration package of each director and senior management of the Company is determined by reference to his/her duties and responsibilities, experience and qualifications, prevailing market conditions and both corporate and individual performance. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Company's executive directors is to enable the Company to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives achieved. The remuneration committee also approved performance-based bonus to the executive directors and senior management and reviewed annual salary adjustments to staff.

Nomination Committee

Nomination committee is mainly responsible for making recommendations to the Board on appointment of Directors and management of Board succession. The Board established a nomination committee on 22 April 2005 with terms of references in compliance with the CG Code. The nomination committee comprises three independent non-executive directors, namely, Dr. Wong Yun Kuen, Mr. Chu To Ki and Mr. Mak Wing Kit. Dr. Wong Yun Kuen is the chairman of the nomination committee. The Committee members may call any meetings at any time when necessary or desirable.

No meeting was held during the year under review as there was no candidate being nominated as a new director or to fill causal vacancy upon resignation or retirement of the Directors. According to the articles of association of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. At a full Board meeting held on 16 July 2007, the Directors have reviewed the performance of Mr. Wong Yui Lam, Mr. Chu To Ki and Dr. Wong Yun Yuen, the directors who will retire at the forthcoming annual general meeting of the Company, and approved to recommend the re-election of such directors at the forthcoming annual general meeting of the Company.

Audit Committee

The primary duties of audit committee are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, to approve the remuneration and terms of engagement of the external auditors, to review Group's financial reporting and internal control systems, to monitor the integrity of the Group's financial statements for publication and also to oversee audit process.

The Board established an audit committee on 22 April 2005 with terms of references in compliance with the CG Code. The audit committee comprises three independent non-executive directors, namely, Mr. Mak Wing Kit, Mr. Chu To Ki and Dr. Wong Yun Kuen. Mr. Mak Wing Kit is the chairman of the audit committee. The committee members may call any meetings at any time when necessary or desirable.

Two meetings of the audit committee were held during the year under review and details of the Directors' attendance, on a named basis, are set out as follows:

Member of the Board	Attendance
Mr. Mak Wing Kit	2 out of 2
Mr. Chu To Ki	2 out of 2
Dr. Wong Yun Kuen	2 out of 2

During the year under review, the audit committee reviewed the Group's consolidated financial statements for the year ended 31 March 2006 and six months ended 30 September 2006, the accounting principles and practices adopted by the Group, plans and findings of the annual audit from external auditors, internal control, risk management and financial reporting matters. In addition, the audit committee also reviewed and approved the external auditors' remuneration and recommended the Board for re-appointment of the external auditors.

EXTERNAL AUDITORS AND AUDITORS REMUNERATION

The Group appointed Ernst & Young as the Group's principal auditors. The acknowledgement of their responsibilities on the financial statements are set out in the section of "Independent Auditors' Report" on pages 35 to 36 of this Annual Report.

The remuneration paid to Ernst & Young, and its affiliated firms, for services rendered in respect of the year ended 31 March 2007 is as follows:

	Year ended 31 March 2007 HK$'000	Year ended 31 March 2006 HK$'000
Audit services	**1,508**	1,248
Non-audit services	**675**	614
Total	**2,183**	1,862

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flows of the Group for that year and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 March 2007, the Directors have selected appropriate accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records which disclose the financial position of the Group with reasonable accuracy at any time.

INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the audit committee. The Board requires management to establish and maintain sound and effective internal controls and conducted a review of effectiveness of the system of internal control of the Group. Such review covered all material controls, including financial, operational and compliance controls and risk management functions. The Board also communicates regularly with the audit committee and the external auditors.

COMMUNICATION WITH INVESTORS AND SHAREHOLDERS

To enhance transparency and effectively communicate with the investment community, the executive directors and senior management of the Company actively maintains close communications with various investors, research analysts, fund managers and the media by convening roadshows, presentations at results announcement, one-on-one meetings and press conferences.

The Board also welcomes the views of shareholders on matters affecting the Company and encourages them to attend shareholders' meeting to communicate any concerns they might have with the Board. The important details and dates for shareholders during the year under review and in the coming financial year are set out in the section of "Information for Investors" on page 7 of this Annual Report.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2007 and the state of affairs of the Company and the Group at that date are set out on pages 37 to 84 of this Annual Report.

An interim dividend of HK2.5 cents per ordinary share was paid on 26 January 2007. The directors recommend the payment of a final and a special dividend of HK3.0 cents and HK5.5 cents per ordinary share, respectively, in respect of the year to shareholders on the register of members on 23 August 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 21 August 2007, to Thursday, 23 August 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final and special dividends, if approved, 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 Monday, 20 August 2007.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in May 2005, after deduction of related issuance expenses, amounted to approximately HK$112.4 million. As at 31 March 2007, these proceeds were applied in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

	Per prospectus	**Utilised**	**Balance as at 31 March 2007**
	HK$'000	HK$'000	HK$'000
Expansion of distribution network	46,000	(37,407)	8,593
Expansion and upgrade of production facilities	15,000	(5,010)	9,990
Development of the "80/20" brand name	14,000	(8,539)	5,461
Marketing of the in-house brand names	13,000	(8,390)	4,610
Diversification into high-end fashion market	4,000	(4,000)	—
Enhancement of the 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	(83,746)	28,654

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

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and assets and liabilities of the Group for the year, as extracted from the consolidated financial statements, and the pro forma consolidated results and assets and liabilities of the Group for the four preceding years, as extracted from the pro forma consolidated financial statements of the Group and the Company's annual report or listing prospectus dated 29 April 2005 which also set out the details of the basis of presentation and are restated/reclassified as appropriate, is set out on page 4 of this Annual Report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year are set out in note 27 to the financial statements.

No share options have been granted under the Company's share option scheme since its adoption on 22 April 2005. Details of the Company's share option scheme are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$205,707,000, of which an aggregate of HK$30,553,000 has been proposed as final and special dividends for the year. In addition, the Company's share premium account, in the amount of HK$87,875,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$132,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 30% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Wong Yui Lam *(Chairman and Chief Executive Officer)*
Madam Tong She Man, Winnie *(Vice-Chairman)*
Madam Lee Yuk Ming
Mr. Yeung Yat Hang

Independent non-executive directors:
Mr. Chu To Ki
Mr. Mak Wing Kit
Dr. Wong Yun Kuen

In accordance with article 87 of the Company's articles of association, Mr. Wong Yui Lam, Mr. Chu To Ki and Dr. Wong Yun Kuen will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 19 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 May 2005. The service contracts will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other without payment of compensation. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the board of directors, be adjusted and they will each be entitled to a discretionary bonus provided that the total amount of bonuses payable to all the directors for such year shall not exceed HK$5 million. Each of the executive directors will be entitled to all the reasonable out-of-pocket expenses and medical expenses, housing benefit and reimbursements, the use of a car and the fuel and maintenance (including insurance) expenses in respect of the car used by him/her.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2007, the interests and short positions of the directors of the Company in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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

Number of shares held, capacity and nature of interest

Name of director	Directly beneficially owned	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	2,100,000 (note 1)	29,752,000 (note 1)	175,178,000 (note 1)	207,030,000	57.60%
Madam Tong She Man, Winnie	2,100,000 (note 2)	33,226,000 (note 2)	175,178,000 (note 2)	210,504,000	58.56%
Mr. Yeung Yat Hang	2,840,000	—	—	2,840,000	0.79%

Notes:

1. 2,100,000 shares are jointly held by Mr. Wong Yui Lam and Madam Tong She Man, Winnie, both being the executive directors of the Company. 29,752,000 shares are held by Wonder View Limited ("Wonder View"), the entire issued share capital of which is beneficially owned by Mr. Wong Yui Lam. 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.

2. 2,100,000 shares are jointly held by Madam Tong She Man, Winnie and Mr. Wong Yui Lam, both being the executive directors of the Company. 33,226,000 shares are held by Great Elite Corporation ("Great Elite"), the entire issued share capital of which is beneficially owned by Madam Tong She Man, Winnie. 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.

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

(b) Long positions in shares of associated corporations

Name of associated corporation	Name of director	Capacity	Number of shares held	Percentage of the associated corporation's issued share capital
Huge Treasure (as trustee of The Wong & Tong Unit Trust)	Mr. Wong Yui Lam	Beneficial owner	1 share of US$1	50%
	Madam Tong She Man, Winnie	Beneficial owner	1 share of US$1	50%
Tough Jeans Limited	Mr. Wong Yui Lam	Beneficial owner (note)	3 non-voting deferred shares of HK$1 each	60% of the issued non-voting deferred shares
	Madam Tong She Man, Winnie	Beneficial owner (note)	2 non-voting deferred shares of HK$1 each	40% of the issued non-voting deferred shares
Bauhaus Holdings Limited	Mr. Wong Yui Lam	Beneficial owner (note)	1 non-voting deferred share of HK$1 each	50% of the issued non-voting deferred shares
	Madam Tong She Man, Winnie	Beneficial owner (note)	1 non-voting deferred share of HK$1 each	50% of the issued non-voting deferred shares

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

Save as disclosed above, as at 31 March 2007, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

At 31 March 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Position	Directly beneficially owned	Through discretionary trust/as beneficiary or trustee of trust	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Huge Treasure (note 1)	Long position	175,178,000	—	175,178,000	48.74%
East Asia International Trustees Limited ("EAIT") (note 2)	Long position	—	175,178,000	175,178,000	48.74%
Wonder View (note 3)	Long position	29,752,000	—	29,752,000	8.28%
Great Elite (note 4)	Long position	33,226,000	—	33,226,000	9.24%
Deutsche Bank Aktiengesellschaft	Long position	26,066,000	—	26,066,000	7.25%
Galaxy China Opportunities Fund	Long position	25,816,000	—	25,816,000	7.18%

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, a discretionary trust established by Mr. Wong Yui Lam and Madam Tong She Man, Winnie, both being executive directors of the Company.

2. EAIT is a licensed trustee in the British Virgin Islands and acts as trustee of The Wong & Tong Family Trust. By virtue of its capacity as trustee of The Wong & Tong Family Trust, EAIT is deemed to be interested in the shares held by Huge Treasure (as trustee of The Wong & Tong Unit Trust) under the SFO.

3. Wonder View is a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mr. Wong Yui Lam.

4. Great Elite is a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Madam Tong She Man, Winnie.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Save as disclosed above, as at 31 March 2007, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, has an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

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

Continuing connected transactions

The following continuing connected transactions are exempt from the independent shareholders' approval requirement under Rule 14A.34 of the Listing Rules and the respective amounts have not exceeded the relevant annual cap approved by the Stock Exchange as disclosed in the Company's listing prospectus.

Licence of software and provision of services

The Group entered into an agreement for the licence of software and the provision of services with Netideas Limited ("Netideas"), which is 100% beneficially owned by Mr. Wong Yui Hong, a brother of Mr. Wong Yui Lam, an executive director of the Company, and accordingly, Mr. Wong Yui Hong is a connected person of the Company under the Listing Rules. Under the agreement, Netideas grants to the Group the licence (the "Licence") and right to use the relevant modules of a software named Net-Retail Management System (the "Software") and the documentation relating to the Software in connection with the management of the retail business of the Group. The agreement is for a term of four years commencing from 1 April 2004 and expiring on 31 March 2008.

For the year ended 31 March 2007, the aggregate amount paid by the Group to Netideas for the Licence amounted to HK$1,289,000 which has been accounted for as expenses in the Group's consolidated income statement.

Sourcing of equipment

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

For the year ended 31 March 2007, the aggregate amount paid by the Group for the sourcing of equipment was HK$1,200,000.

The following continuing connected transactions are exempt from the reporting, announcement or independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules and are included herein for information only.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Rental expenses paid to Mr. Chan Chi Keung

The Group has entered into a tenancy agreement for a term of two years from 1 July 2005 to 30 June 2007 with Mr. Chan Chi Keung, a director of certain subsidiaries of the Company and a minority shareholder of the Company, for the office premises at Workshop 10, 4th Floor, Kingsford Industrial Centre, 13 Wang Hoi Road, Kowloon Bay, Kowloon, Hong Kong.

Under the agreement, the Group is required to pay Mr. Chan Chi Keung a monthly rental of HK$7,000 which is comparable to the market price available from independent third parties. This tenancy agreement was early terminated on 31 July 2006.

The rental paid by the Group to Mr. Chan Chi Keung under the tenancy agreement amounted to HK$28,000 for the year ended 31 March 2007.

Rental expenses paid to Sharp Woods Limited

The Group has agreed with Sharp Woods Limited ("Sharp Woods"), which is beneficially owned by Mr. Wong Yui Lam and Madam Tong She Man, Winnie, both being executive directors of the Company, to rent the car parking spaces in Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong, for a term of 1 year from 1 April 2006 to 31 March 2007.

Under the arrangement, the Group is required to pay Sharp Woods a monthly rental of HK$16,500 which is comparable to the market price available from independent third parties.

The rental paid by the Group to Sharp Woods under the arrangement amounted to HK$198,000 for the year ended 31 March 2007.

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

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or on terms no less favourable to the Group than terms available from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

ON BEHALF OF THE BOARD

Wong Yui Lam
Chairman

Hong Kong
16 July 2007

ERNST & YOUNG
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

香港中環金融街8號
國際金融中心2期18樓

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

We have audited the financial statements of Bauhaus International (Holdings) Limited set out on pages 37 to 84 of this annual report, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
16 July 2007

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE	5	**509,248**	436,008
Cost of sales		**(184,580)**	(158,746)
Gross profit		**324,668**	277,262
Other income and gains	5	**4,931**	4,156
Selling and distribution costs		**(198,036)**	(169,954)
Administrative expenses		**(58,953)**	(48,387)
Other expenses		**(5,848)**	(1,622)
Finance costs	7	**(236)**	(397)
PROFIT BEFORE TAX	6	**66,526**	61,058
Tax	10	**(9,301)**	(10,197)
PROFIT FOR THE YEAR		**57,225**	50,861
DIVIDENDS	12		
Interim		**8,766**	8,766
Special interim		**—**	7,013
Proposed final		**10,783**	9,117
Proposed special		**19,770**	12,799
		39,319	37,695
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**16.26 cents**	15.05 cents

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**31,009**	32,635
Prepaid land lease payments	15	**7,174**	7,329
Intangible assets	16	**1,898**	1,272
Available-for-sale financial asset	18	**3,900**	3,900
Deferred tax assets	19	**6,989**	4,163
Rental, utility and other non-current deposits		**30,395**	25,655
Total non-current assets		**81,365**	74,954
CURRENT ASSETS			
Inventories	20	**98,248**	85,776
Trade and bills receivables	21	**19,201**	11,331
Prepayments, deposits and other receivables	22	**11,116**	12,500
Prepaid land lease payments, current portion	15	**155**	155
Tax recoverable		**2,205**	1,316
Cash and cash equivalents	23	**161,099**	139,660
Total current assets		**292,024**	250,738
CURRENT LIABILITIES			
Trade and bills payables	24	**9,553**	6,319
Other payables and accruals	25	**27,868**	21,246
Interest-bearing bank borrowings	26	**—**	3,527
Due to a related company	31(b)	**198**	180
Tax payable		**5,272**	2,690
Total current liabilities		**42,891**	33,962
NET CURRENT ASSETS		**249,133**	216,776
TOTAL ASSETS LESS CURRENT LIABILITIES		**330,498**	291,730
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	**682**	748
Net assets		**329,816**	290,982

31 March 2007

	Notes	**2007 HK$'000**	2006 HK$'000
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	27	**35,945**	35,065
Reserves	28(a)	**263,318**	234,001
Proposed dividends	12	**30,553**	21,916
Total equity		**329,816**	290,982

Wong Yui Lam
Chairman

Tong She Man, Winnie
Vice-Chairman

Year ended 31 March 2007

	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (note 28(a))	Exchange fluctuation reserve HK$'000	Reserve funds HK$'000	Proposed dividends HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 April 2005		100	3,875	3,882	350	—	—	135,224	143,431
Exchange realignment and total income for the year recognised directly in equity		—	—	—	57	—	—	—	57
Profit for the year		—	—	—	—	—	—	50,861	50,861
Total income for the year		—	—	—	57	—	—	50,861	50,918
Issue of shares		10,465	120,347	—	—	—	—	—	130,812
Capitalisation of the share premium account	27	24,500	(24,500)	—	—	—	—	—	—
Transfer to contributed surplus		—	(3,875)	3,875	—	—	—	—	—
Share issue expenses		—	(18,400)	—	—	—	—	—	(18,400)
Interim 2006 dividend	12	—	—	—	—	—	—	(8,766)	(8,766)
Special interim 2006 dividend	12	—	—	(7,013)	—	—	—	—	(7,013)
Proposed final 2006 dividend	12	—	—	—	—	—	9,117	(9,117)	—
Proposed special 2006 dividend	12	—	—	—	—	—	12,799	(12,799)	—
At 31 March 2006 and at 1 April 2006		35,065	77,447	744	407	—	21,916	155,403	290,982
Exchange realignment and total income for the year recognised directly in equity		—	—	—	983	—	—	—	983
Profit for the year		—	—	—	—	—	—	57,225	57,225
Total income for the year		—	—	—	983	—	—	57,225	58,208
Transfer to reserve funds		—	—	—	—	1,146	—	(1,146)	—
Issue of shares	27	880	10,560	—	—	—	—	—	11,440
Share issue expenses		—	(132)	—	—	—	—	—	(132)
Final 2006 dividend declared		—	—	—	—	—	(9,117)	—	(9,117)
Special 2006 dividend declared		—	—	—	—	—	(12,799)	—	(12,799)
Interim 2007 dividend	12	—	—	—	—	—	—	(8,766)	(8,766)
Proposed final 2007 dividend	12	—	—	—	—	—	10,783	(10,783)	—
Proposed special 2007 dividend	12	—	—	—	—	—	19,770	(19,770)	—
At 31 March 2007		35,945	87,875*	744*	1,390*	1,146*	30,553	172,163*	329,816

* These reserve accounts comprise the consolidated reserves of HK$263,318,000 (2006: HK$234,001,000) in the consolidated balance sheet.

Year ended 31 March 2007

	Notes	**2007 HK$'000**	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**66,526**	61,058
Adjustments for:			
Finance costs	7	**236**	397
Bank interest income	5	**(2,236)**	(3,011)
Depreciation	6	**11,556**	10,850
Loss on disposal/write-off of items of property, plant and equipment	6	**690**	22
Impairment of items of property, plant and equipment	6	**—**	912
Recognition of prepaid land lease payments	15	**155**	155
Impairment of intangible assets	6	**—**	15
Write-off of intangible assets	6	**—**	72
Amortisation of intangible assets	6	**352**	396
Provision for slow-moving inventories, net	6	**11,795**	1,676
Impairment of trade receivables	6	**4,384**	—
		93,458	72,542
Increase in rental, utility and other non-current deposits		**(4,318)**	(2,904)
Increase in inventories		**(24,267)**	(23,002)
Increase in trade and bills receivables		**(12,254)**	(860)
Decrease/(increase) in prepayments, deposits and other receivables		**962**	(6,640)
Increase/(decrease) in trade and bills payables		**3,234**	(1,555)
Increase in other payables and accruals		**6,622**	2,650
Increase in an amount due to a related company		**18**	157
Cash generated from operations		**63,455**	40,388
Interest received		**2,236**	3,011
Interest paid		**(236)**	(397)
Income tax paid		**(10,500)**	(12,791)
Net cash inflow from operating activities		**54,955**	30,211
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	**(10,621)**	(14,882)
Proceeds from disposal of items of property, plant and equipment		**157**	77
Additions to intangible assets	16	**(978)**	(392)
Net cash outflow from investing activities		**(11,442)**	(15,197)

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	27	**11,440**	130,812
Share issue expenses		**(132)**	(13,140)
Increase/(decrease) in trust receipt loans		**(3,527)**	2,640
Repayment of bank loans		**—**	(5,962)
Dividends paid		**(30,682)**	(15,779)
Net cash inflow/(outflow) from financing activities		**(22,901)**	98,571
NET INCREASE IN CASH AND CASH EQUIVALENTS		**20,612**	113,585
Cash and cash equivalents at beginning of year		**139,660**	26,032
Effect of foreign exchange rate changes, net		**827**	43
CASH AND CASH EQUIVALENTS AT END OF YEAR		**161,099**	139,660
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**105,497**	76,491
Non-pledged time deposits with original maturity of less than three months when acquired	23	**55,602**	63,169
		161,099	139,660

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	**143,631**	143,631
CURRENT ASSETS			
Due from subsidiaries	17	**128,137**	124,697
Prepayment and other receivable	22	**137**	122
Cash and cash equivalents	23	**57,864**	54,345
Total current assets		**186,138**	179,164
CURRENT LIABILITIES			
Due to subsidiaries	17	**63**	63
Other payables and accruals	25	**179**	8
Total current liabilities		**242**	71
NET CURRENT ASSETS		**185,896**	179,093
Net assets		**329,527**	322,724
EQUITY			
Issued capital	27	**35,945**	35,065
Reserves	28(b)	**263,029**	265,743
Proposed dividends	12	**30,553**	21,916
Total equity		**329,527**	322,724

Wong Yui Lam
Chairman

Tong She Man, Winnie
Vice-Chairman

1. CORPORATE INFORMATION

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

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

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

2.1 GROUP REORGANISATION, BASIS OF PRESENTATION AND PREPARATION

Group Reorganisation

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"), the Company acquired the entire issued share capital of Bauhaus Investments (BVI) Limited ("Bauhaus (BVI)"), the then holding company of the subsidiaries, in consideration for the aggregate allotment and issuance of 1,000,000 ordinary shares of HK$0.1 each in the share capital of the Company to the then shareholders of Bauhaus (BVI). The Company then became the holding company of the companies now comprising the Group (the "Group Reorganisation").

Further details of the Group Reorganisation were set out in the Company's listing prospectus dated 29 April 2005.

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

Basis of presentation

The Group Reorganisation above involved companies under common control, and the Group resulting from the Group Reorganisation is regarded and accounted for as a continuing group. Accordingly, the consolidated financial statements have been prepared on the merger basis as if the Company had been the holding company of the companies now comprising the Group during the year ended 31 March 2006. Under this basis, the Company has been treated as the holding company of its subsidiaries pursuant to the Group Reorganisation during the year ended 31 March 2006, rather than from the date of acquisition of the subsidiaries.

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an available-for-sale financial asset, which has been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

2.1 GROUP REORGANISATION, BASIS OF PRESENTATION AND PREPARATION

(Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases which give rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease

The principal changes in accounting policies are as follows:

HKAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

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

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

HKAS 1 Amendment	Capital Disclosures
HKAS 23 (Revised)	Borrowing Costs
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and revenue from its major customers.

HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11, HK(IFRIC)-Int 12 and HKAS 23 (Revised) shall be applied for annual periods beginning on or after 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007, 1 January 2008 and 1 January 2009, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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

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

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

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Trademarks with definite useful lives are stated at cost less any impairment losses and are amortised on the straight-line basis over their useful lives of 5 to 15 years.

Leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost (Continued)

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and bills receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing bank borrowings)

Financial liabilities, including trade and bills payables, other payables, an amount due to a related company and interest-bearing bank borrowings, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Pension schemes and other retirement benefits (Continued)

A subsidiary of the Group incorporated in Macau makes monthly contributions to the social security fund managed by the relevant authority of the local government, which undertakes the retirement obligations of the Group's employees. The Group has no obligation for payment of retirement benefits beyond the monthly contributions. The contribution payable is charged as an expense to the income statement as and when incurred.

Dividends

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

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Estimation uncertainty

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

Estimation of useful lives of property, plant and equipment

The management estimates the useful lives of property, plant and equipment when acquired based on the period over which the item of property, plant and equipment is expected to be available for use to the Group. The useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date. The carrying value of property, plant and equipment at 31 March 2007 was HK$31,009,000 (2006: HK$32,635,000).

Impairment test of property, plant and equipment

Management estimates the recoverable amount of property, plant and equipment when an indication of impairment exists. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires the management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. The carrying value of property, plant and equipment at 31 March 2007 was HK$31,009,000 (2006: HK$32,635,000).

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 March 2007 was HK$153,000 (2006: HK$184,000). The amount of unrecognised tax losses at 31 March 2007 was HK$5,710,000 (2006: HK$1,218,000). Further details are contained in note 19 to the financial statements.

Impairment of trade and bills receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade and bills receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers is to deteriorate so that the actual impairment loss might be higher than expected, the Group will be required to revise the basis of making the allowance, and its future results would be affected. The carrying value of trade and bills receivables at 31 March 2007 was HK$19,201,000 (2006: HK$11,331,000).

4. SEGMENT INFORMATION

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

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 and assets are attributed to the segments based on the location of the customers. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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

(a) Retail operation which is engaged in retail business through the operations of the Group's retail outlets;

(b) Wholesale operation which is engaged in the sale of garments and accessories to customers for distribution; and

(c) Franchise business which is engaged in the sale of garments and accessories to the designated franchisees for their own operations of retail business in the designated locations.

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 31 March 2007 and 2006.

	Hong Kong		Taiwan		Japan		Mainland China		Elsewhere		Eliminations		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:														
Sales to external customers	**383,573**	355,823	**42,827**	28,216	**25,580**	11,109	**32,490**	17,734	**24,778**	23,126	**—**	—	**509,248**	436,008
Intersegment sales	**—**	—	**15,634**	14,744	**—**	—	**499**	—	**—**	—	**(16,133)**	(14,744)	**—**	—
Total	**383,573**	355,823	**58,461**	42,960	**25,580**	11,109	**32,989**	17,734	**24,778**	23,126	**(16,133)**	(14,744)	**509,248**	436,008
Segment results	**59,259**	63,543	**1,170**	1,854	**8,538**	2,224	**14,244**	7,851	**2,739**	5,180	**—**	—	**85,950**	80,652
Bank interest income													**2,236**	3,011
Unallocated expenses													**(21,424)**	(22,208)
Finance costs													**(236)**	(397)
Profit before tax													**66,526**	61,058
Tax													**(9,301)**	(10,197)
Profit for the year													**57,225**	50,861

4. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments *(Continued)*

	Hong Kong		Taiwan		Japan		Mainland China		Elsewhere		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets and liabilities												
Segment assets	**120,642**	132,685	**20,351**	20,694	**8,253**	2,379	**29,760**	3,561	**8,102**	3,326	**187,108**	162,645
Unallocated assets											**186,281**	163,047
Total assets											**373,389**	325,692
Segment liabilities	**18,898**	11,008	**1,455**	1,024	**425**	45	**6,215**	3,886	**1,626**	740	**28,619**	16,703
Unallocated liabilities											**14,954**	18,007
Total liabilities											**43,573**	34,710
Other segment information:												
Capital expenditure	**6,117**	7,547	**656**	1,258	**121**	—	**948**	174	**1,381**	539	**9,223**	9,518
Unallocated capital expenditure											**2,376**	5,756
											11,599	15,274
Depreciation	**8,438**	7,715	**878**	605	**8**	8	**83**	7	**109**	58	**9,516**	8,393
Unallocated depreciation											**2,040**	2,457
											11,556	10,850
Loss on disposal/write-off of items of property, plant and equipment	**690**	22	**—**	—	**—**	—	**—**	—	**—**	—	**690**	22
Impairment of items of property, plant and equipment	**—**	912	**—**	—	**—**	—	**—**	—	**—**	—	**—**	912
Recognition of prepaid land lease payments	**155**	155	**—**	—	**—**	—	**—**	—	**—**	—	**155**	155
Impairment of intangible assets	**—**	15	**—**	—	**—**	—	**—**	—	**—**	—	**—**	15
Write-off of intangible assets	**—**	—	**—**	—	**—**	—	**—**	72	**—**	—	**—**	72
Amortisation of intangible assets	**62**	95	**23**	37	**16**	8	**53**	79	**198**	177	**352**	396
Impairment of trade receivables	**—**	—	**3,784**	—	**—**	—	**—**	—	**600**	—	**4,384**	—

4. SEGMENT INFORMATION *(Continued)*

(b) Business segments

The following tables present revenue and certain asset and expenditure information for the Group's business segments for the years ended 31 March 2007 and 2006.

	2007 HK$'000	2006 HK$'000
Segment revenue:		
Sales to external customers:		
Retail	**429,021**	383,627
Wholesale	**51,497**	34,647
Franchise	**28,730**	17,734
	509,248	436,008
Other segment information:		
Segment assets:		
Retail	**160,714**	147,146
Wholesale	**21,620**	11,938
Franchise	**4,774**	3,561
	187,108	162,645
Corporate and other unallocated assets	**186,281**	163,047
Total assets	**373,389**	325,692
Capital expenditure:		
Retail	**7,256**	8,805
Wholesale	**444**	539
Franchise	**1,523**	174
	9,223	9,518
Corporate and other unallocated amounts	**2,376**	5,756
Total capital expenditure	**11,599**	15,274

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Group	
	2007	2006
	HK$'000	HK$'000
Revenue		
Sale of garment products and accessories	**509,248**	436,008
Other income		
Bank interest income	**2,236**	3,011
Others	**2,594**	1,145
	4,830	4,156
Gains		
Foreign exchange differences, net	**101**	—
	4,931	4,156

6. PROFIT BEFORE TAX

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

	Notes	2007 HK$'000	2006 HK$'000
Cost of inventories sold		**172,785**	157,070
Depreciation	14	**11,556**	10,850
Provision for slow-moving inventories, net		**11,795**	1,676
Rental expenses under operating leases in respect of equipment		**185**	—
Rental expenses under operating leases in respect of land and buildings:			
Minimum lease payments		**87,313**	72,216
Contingent rents		**12,459**	8,571
		99,772	80,787
Auditors' remuneration		**1,721**	1,404
Employee benefits expense (excluding directors' remuneration (note 8)):			
Wages, salaries and other benefits		**86,377**	75,654
Pension scheme contributions*		**3,913**	3,194
		90,290	78,848
Other expenses:			
Loss on disposal/write-off of items of property, plant and equipment		**690**	22
Impairment of items of property, plant and equipment	14	**—**	912
Impairment of intangible assets	16	**—**	15
Write-off of intangible assets	16	**—**	72
Amortisation of intangible assets	16	**352**	396
Foreign exchange differences, net		**—**	205
Impairment of trade receivables		**4,384**	—
Others		**422**	—
		5,848	1,622

* At the balance sheet date, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years.

7. FINANCE COSTS

	Group 2007 HK$'000	2006 HK$'000
Interest on bank loans wholly repayable within five years	**211**	376
Interest on bank overdrafts	**3**	15
Others	**22**	6
	236	397

8. DIRECTORS' REMUNERATION

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

	Group 2007 HK$'000	2006 HK$'000
Fees	**360**	330
Other emoluments:		
Salaries, allowances and benefits in kind	**2,606**	3,226
Performance related bonuses*	**960**	330
Pension scheme contributions	**48**	48
	3,614	3,604
	3,974	3,934

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

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

	2007 HK$'000	2006 HK$'000
Mr. Chu To Ki	**120**	110
Mr. Mak Wing Kit	**120**	110
Dr. Wong Yun Kuen	**120**	110
	360	330

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007					
Mr. Wong Yui Lam	**—**	**520**	**480**	**12**	**1,012**
Madam Tong She Man, Winnie	**—**	**520**	**480**	**12**	**1,012**
Madam Lee Yuk Ming	**—**	**900**	**—**	**12**	**912**
Mr. Yeung Yat Hang	**—**	**666**	**—**	**12**	**678**
	—	**2,606**	**960**	**48**	**3,614**
2006					
Mr. Wong Yui Lam	—	880	—	12	892
Madam Tong She Man, Winnie	—	880	—	12	892
Madam Lee Yuk Ming	—	816	174	12	1,002
Mr. Yeung Yat Hang	—	650	156	12	818
	—	3,226	330	48	3,604

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2006: three) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2006: two) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,755**	960
Performance related bonuses	**2,327**	2,140
Pension scheme contributions	**36**	24
	4,118	3,124

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

	Number of employees	
	2007	2006
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**1**	1
	3	2

10. TAX

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

The corporate income tax ("CIT") applicable to the four (2006: three) subsidiaries located in Mainland China ranges from 15% to 18%. Two of those subsidiaries are entitled to tax holidays with a 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 those two subsidiaries is entitled to a 50% reduction of CIT commencing in 2007 while the tax holiday of the remaining one already expired in 1996.

The subsidiary in Taiwan is subject to income tax at the statutory 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 been loss-making.

10. TAX *(Continued)*

No Macau profits tax has been provided as the Macau subsidiary of the Company is exempt from Macau Complementary Tax (2006: Nil).

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"), which is effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. At the date of approval of these financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. Those detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements are issued.

	Group	
	2007	2006
	HK$'000	HK$'000
Current tax — Hong Kong		
Provision for the year	**10,785**	10,091
Overprovision in prior years	**(222)**	(323)
Current tax — Elsewhere		
Provision for the year	**1,659**	601
Underprovision/(overprovision) in prior years	**(29)**	173
Deferred tax credit (note 19)	**(2,892)**	(345)
Total tax charge for the year	**9,301**	10,197

10. TAX *(Continued)*

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

Group

2007

	Hong Kong		**Elsewhere**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**50,520**		**16,006**		**66,526**	
Tax at the statutory or applicable tax rates	**8,841**	**17.5**	**2,510**	**15.7**	**11,351**	**17.1**
Adjustments in respect of current tax of previous periods	**(222)**	**(0.4)**	**(29)**	**(0.2)**	**(251)**	**(0.4)**
Income not subject to tax	**(656)**	**(1.3)**	**(2,388)**	**(14.9)**	**(3,044)**	**(4.6)**
Expenses not deductible for tax	**280**	**0.5**	**86**	**0.5**	**366**	**0.5**
Temporary differences not recognised	**152**	**0.3**	**(342)**	**(2.1)**	**(190)**	**(0.3)**
Tax losses utilised from previous periods	**(31)**	**(0.1)**	**—**	**—**	**(31)**	**—**
Tax losses not recognised	**1,100**	**2.2**	**—**	**—**	**1,100**	**1.7**
Tax charge/(credit) at the Group's effective rate	**9,464**	**18.7**	**(163)**	**(1.0)**	**9,301**	**14.0**

2006

	Hong Kong		Elsewhere		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	56,271		4,787		61,058	
Tax at the statutory or applicable tax rates	9,847	17.5	817	17.1	10,664	17.5
Adjustments in respect of current tax of previous periods	(323)	(0.6)	173	3.6	(150)	(0.2)
Income not subject to tax	(527)	(0.9)	(1,357)	(28.3)	(1,884)	(3.1)
Expenses not deductible for tax	159	0.3	1,133	23.6	1,292	2.1
Temporary differences not recognised	1,182	2.1	(191)	(4.0)	991	1.6
Tax losses utilised from previous periods	(716)	(1.3)	—	—	(716)	(1.2)
Tax charge at the Group's effective rate	9,622	17.1	575	12.0	10,197	16.7

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 March 2007 includes a profit of HK$26,177,000 (2006: HK$82,460,000) which has been dealt with in the financial statements of the Company (note 28(b)).

12. DIVIDENDS

	Company	
	2007	2006
	HK$'000	HK$'000
Interim — HK2.5 cents (2006: HK2.5 cents) per ordinary share	**8,766**	8,766
Special interim — Nil (2006: HK2.0 cents) per ordinary share*	**—**	7,013
Proposed final — HK3.0 cents (2006: HK 2.6 cents) per ordinary share**	**10,783**	9,117
Proposed special — HK5.5 cents (2006: HK3.65 cents) per ordinary share**	**19,770**	12,799
	39,319	37,695

* The special interim dividend for the year ended 31 March 2006 was distributed out of the contributed surplus of the Company arising as a result of the Group Reorganisation.

** The proposed final and proposed special dividends for the current year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK$57,225,000 (2006: HK$50,861,000) and the weighted average number of ordinary shares in issue during the year of 351,951,918 (2006: 338,047,123).

Diluted earnings per share amounts have not been presented as no diluting events existed during the years ended 31 March 2007 and 2006.

31 March 2007

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 March 2007	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 March 2006 and at 1 April 2006:							
Cost	13,046	31,709	2,365	6,559	10,906	2,127	66,712
Accumulated depreciation and impairment	(447)	(19,986)	(350)	(4,222)	(7,042)	(2,030)	(34,077)
Net carrying amount	12,599	11,723	2,015	2,337	3,864	97	32,635
At 1 April 2006, net of accumulated depreciation and impairment	12,599	11,723	2,015	2,337	3,864	97	32,635
Additions	71	6,473	799	886	1,877	515	10,621
Depreciation provided during the year	(268)	(7,802)	(273)	(1,126)	(1,920)	(167)	(11,556)
Disposals	—	(461)	(31)	(92)	(263)	—	(847)
Exchange realignment	—	59	77	6	14	—	156
At 31 March 2007, net of accumulated depreciation and impairment	12,402	9,992	2,587	2,011	3,572	445	31,009
At 31 March 2007:							
Cost	13,117	32,597	3,201	7,207	12,125	2,323	70,570
Accumulated depreciation and impairment	(715)	(22,605)	(614)	(5,196)	(8,553)	(1,878)	(39,561)
Net carrying amount	12,402	9,992	2,587	2,011	3,572	445	31,009

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

31 March 2006	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 April 2005:							
Cost	13,046	22,446	889	5,325	9,591	2,397	53,694
Accumulated depreciation	(186)	(12,936)	(89)	(3,209)	(5,487)	(2,187)	(24,094)
Net carrying amount	12,860	9,510	800	2,116	4,104	210	29,600
At 1 April 2005, net of accumulated depreciation	12,860	9,510	800	2,116	4,104	210	29,600
Additions	—	10,408	1,464	1,360	1,650	—	14,882
Depreciation provided during the year	(261)	(7,231)	(260)	(1,118)	(1,867)	(113)	(10,850)
Disposals	—	(53)	—	(23)	(23)	—	(99)
Impairment	—	(912)	—	—	—	—	(912)
Exchange realignment	—	1	11	2	—	—	14
At 31 March 2006, net of accumulated depreciation and impairment	12,599	11,723	2,015	2,337	3,864	97	32,635
At 31 March 2006:							
Cost	13,046	31,709	2,365	6,559	10,906	2,127	66,712
Accumulated depreciation and impairment	(447)	(19,986)	(350)	(4,222)	(7,042)	(2,030)	(34,077)
Net carrying amount	12,599	11,723	2,015	2,337	3,864	97	32,635

At 31 March 2007, certain of the Group's buildings with net book value of approximately HK$6,742,000 (2006: HK$6,885,000) were pledged to secure general banking facilities. As at 31 March 2006, the said buildings were also pledged to secure the trust receipt loans granted to the Group (note 26), which had been repaid during the year.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Carrying amount at 1 April	**7,484**	7,639
Recognised during the year	**(155)**	(155)
Carrying amount at 31 March	**7,329**	7,484
Current portion	**(155)**	(155)
Non-current portion	**7,174**	7,329

The leasehold land is held under a medium term lease and is situated in Hong Kong.

At 31 March 2007, certain of the Group's prepaid land lease payments with net carrying value of approximately HK$3,495,000 (2006: HK$3,570,000) were pledged to secure general banking facilities. As at 31 March 2006, the said prepaid land lease payments were also pledged to secure the trust receipt loans granted to the Group (note 26), which had been repaid during the year.

16. INTANGIBLE ASSETS

Group

	Trademarks 2007 HK$'000	2006 HK$'000
At 1 April:		
Cost	**2,396**	2,102
Accumulated amortisation and impairment	**(1,124)**	(739)
Net carrying amount	**1,272**	1,363
Cost at beginning of year, net of accumulated amortisation and impairment	**1,272**	1,363
Additions	**978**	392
Amortisation provided during the year	**(352)**	(396)
Write-off during the year	**—**	(72)
Impairment during the year	**—**	(15)
At 31 March	**1,898**	1,272
At 31 March:		
Cost	**3,294**	2,396
Accumulated amortisation and impairment	**(1,396)**	(1,124)
Net carrying amount	**1,898**	1,272

17. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**143,631**	143,631

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of HK$128,137,000 (2006: HK$124,697,000) and HK$63,000 (2006: HK$63,000), respectively, are unsecured, interest-free and are repayable on demand. The carrying amounts of these balances approximate to their fair values.

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Bauhaus Investments (BVI) Limited	British Virgin Islands	Ordinary US$200	100	—	Investment holding
Bauhaus Holdings Limited	Hong Kong	Non-voting deferred HK$2 and ordinary HK$2	—	100	Trading of garments and accessories
Tough Jeans Retail Limited	Hong Kong	Ordinary HK$2	—	100	Trading of garments and accessories
Tough Jeans Limited	Hong Kong	Non-voting deferred HK$5 and ordinary HK$2	—	100	Trading of garments and accessories
Tough Jeans Macao Commercial Offshore Limited	Macau	Ordinary MOP100,000	—	100	Trading of garments and accessories
包豪氏企業有限公司	Taiwan	NT$500,000	—	100	Trading of garments and accessories
Kai Yip Manufactory Limited* (“Kai Yip”)	Hong Kong	Ordinary HK$300,000	—	100	Trading of garments and accessories
Wide World Development Limited	Hong Kong	Ordinary HK$1	—	100	Trading of garments and accessories
Eighty Twenty Products Limited	Hong Kong	Ordinary HK$1	—	100	Trading of garments and accessories

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Eighty Twenty Retail Limited	Hong Kong	Ordinary HK$1	—	100	Trading of garments and accessories
包浩斯貿易(深圳)有限公司* (note)	PRC/ Mainland China	HK$950,000	—	100	Trading of garments and accessories
強韌貿易(深圳)有限公司*# (note)	PRC/ Mainland China	RMB12,000,000	—	100	Trading of garments and accessories
汕頭市包浩斯服飾製品有限公司* (note)	PRC/ Mainland China	RMB20,000,000 (2006: RMB10,000,000)	—	100	Manufacture of garments and accessories
Shan Tou Tat Yeung Leather & Plastic Co., Limited* (note)	PRC/ Mainland China	RMB1,455,659	—	100	Manufacture of garments and accessories
Bauhaus Property Limited	Hong Kong	Ordinary HK$2	—	100	Property holding
Bauhaus Management Limited	Hong Kong	Ordinary HK$1,000,000	—	100	Provision for management services

* The statutory financial statements of these subsidiaries were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

\# Newly registered in the PRC during the year.

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

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

18. AVAILABLE-FOR-SALE FINANCIAL ASSET

	Group	
	2007	2006
	HK$'000	HK$'000
Time deposit, at fair value	**3,900**	3,900

During the year, no gain or loss of the Group's available-for-sale financial asset has been recognised directly in equity (2006: Nil).

The time deposit has a maturity date of 31 October 2008. The full principal amount of HK$3,900,000 will be repaid on maturity date, subject to early repayment at the bank's option or the Group's request. Interest income is charged at a rate determined with reference to LIBOR times the number of calendar days in the relevant period on which the LIBOR is within a pre-determined range. The fair value of the available-for-sale financial asset has been estimated using a valuation technique based on the prevailing market interest rate. The directors believe that the estimated fair value resulting from such valuation technique, which is recorded directly in the consolidated balance sheet, is reasonable, and that it is the most appropriate value at the balance sheet date.

19. DEFERRED TAX

Group

Deferred tax assets

	Decelerated tax depreciation	**Losses available for offsetting against future taxable profit**	**Provision for unrealised profit on inventories**	**Other provisions**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2005	910	900	1,750	—	3,560
Deferred tax credited/ (charged) to the income statement*	729	(716)	590	—	603
At 31 March 2006 and 1 April 2006	1,639	184	2,340	—	4,163
Deferred tax credited/ (charged) to the income statement*	305	(31)	760	1,792	2,826
At 31 March 2007	1,944	153	3,100	1,792	6,989

19. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	Accelerated tax depreciation HK$'000
At 1 April 2005	490
Deferred tax charged to the income statement*	258
At 31 March 2006 and 1 April 2006	748
Deferred tax credited to the income statement*	(66)
At 31 March 2007	682

* The total deferred tax credited to the consolidated income statement during the year amounted to HK$2,892,000 (2006: HK$345,000) (note 10).

At the balance sheet date, the Group had tax losses arising in Hong Kong of HK$5,710,000 (2006: HK$1,218,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At the balance sheet date, there were no unrecognised deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

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

20. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**16,995**	12,977
Work in progress	**2,227**	5,819
Finished goods	**79,026**	66,980
	98,248	85,776

21. TRADE AND BILLS RECEIVABLES

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

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within 90 days	**18,170**	10,658
91 to 180 days	**1,031**	257
181 to 365 days	**—**	416
	19,201	11,331

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**105,497**	76,491	**2,262**	1,232
Non-pledged time deposits with original maturity of less than three months when acquired	**55,602**	63,169	**55,602**	53,113
Cash and cash equivalents	**161,099**	139,660	**57,864**	54,345

23. CASH AND CASH EQUIVALENTS *(Continued)*

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$25,189,000 (2006: HK$5,955,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

24. 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:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 90 days	**9,194**	6,279
91–180 days	**346**	40
181–365 days	**13**	—
	9,553	6,319

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

25. OTHER PAYABLES AND ACCRUALS

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

26. INTEREST-BEARING BANK BORROWINGS

Group	2007 Effective interest rate (%)	2007 Maturity	2007 HK$'000	2006 Effective interest rate (%)	2006 Maturity	2006 HK$'000
Current						
Secured trust receipt loans repayable within one year	—	—	—	4.71-8.25	2007	3,527

At 31 March 2007, the Group's general banking facilities were secured by certain of its buildings and prepaid land lease payments with net book value and carrying value of approximately HK$6,742,000 (2006: HK$6,885,000) (note 14) and HK$3,495,000 (2006: HK$3,570,000) (note 15), respectively. As at 31 March 2006, the said buildings and prepaid land lease payments were also pledged to secure the trust receipt loans granted to the Group, which had been repaid during the year.

At 31 March 2006, the Group's trust receipt loans were denominated in Hong Kong dollar, bore interest at floating rates and their carrying amounts approximated to their fair values.

27. SHARE CAPITAL

Shares

	Company 2007 HK$'000	Company 2006 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
359,450,000 (2006: 350,650,000) ordinary shares of HK$0.1 each	**35,945**	35,065

The movement in the Company's authorised and issued share capital during the years ended 31 March 2007 and 2006 were as follows:

	Note	Number of ordinary shares of HK$0.1 each	Nominal value of ordinary shares HK'000
Authorised:			
At 1 April 2005		1,000,000	100
Increase in authorised share capital	(a)	1,999,000,000	199,900
As at 31 March 2007 and 2006		2,000,000,000	200,000

27. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

	Notes	Company Number of ordinary shares of HK$0.1 each	Nominal value of ordinary shares HK'000
Issued:			
At 1 April 2005		200,000	—
On acquisition of Bauhaus (BVI)			
— new issue of shares	(a)	800,000	80
— nil paid shares credited as fully paid	(a)	—	20
Capitalisation issue credited as fully paid and being conditional on the share premium account of the Company being credited as a result of the issue of the new shares to the public	(b)	245,000,000	—
Pro forma share capital as at 1 April 2005		246,000,000	100
New issue of shares	(c)	104,650,000	10,465
Capitalisation of the share premium account	(b)	—	24,500
As at 31 March 2006 and 1 April 2006		350,650,000	35,065
Issue of shares	(d)	8,800,000	880
As at 31 March 2007		359,450,000	35,945

Notes:

(a) Pursuant to the written resolutions passed on 21 April 2005, the authorised share capital of the Company was increased from HK$100,000 to HK$200,000,000 by the creation of 1,999,000,000 additional shares of HK$0.1 each. On the same day, (i) an aggregate of 800,000 shares of HK$0.1 each were allotted and issued, credited and fully paid at par; and (ii) the 200,000 shares allotted and issued nil paid on 1 April 2005 were credited as fully paid at par, in consideration for the acquisition of a total of 1,000 shares of US$1 each in Bauhaus (BVI), the then intermediate holding company of the subsidiaries of the Group.

(b) Pursuant to the written resolution passed on 22 April 2005, a total of 245,000,000 shares of HK$0.1 each in the Company were allotted and issued as fully paid at par, by way of capitalisation of the sum of HK$24,500,000 standing to the credit of the share premium account of the Company. This allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering as detailed in (c) below.

27. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Notes: *(Continued)*

(c) In connection with the Company's initial public offering on 21 May 2005, 104,650,000 shares of HK$0.1 each were issued at a price of HK$1.25 per share for a total cash consideration, before expenses, of HK$130,812,000.

(d) Pursuant to the written resolution passed on 5 February 2007, 8,800,000 shares of HK$0.1 each were issued at a price of HK$1.30 per share for a total cash consideration, before expenses, of HK$11,440,000.

Share options

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

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

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

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

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

As at the date of this report, no option has been granted or agreed to be granted pursuant to the Scheme.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 40 of this Annual Report.

The Group's contributed surplus as at 31 March 2007 and 2006 mainly comprised (i) waiver of an amount of HK$2,046,000 due to a company owned by a controlling shareholder of the Group arising from the purchases of goods by the Group during the year ended 31 March 2002; and (ii) the difference of HK$1,836,000 between the nominal value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation as set out in note 2.1 to the financial statements which amounted to approximately HK$1,936,000, and the share capital of the Company of HK$100,000; a transfer of HK$3,875,000 from the share premium account, which arose from the Group Reorganisation; net off the distribution of a special interim dividend totalling HK$7,013,000 during the year ended 31 March 2006.

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

(b) Company

	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus** HK$'000	Proposed dividends HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 April 2005		—	—	—	—	—	—
Profit for the year		—	—	—	—	82,460	82,460
Issue of shares on acquisition of Bauhaus (BVI)	27	100	—	—	—	—	100
Effect of reorganisation		—	—	143,531	—	—	143,531
Issue of shares	27	10,465	120,347	—	—	—	130,812
Capitalisation of the share premium account	27	24,500	(24,500)	—	—	—	—
Share issue expenses		—	(18,400)	—	—	—	(18,400)
Interim 2006 dividend	12	—	—	—	—	(8,766)	(8,766)
Special interim 2006 dividend	12	—	—	(7,013)	—	—	(7,013)
Proposed final 2006 dividend	12	—	—	—	9,117	(9,117)	—
Proposed special 2006 dividend	12	—	—	—	12,799	(12,799)	—
At 31 March 2006 and 1 April 2006		35,065	77,447	136,518	21,916	51,778	322,724
Profit for the year		—	—	—	—	26,177	26,177
Issue of shares	27	880	10,560	—	—	—	11,440
Share issue expenses		—	(132)	—	—	—	(132)
Final 2006 dividend declared		—	—	—	(9,117)	—	(9,117)
Special 2006 dividend declared		—	—	—	(12,799)	—	(12,799)
Interim 2007 dividend	12	—	—	—	—	(8,766)	(8,766)
Proposed final 2007 dividend	12	—	—	—	10,783	(10,783)	—
Proposed special 2007 dividend	12	—	—	—	19,770	(19,770)	—
At 31 March 2007		35,945	87,875*	136,518*	30,553	38,636*	329,527

28. RESERVES *(Continued)*

(b) Company *(Continued)*

* These reserve accounts comprise the reserves of HK$263,029,000 (2006: HK$265,743,000) in the balance sheet of the Company.

** The Company's contributed surplus comprises the excess of the fair value of the shares of the subsidiary acquired pursuant to the Group Reorganisation as set out in note 2.1 which amounted to HK$143,631,000 and the nominal value of the Company's shares issued in exchange of HK$100,000; net of the distribution of a special interim dividend totalling HK$7,013,000 during the year ended 31 March 2006.

29. CONTINGENT LIABILITIES

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

	Group	
	2007	2006
	HK$'000	HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**4,907**	3,202

30. OPERATING LEASE ARRANGEMENTS

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

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

	2007	2006
	HK$'000	HK$'000
Within one year	**88,512**	69,325
In the second to fifth years, inclusive	**59,296**	51,524
	147,808	120,849

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

31. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	**2007 HK$'000**	2006 HK$'000
Computer system maintenance charges paid to a related company	(i)	**1,289**	1,275
Purchases of computer equipment from a related company	(ii)	**1,200**	1,079
Rental expenses paid to a related company	(iii)	**198**	—
Rental expenses paid to a key management personnel	(iii)	**28**	81

Notes:

(i) The computer system maintenance charges paid to a related company were determined between the parties with reference to the actual staff costs incurred.

(ii) The purchases of computer equipment from a related company were made at prices and conditions with reference to those offered by major suppliers of the Group.

(iii) The rental expenses paid to a related company/key management personnel were determined between the parties with reference to the prevailing market rent.

The related company referred to in notes (i) and (ii) is a company controlled by a close family member of a director of the Company. The related company referred to in note (iii) is a company controlled by certain directors of the Company.

The above related party transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The transaction with a key management personnel under (iii) above had been terminated in the current year.

(b) Outstanding balance with a related party:

As disclosed in the consolidated balance sheet, the Group had outstanding advances payable to a related company of HK$198,000 (2006: HK$180,000) as at the balance sheet date. The balance is unsecured, interest-free and repayable on demand.

The related company is a company controlled by certain directors of the Company.

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and bank overdrafts, and cash and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

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

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

Interest rate risk

The Group's earnings are affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank deposits, available-for-sale financial asset, bank overdrafts and interest-bearing bank loans. The Group does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk

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

Credit risk

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

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and an available-for-sale financial asset, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and interest-bearing bank loans.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 July 2007.