bauhaus

Bauhaus International (Holdings) Limited

包浩斯國際(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 483)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

The board of directors (the "Directors") of Bauhaus International (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2008, prepared on the basis set out in note 1 to the Interim Financial Statements below, together with the comparative figures for the corresponding period of last year.

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2008

		Six months ended 30 September	
		2008	2007
	Notes	***(Unaudited)***	*(Unaudited)*
		HK$'000	*HK$'000*
REVENUE	*3*	**319,948**	254,136
Cost of sales		**(92,877)**	(86,732)
GROSS PROFIT		**227,071**	167,404
Other income and gains	*4*	**4,538**	2,535
Selling and distribution costs		**(160,753)**	(108,657)
Administrative expenses		**(39,917)**	(34,611)
Other expenses		**(935)**	(405)
PROFIT BEFORE TAX	*5*	**30,004**	26,266
Tax	*6*	**(5,632)**	(3,146)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**24,372**	23,120
DIVIDEND	*7*		
Interim		**7,189**	8,986
DIVIDEND PER SHARE	*7*		
Interim		**HK2.0 cents**	HK2.5 cents
EARNINGS PER SHARE — BASIC	*8*	**HK6.8 cents**	HK6.4 cents

CONDENSED CONSOLIDATED BALANCE SHEET
30 September 2008

	Notes	30 September 2008 (Unaudited) HK$'000	31 March 2008 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipments		**63,850**	50,699
Prepaid land lease payments		**11,736**	11,865
Intangible assets		**1,683**	1,632
Held-to-maturity debt securities	*9*	**3,100**	1,679
Deferred tax assets		**9,802**	8,082
Rental, utility and other non-current deposits		**51,593**	44,258
Total non-current assets		**141,764**	118,215
CURRENT ASSETS			
Inventories	*10*	**167,146**	112,160
Trade and bills receivables	*11*	**22,295**	22,861
Deposits and other receivables	*12*	**3,422**	7,377
Prepayments		**15,238**	10,967
Prepaid land lease payments, current portion		**255**	255
Tax recoverable		**1,756**	1,773
Available-for-sale financial asset	*13*	**3,900**	3,900
Cash and cash equivalents	*14*	**77,952**	154,985
Total current assets		**291,964**	314,278
CURRENT LIABILITIES			
Trade and bills payables	*15*	**29,832**	17,051
Accruals and other payables	*16*	**47,566**	46,242
Due to a related company	*20(b)*	**—**	307
Dividend payable		**7,195**	—
Tax payable		**5,391**	4,077
Total current liabilities		**89,984**	67,677
NET CURRENT ASSETS		**201,980**	246,601
TOTAL ASSETS LESS CURRENT LIABILITIES		**343,744**	364,816
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,097**	845
Total non-current liabilities		**1,097**	845
Net assets		**342,647**	363,971
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*17*	**35,945**	35,945
Reserves		**306,702**	288,486
Proposed dividends		**—**	39,540
Total equity		**342,647**	363,971

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2008

1. GROUP REORGANISATION, BASIS OF PRESENTATION AND PREPARATION

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

The accounting policies and basis of preparation adopted in the preparation of the Interim Financial Statements are the same as those used in the annual financial statements for the year ended 31 March 2008, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRS") (which also include HKASs and Interpretations) in current period for the first time as disclosed in note 2 below. These Interim Financial Statements should be read in conjunction with the 2008 annual report.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new interpretations issued by HKICPA are effective for the accounting periods commencing on or after 1 January 2008, which do not have any significant impact on the Group's results of operations and financial position.

HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 — The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

In addition, certain new and revised standards, amendments and interpretations have been issued but are not yet effective that are relevant to the Group's business and are mandatory for the Group's accounting periods beginning on or after 1 April 2009 or later periods. The Group has not early adopted the following new and revised standards, amendments and interpretations in the Interim Financial Statements. The Directors expect that the application of these new standards will have no significant impact on the Group's results of operations and financial position.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 Amendments	Amendment to HKFRS 2 Share-based Payments — Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008

3. SEGMENT INFORMATION

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

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

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

(a) Hong Kong and Macau

(b) Taiwan

(c) Mainland China

(d) Elsewhere

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of customers. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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

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

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

(c) Franchise operation 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.

3. **SEGMENT INFORMATION (continued)**

Geographical segments

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

	Six months ended 30 September	
	2008	2007
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
TURNOVER		
Hong Kong and Macau	**207,318**	182,007
Taiwan	**59,466**	36,884
Mainland China	**50,159**	23,735
Elsewhere	**27,015**	22,582
less: Inter-segment sales	**(24,010)**	(11,072)
	319,948	254,136
RESULTS		
Hong Kong and Macau	**10,984**	20,256
Taiwan	**7,657**	5,107
Mainland China	**18,755**	7,965
Elsewhere	**6,289**	5,260
	43,685	38,588
Interest income	**384**	1,382
Unallocated corporate expenses	**(14,065)**	(13,704)
Profit before tax	**30,004**	26,266
Tax	**(5,632)**	(3,146)
Profit for the period	**24,372**	23,120

3. SEGMENT INFORMATION (continued)

Business segments

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

	Six months ended 30 September	
	2008	2007
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
TURNOVER		
Retail operation	**263,453**	210,064
Wholesale operation	**27,227**	23,201
Franchise operation	**29,268**	20,871
	319,948	254,136

4. OTHER INCOME AND GAINS

	Six months ended 30 September	
	2008	2007
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Other income:		
Interest income	**384**	1,382
Others	**4,023**	754
	4,407	2,136
Gains:		
Gain on disposal of fixed assets, net	**131**	—
Foreign exchange gains, net	**—**	399
	4,538	2,535

5. PROFIT BEFORE TAX

Profit before tax is arrived after charging the following:

	Six months ended 30 September	
	2008	2007
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Cost of inventories sold	**88,909**	81,556
Provision for slow-moving inventories, net	**3,968**	5,176
Depreciation	**9,990**	5,972
Loss on disposal of fixed assets, net	**—**	224
Amortisation of prepaid land lease payments	**129**	78
Amortisation of intangible assets	**148**	182
Impairment of trade and bills receivables	**230**	—
Foreign exchange losses, net	**557**	—
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	**77,374**	50,423
Contingent rents	**9,973**	7,084
	87,347	57,507
Rental expenses under operating leases in respect of equipments:		
Minimum lease payments	**298**	268
Contingent rents	**14**	—
	312	268
Employee benefits expenses (including directors' remuneration)		
Wages, salaries and other benefits	**62,944**	48,019
Pension scheme contributions	**2,973**	2,122
	65,917	50,141

6. TAX

	Six months ended 30 September	
	2008	2007
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Current tax — Hong Kong	**2,485**	1,596
Current tax — Elsewhere	**4,716**	1,683
Deferred tax credit	**(1,569)**	(133)
Total tax charge for the period	**5,632**	3,146

6. TAX (continued)

Hong Kong profits tax has been provided at a rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. DIVIDEND

	Six months ended 30 September	
	2008	2007
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Interim — HK2.0 cents (2007: HK2.5 cents) per ordinary share	**7,189**	8,986

8. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent of HK$24,372,000 (2007: HK$23,120,000) and the weighted average number of ordinary shares in issue during the period of 359,450,000 (2007: 359,450,000).

Diluted earnings per share amounts have not been presented as no diluting events existed during the periods ended 30 September 2007 and 2008.

9. HELD-TO-MATURITY DEBT SECURITIES

	30 September 2008	31 March 2008
	(Unaudited)	*(Audited)*
	HK$'000	*HK$'000*
Unlisted bonds, at amortised cost	**3,100**	1,679

These unlisted bonds have an aggregate nominal value of RMB2,710,000 (31 March 2008: RMB1,500,000), bear interests ranging from 3% to 3.35% per annum and will mature between 2009 and 2010.

10. INVENTORIES

	30 September 2008	31 March 2008
	(Unaudited)	*(Audited)*
	HK$'000	*HK$'000*
Raw materials	**18,988**	22,274
Work in progress	**3,032**	6,584
Finished goods	**145,126**	83,302
	167,146	112,160

11. TRADE AND BILLS RECEIVABLES

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

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

	30 September 2008	31 March 2008
	(Unaudited)	*(Audited)*
	HK$'000	*HK$'000*
Within 90 days	**21,123**	22,422
91 to 180 days	**369**	396
181 to 365 days	**803**	43
	22,295	22,861

12. DEPOSITS AND OTHER RECEIVABLES

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

13. AVAILABLE-FOR-SALE FINANCIAL ASSET

	30 September 2008	31 March 2008
	(Unaudited)	*(Audited)*
	HK$'000	*HK$'000*
Structured time deposit, at fair value	**3,900**	3,900

The structured time deposit has a maturity date of 31 October 2008 and the full principal amount of HK$3,900,000 have been settled on maturity date. Interest income is charged at a rate determined with reference to The London InterBank Offered Rate ("LIBOR") times the number of calendar days in the relevant period on which the LIBOR is within a pre-determined range. The carrying amount of the available-for-sale financial asset approximates to its fair value.

14. CASH AND CASH EQUIVALENTS

	30 September 2008 (Unaudited) HK$'000	31 March 2008 (Audited) HK$'000
Cash and bank balances	**76,284**	102,722
Non-pledged time deposits with original maturity of less than three months when acquired	**1,668**	52,263
Cash and cash equivalents	**77,952**	154,985

15. TRADE AND BILLS PAYABLES

Trade and bills 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.

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

	30 September 2008 (Unaudited) HK$'000	31 March 2008 (Audited) HK$'000
Within 90 days	**29,385**	16,654
91 to 180 days	**—**	176
181 to 365 days	**404**	179
Over 365 days	**43**	42
	29,832	17,051

16. ACCRUALS AND OTHER PAYABLES

Other payables are non-interest-bearing. The carrying amounts of the other payables approximate to their fair values.

17. SHARE CAPITAL

Shares

	30 September 2008 (Unaudited) HK$'000	31 March 2008 (Audited) HK$'000
Authorised:		
2,000,000,000 (31 March 2008: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
359,450,000 (31 March 2008: 359,450,000) ordinary shares of HK$0.1 each	**35,945**	35,945

17. SHARE CAPITAL (continued)

Shares options scheme

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

During the six months ended 30 September 2008, no option has been granted or agreed to be granted pursuant to the Scheme.

18. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the Interim Financial Statements were as follows:

	30 September 2008	31 March 2008
	(Unaudited)	*(Audited)*
	HK$'000	*HK$'000*
Bank guarantees given in lieu of utility and property rental deposits	**7,595**	6,790

The Group or the Company had no other significant contingent liabilities at the balance sheet date (31 March 2008: Nil).

19. COMMITMENTS

(i) Commitments under operating leases

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

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

	30 September 2008	31 March 2008
	(Unaudited)	*(Audited)*
	HK$'000	*HK$'000*
Within one year	**157,612**	129,921
In the second to fifth year, inclusive	**180,582**	168,172
Over five years	**6,855**	5,876
	345,049	303,969

19. COMMITMENTS (continued)

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

(ii) Other commitment

The Group or the Company had no other significant capital commitments at the balance sheet date (31 March 2008: HK$1,785,000).

20. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Six months ended 30 September	
	2008	2007
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Rental expenses paid to a related company	**81**	99
Purchases of computer equipment from a related company	**136**	744
Computer system maintenance charges paid to a related company	**862**	512

(b) At 30 September 2008, there was no balance with related parties at the balance sheet date (31 March 2008: HK$307,000). The balance at 31 March 2008 was unsecured, interest-free and repayable on demand.

(c) Compensation of key management personnel of the Group

	Six months ended 30 September	
	2008	2007
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Short term employee benefits	**2,498**	1,896
Post-employment benefits	**33**	33
Total compensation paid to key management personnel	**2,531**	1,929

21. COMPARATIVE AMOUNTS

Certain comparative amounts disclosed on the face of the condensed consolidated balance sheet and in the segment information have been reclassified to conform with the current period's presentation.

22. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Directors on 16 December 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

In the first half of fiscal year 2008/09, the Group was confronted with a challenging economic environment. The global financial crisis, which hit in the third quarter of 2008, sparked slowdown of economies around the world and weakening of local consumption sentiment. However, by adhering to its diversification strategy, the Group has gradually transformed from a local retailer into a regional trendy fashion supplier gearing for achieving long-term sustainable development. The Group has been relatively successful in countering pressure from the consolidating market. It maintained healthy growth in both turnover and net profit in the challenging operating environment during the six months ended 30 September 2008.

In the period under review, the Group continued to achieve double-digit growth in turnover at about 25.9% to about HK$320.0 million (2007: HK$254.1 million). Moreover, its net profit also improved steadily by about 5.4% to about HK$24.4 million for the six months ended 30 September 2008 (2007: HK$23.1 million). Profit margin drop was mainly due to higher rental costs during the review period and increased marketing and promotion efforts put into raising new brands.

As at 30 September 2008, the Group had the following self-managed retail outlets and franchised outlets in Hong Kong, Macau, Taiwan and Mainland China under the brand names of "BAUHAUS", "TOUGH", "SALAD", "80/20", "ELITE" and "ATTACHMENT".

	As at 30 September 2008	As at 31 March 2008
Self-managed outlets		
Hong Kong	**58**	52
Macau	**5**	3
Taiwan	**28**	23
Shanghai	**7**	6
Beijing	**4**	—
	102	84
Franchised outlets		
Mainland China & Macau	**65**	54
Total	**167**	138

Retail Operation

The segment remained strong in the six months ended 30 September 2008, with total turnover increased by about 25.4% to about HK$263.5 million (2007: HK$210.1 million).

Hong Kong and Macau

The retail operation in Hong Kong, which accounted for about 58.2% of the Group's turnover during the period under review, sustained steady growth of about 5.9% to about HK$186.2 million (2007: HK$175.8 million). Spending sentiments in Hong Kong were weak during the review period, resulting in a relatively slow growth in sales from the city. Factors such as the Group's well-trained sales staff, focused marketing tactics and retail network that cover prime shopping malls and strategic areas have enabled the Hong Kong operation to achieve growth despite the weak market conditions. Since April 2007 when the Group commenced self-managed retail business in Macau, sales recorded in the area has surged at meteoric speed to about HK$20.9 million (2007: HK$4.9 million), up by about 326.5%, for the six months ended 30 September 2008. Having established solid presence in Hong Kong and Macau, the Group will continue to prudently develop its business in these markets, from which most of its revenue is derived.

Taiwan

Taiwan's retail operation continued to record encouraging results. During the period under review, its turnover increased by a remarkable 40.8% to about HK$36.6 million (2007: HK$26.0 million), with the support of dedicated management efforts, well-trained sales teams and an extensive and solid retail network. The Group sustained its position as a leading trendy fashion retailer in Taiwan with sales above industry average.

Mainland China

During the period under review, the retail business in Mainland China became a key growth driver of the Group, with sales recording an exponential growth of about 482.4% to about HK$19.8 million (2007: HK$3.4 million). Riding on its self-managed retail outlets, the Group penetrated the domestic retail market to capture the immense potential of the economy. Shanghai is the first major city achieving satisfactory sales performance that the Group explored in Mainland China. In addition, the Group also grew its retail business in Beijing during the period under review by setting up four new self-managed shops at strategic locations in premium shopping areas. With its own brands gaining the acceptance of targeted high-spending consumers, retail sales in Beijing saw steady growth. The management will continue to cautiously expand its PRC self-managed retail network given the relatively stronger spending sentiments in Mainland China.

Franchise Operation

Franchise operation in Mainland China continued to be another growth engine of the Group. Turnover from the segment again achieved impressive growth, of about 40.2%, to about HK$29.3 million (2007: HK$20.9 million) for the six months ended 30 September 2008. Years of dedicated efforts of the Group in Mainland China have seen "TOUGH" and "SALAD" emerged as acclaimed brands in the country. Supported by broad coverage and a well-coordinated franchise network, the Group has been able to gradually deepen penetration into different cities by assisting franchisees in expanding their operations and equipping them with retail management skills, thus boosting its local retail network.

Wholesale Operation

Turnover from the operation increased by about 17.7% to about HK$27.2 million (2007: HK$23.1 million) during the period under review, which was mainly attributable to the stable sales performance in the Japanese market and enhanced overseas distribution channels. To minimise the impact from fluctuation in certain overseas regions, the Group has been diversifying its customer base by extending reach to various countries in Southeast Asia, the Middle East and Europe, aiming for balance among different regions. The Group would continue to participate in different international fashion shows and streamline various distribution channels to secure stable and effective sales.

Segment information

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

Gross Profit

The Group's gross profit increased by about 35.7% to about HK$227.1 million (2007: HK$167.4 million) in the six months ended 30 September 2008. As a result of increased average retail price and sales mix of in-house brand products, the gross margin improved significantly to about 71.0% from about 65.9% in the same period last year. In general, the Group's own brand products bring about higher average margin than goods of other vendors' brands sold by the Group. In addition to certain well-established in-house labels, like "TOUGH" and "SALAD", the Group also launched a number of new in-house labels targeting different market segments during the period under review.

Operating Expenses

The Group's operating expenses surged by about 40.3% to about HK$201.6 million during the six months ended 30 September 2008 (2007: HK$143.7 million), representing about 63.0% of total turnover (2007: 56.6%). The sharp increase in operating expenses and the percentage ratio to turnover were mainly contributed by soaring rental cost of retail shops and premises, which is the largest operating expense of the Group.

The rental cost, which accounted for about 43.3% (2007: 40.0%) of the Group's total expenses for the review period and represented about 27.3% of the Group's turnover (2007: 22.6%), jumped by about 51.8% to about HK$87.3 million (2007: HK$57.5 million) because of increase in market rents, number of stores and gross shop areas leased by the Group. Heeding the adverse impact of increase in rental expenses on its profit margin and in view of weakening consumption markets, the Group has taken steps to reallocate certain shops strategically to release unreasonable rental burden and re-negotiate with landlords for rent cut upon renewal of shop leases. In addition, the Group is prudent in adding new shops and is dedicated to optimise shop sale areas for higher sale efficiency.

Staff cost, representing about 20.6% (2007: 19.7%) of the Group's turnover, is another key operating cost, which increased moderately by about 31.5% in line with the sales growth to about HK$65.9 million during the six months ended 30 September 2008 (2007: HK$50.1 million). Competent and effective human resources is a crucial support to the Group's sustainable expansion. The Group is committed to invest in its people and offers competitive remuneration packages to attract and retain quality employees. Besides, the Group also enhanced the system to motivate sale staff, monitor their performance and ensure high accountability and efficiency to confront with challenging and changing operating environments in different regions.

With enlarged retail network among different regions, depreciation charges increased significantly from about HK$6.0 million in last corresponding period to about HK$10.0 million for the six months period ended 30 September 2008. Advertising, promotion and exhibition expenses amounted to about HK$7.8 million (2007: HK$3.6 million) for the period under review, representing an increase of about 116.7%. The increase in such marketing expenses was mainly attributed to additional promotional and brand building efforts for newly launching in-house brands.

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

Net Profit

The Group's net profit attributable to shareholders reached about HK$24.4 million for the six months ended 30 September 2008, up about 5.4% from about HK$23.1 million in the same period last year. Net profit margin, however, dropped from about 9.1% to about 7.6% as a result of increased operating costs, especially rentals. Although operating conditions were challenging, the Group still saw and seised many opportunities in both the local and overseas markets. With prompt response to changing environments and appropriate strategies in action, the Group is dedicated to sustain reasonable growth in net profit.

CAPITAL STRUCTURE

As at 30 September 2008, the Group had net assets of about HK$342.6 million (31 March 2008: HK$364.0 million), comprising non-current assets of about HK$141.7 million (31 March 2008: HK$118.2 million), net current assets of about HK$202.0 million (31 March 2008: HK$246.6 million) and non-current liabilities of about HK$1.1 million (31 March 2008: HK$0.8 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2008, the Group had cash and cash equivalents of approximately HK$78.0 million (31 March 2008: HK$155.0 million) and had no bank borrowings (31 March 2008: Nil). As at 30 September 2008, the Group had aggregate banking facilities of approximately HK$21.0 million (31 March 2008: HK$21.0 million) comprising interest-bearing bank overdraft and borrowings, rental and utility guarantees as well as import and export facilities, of which about HK$11.9 million had not been utilised at the balance sheet date.

CASH FLOWS

For the six months ended 30 September 2008, net cash outflow from operating activities was about HK$13.9 million (2007: cash inflow of HK$18.2 million). Because of sharp increase in stock level to cope with the Group's expansion, net operating cash outflow was resulted. Net cash outflow from investing activities significantly increased from about HK$19.2 million in 2007 to about HK$24.5 million in 2008 as a result of increase in capital expenditure in respect of establishment of retail shop network in various regions. Net cash outflow from financing activities during the period under review attributed to the payment of 2007/08 final and special dividend of about HK$39.5 million (2007: HK$30.5 million).

In view of anticipated difficult operating environment, the Group has taken a series of effective measures to control spending as well as capital expenditure, to reduce stock level and to ensure that healthy cash level is always maintained.

SECURITY

As at 30 September 2008, the Group's banking facilities were secured by certain of its leasehold buildings and prepaid land lease payments with aggregate carrying value of approximately HK$6.5 million (31 March 2008: HK$6.6 million) and HK$3.4 million (31 March 2008: HK$3.4 million), respectively.

CAPITAL COMMITMENT

The Group or the Company had no significant capital commitments at the balance sheet date (31 March 2008: HK$1,785,000).

CONTINGENT LIABILITIES

As at 30 September 2008, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$7.6 million (31 March 2008: HK$6.8 million). The Company had no contingent liabilities at the balance sheet date (31 March 2008: Nil).

HUMAN RESOURCES

Including all directors, the Group had 1,454 employees as at 30 September 2008 (31 March 2008: 1,325). To attract and retain high performance staff, the Group had provided competitive remuneration packages with performance bonuses, mandatory provident fund, insurance and medical coverage as well as entitlements to share options to be granted under a share option scheme based on employees' performance, experience and prevailing market rate. Remuneration packages are reviewed regularly. Regarding staff development, the Group provides regular in-house training to retail staff and subsidised them on external training programmes.

FOREIGN EXCHANGE RISK MANAGEMENT

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

USE OF PROCEEDS

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 12 May 2005, after deduction of related issuance expenses, amounted to about HK$112.4 million. As at 30 September 2008, these proceeds were applied in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

	Per Prospectus	**Utilised**	**Balances as at 30 September 2008**
	HK$'000	*HK$'000*	*HK$'000*
Expansion of distribution network	46,000	(46,000)	—
Expansion and upgrade of production facilities	15,000	(7,802)	7,198
Development of "80/20" brandname	14,000	(14,000)	—
Marketing of in-house brandname	13,000	(13,000)	—
Diversification into high-end fashion market	4,000	(4,000)	—
Enhancement of in-house design and merchandising team	2,000	(2,000)	—
Sourcing of goods and fabrics	8,000	(8,000)	—
General working capital	10,400	(10,400)	—
	112,400	(105,202)	7,198

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

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisition or disposal of subsidiaries and associated companies by the Group for the six months ended 30 September 2008.

DISCLOSURES UNDER LISTING RULES 13.13 TO 13.19

There was no advance to entity, no financial assistance, and no guarantee to affiliated companies of the Company as at 30 September 2008 which was discloseable under Rules 13.13 to 13.19 of the Listing Rules.

PROSPECTS

Closely associated with the rest of the world, Hong Kong is inevitably affected in the global economic downturn. Consumption sentiment suffered in the slump market with retail sales among the hardest hit. Nevertheless, the Group is determined to continue its strategy in maintaining long term business growth. To this end, the management will focus on extending presence of the Group in cities with high growth potential, particularly those in Mainland China and South East Asia. Furthermore, the Group will keep introducing innovative and inspiring brands and designs to satisfy different and changing consumer tastes. It expects the investment it made in new shops and marketing and promotion in the first half of the fiscal year of 2008/09 to bear fruits in the second half year of this fiscal year.

On sales network expansion, the Group will exercise prudence and open shops only at prime locations at reasonable rentals with strong business potential. Based on analysis of the performance of existing outlets, the management will step up effort to tap opportunities at those outlets with outstanding track records. It will also explore both retail and wholesale business ventures. Subsequent to the report period in November and December this year, the Group had opened its first self-managed retail shops in Guangzhou, replicating the ones in Beijing and Shanghai. In Taiwan, which recorded relatively satisfactory results in the first half of the fiscal year of 2008/09, the management plans to open 5 more outlets in the second half of this fiscal year.

To weather the present economic climate and ensure the sustainability of its business beyond, the Group will boost its effort in cost control. The management will implement measures such as maintaining staff cost levels, monitoring rental rates and negotiating with landlords for more reasonable rental arrangements to achieve cost-effectiveness. The Group will also look at ways to streamline its operational structure to further increase efficiency. Moreover, it will consolidate advertising and promotional activities in the second half year of this fiscal year and tighten control on renovation expenses. The management is confident that such measures will allow the Group to reduce costs and maintain its profit margin in these difficult times.

Looking ahead, with the Group entrenched presence in Mainland China and Hong Kong, the management is optimistic about the Group achieving healthy progress. Although overall growth might slow due to the general global downturn, the management will continue to dedicate efforts in strengthening brand image and distribution channels, reach new markets and explore opportunities that can bring sustainable growth to the Group, with an aim of delivering fair returns to shareholders.

DIVIDEND

The Directors declared to pay an interim dividend of HK2.0 cents per ordinary share for the six months ended 30 September 2008 (2007: HK2.5 cents) payable on or about 3 February 2009 to shareholders whose names appear on the register of members of the Company on 21 January 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 19 January 2009 to Wednesday, 21 January 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 16 January 2009.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provision of Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2008 except that the Company does not have a separate Chairman and Chief Executive Officer and Mr. Wong Yui Lam ("Mr. Wong") currently holds both positions.

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

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealing in securities of the Company by the Directors. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months period ended 30 September 2008.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed the Company's listed shares during the six months ended 30 September 2008.

AUDIT COMMITTEE

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

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and has also discussed internal control and financial reporting matters, including the review of the Interim Financial Statements for the six months ended 30 September 2008.

BOARD OF DIRECTORS

As at the date of this announcement, the board of directors comprises of four executive directors, namely Mr. Wong Yui Lam, Madam Tong She Man, Winnie, Madam Lee Yuk Ming and Mr. Yeung Yat Hang and three independent non-executive directors, namely Dr. Wong Yun Kuen, Mr. Chu To Ki and Mr. Mak Wing Kit.

By Order of the Board
Wong Yui Lam
Chairman

Hong Kong, 16 December 2008