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 RESULTS FOR THE YEAR ENDED 31 MARCH 2009

The board of directors (the "Directors") of Bauhaus International (Holdings) Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2009, prepared on the basis set out in note 1 to the consolidated financial statements below, together with comparative figures of the previous year, as follows:

RESULTS

Consolidated Income Statement
Year ended 31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	**745,599**	617,612
Cost of sales		**(232,233)**	(204,353)
Gross profit		**513,366**	413,259
Other income and gains	5	**2,909**	5,889
Selling and distribution costs		**(348,727)**	(260,831)
Administrative expenses		**(83,881)**	(77,564)
Other expenses		**(8,012)**	(1,369)
PROFIT BEFORE TAX	6	**75,655**	79,384
Tax	7	**(14,886)**	(12,349)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**60,769**	67,035
DIVIDENDS	8		
Interim		**7,189**	8,986
Proposed final		**19,770**	17,973
Proposed special		**10,783**	21,567
		37,742	48,526
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	9		
Basic		**16.91 cents**	18.65 cents

Consolidated Balance Sheet

31 March 2009

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**63,114**	50,699
Prepaid land lease payments		**11,610**	11,865
Intangible assets		**1,926**	1,632
Held-to-maturity debt securities		**1,932**	1,679
Deferred tax assets		**12,878**	8,082
Rental, utility and other non-current deposits		**49,721**	44,258
Total non-current assets		**141,181**	118,215
CURRENT ASSETS			
Inventories		**136,939**	112,160
Trade and bills receivables	*10*	**18,477**	22,861
Prepayments, deposits and other receivables		**11,398**	18,344
Prepaid land lease payments, current portion		**255**	255
Tax recoverable		**1,722**	1,773
Available-for-sale financial asset		**—**	3,900
Held-to-maturity debt securities		**1,166**	—
Cash and cash equivalents		**144,615**	154,985
Total current assets		**314,572**	314,278
CURRENT LIABILITIES			
Trade and bills payables	*11*	**16,021**	17,051
Other payables and accruals		**49,900**	46,242
Due to a related company		**—**	307
Tax payable		**8,288**	4,077
Total current liabilities		**74,209**	67,677
NET CURRENT ASSETS		**240,363**	246,601
TOTAL ASSETS LESS CURRENT LIABILITIES		**381,544**	364,816
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**3,197**	845
Net assets		**378,347**	363,971
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**35,945**	35,945
Reserves		**311,849**	288,486
Proposed dividends	*8*	**30,553**	39,540
Total equity		**378,347**	363,971

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2009. 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 income, expenses and unrealised gain and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*
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*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 1 (Revised)	*First-time Adoption of HKFRS*[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 8	*Operating Segments*[1]
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]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement*[5]
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]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[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
[5] Effective for annual periods ending on or after 30 June 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

3. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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 HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

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 geographic 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 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 segment engages in retail business through the operations of the Group's retail outlets;

(b) Wholesale operation segment engages in the sale of garments and accessories to customers for distribution; and

(c) Franchise business segment engages 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 2009 and 2008.

	Hong Kong and Macau		Taiwan		Mainland China		Elsewhere		Eliminations		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	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	**503,899**	457,983	**89,241**	61,614	**114,309**	52,611	**38,150**	45,404	**—**	—	**745,599**	617,612
Intersegment sales	**—**	—	**40,115**	21,428	**10,891**	3,209	**—**	—	**(51,006)**	(24,637)	**—**	—
Total	**503,899**	457,983	**129,356**	83,042	**125,200**	55,820	**38,150**	45,404	**(51,006)**	(24,637)	**745,599**	617,612
Segment results	**60,612**	73,820	**16,911**	12,761	**22,049**	12,085	**6,814**	7,296	**—**	—	**106,386**	105,962
Bank interest income											**624**	2,188
Unallocated expenses											**(31,355)**	(28,766)
Profit before tax											**75,655**	79,384
Tax											**(14,886)**	(12,349)
Profit for the year											**60,769**	67,035

4. SEGMENT INFORMATION (CONTINUED)

(a) Geographical segments (continued)

	Hong Kong and Macau		Taiwan		Mainland China		Elsewhere		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
	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	**133,612**	148,286	**53,237**	27,576	**100,509**	53,911	**6,370**	12,251	**293,728**	242,024
Unallocated assets									**162,025**	190,469
Total assets									**455,753**	432,493
Segment liabilities	**38,958**	44,906	**3,418**	1,987	**22,114**	15,029	**1,431**	1,678	**65,921**	63,600
Unallocated liabilities									**11,485**	4,922
Total liabilities									**77,406**	68,522
Other segment information:										
Capital expenditure	**16,517**	24,801	**5,503**	1,944	**12,482**	2,636	**135**	103	**34,637**	29,484
Unallocated capital expenditure									**5,346**	9,390
									39,983	38,874
Depreciation	**12,994**	8,682	**2,747**	1,476	**4,374**	917	**187**	197	**20,302**	11,272
Unallocated depreciation									**2,893**	2,433
									23,195	13,705
Loss on disposal of items of property, plant and equipment	**1,065**	931	**37**	—	**152**	—	**15**	—	**1,269**	931
Recognition of prepaid land lease payments	**255**	225	**—**	—	**—**	—	**—**	—	**255**	225
Write-off of intangible assets	**—**	2	**—**	—	**—**	4	**—**	—	**—**	6
Write-off of rental deposits	**559**	—	**—**	—	**2,019**	—	**—**	—	**2,578**	—
Amortisation of intangible assets	**70**	77	**32**	34	**17**	31	**210**	302	**329**	444
Impairment/(write-back of provision for impairment) of trade and bills receivables	**—**	—	**—**	—	**—**	—	**550**	(12)	**550**	(12)
Impairment of items of property, plant and equipment	**445**	—	**—**	—	**2,060**	—	**—**	—	**2,505**	—

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 2009 and 2008.

	2009	2008
	HK$'000	*HK$'000*
Segment revenue:		
Sales to external customers:		
Retail	**648,899**	532,220
Wholesale	**38,558**	46,536
Franchise	**58,142**	38,856
	745,599	617,612
Other segment information:		
Segment assets:		
Retail	**280,772**	226,111
Wholesale	**10,793**	15,472
Franchise	**2,163**	441
	293,728	242,024
Corporate and other unallocated assets	**162,025**	190,469
Total assets	**455,753**	432,493
Capital expenditure:		
Retail	**31,523**	28,019
Wholesale	**1,273**	1,314
Franchise	**1,841**	151
	34,637	29,484
Corporate and other unallocated amounts	**5,346**	9,390
Total capital expenditure	**39,983**	38,874

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	
	2009	2008
	HK$'000	*HK$'000*
Revenue		
Sale of garment products and accessories	**745,599**	617,612
Other income		
Bank interest income	**624**	2,188
Others	**2,285**	1,766
	2,909	3,954
Gains		
Foreign exchange differences, net	**—**	1,935
	2,909	5,889

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Group	
	2009	2008
	HK$'000	*HK$'000*
Cost of inventories sold	**233,063**	210,347
Depreciation	**23,195**	13,705
Write-back of provision for slow-moving inventories, net, included in cost of sales	**(830)**	(5,994)
Rental expenses under operating leases in respect of equipment:		
Minimum lease payments	**597**	554
Contingent rents	**63**	67
	660	621
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	**163,971**	120,136
Contingent rents	**24,658**	18,905
	188,629	139,041
Auditors' remuneration	**1,751**	1,874
Recognition of prepaid land lease payments	**255**	225
Employee benefits expense (including directors' remuneration):		
Wages, salaries and other benefits	**130,704**	110,878
Pension scheme contributions*	**6,084**	4,897
	136,788	115,775
Other expenses:		
Loss on disposal of items of property, plant and equipment	**1,269**	931
Amortisation of intangible assets	**329**	444
Write-off of intangible assets	**—**	6
Write-off of rental deposits	**2,578**	—
Impairment/(write-back of provision for impairment) of trade and bills receivables	**550**	(12)
Impairment of items of property, plant and equipment	**2,505**	—
Exchange loss, net	**781**	—
	8,012	1,369

* At the balance sheet date, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2008: Nil).

7. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 March 2009. 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 PRC corporate income tax ("CIT") are applicable to the two (2008: two) subsidiaries located in Mainland China. Currently, one of them is 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. The other PRC subsidiary is registered as a foreign invested enterprise in the area of Shenzhen Special Economic Zone and is eligible for a concessionary CIT rate. Accordingly, these subsidiaries are subject to the applicable CIT rate ranging from 10% to 25% during the financial year ended 31 March 2009.

For the subsidiaries in Macau, one of them was incorporated under the Macau Offshore Business Law and exempted from the Macau complementary tax pursuant to the Macau Special Administration Region's offshore law (2008: Nil).

	Group	
	2009	2008
	HK$'000	*HK$'000*
Current tax — Hong Kong		
Provision for the year	**6,133**	8,328
Overprovision in prior years	**(506)**	(279)
Current tax — Elsewhere		
Provision for the year	**11,916**	5,104
Underprovision in prior years	**64**	—
Deferred tax credit	**(2,721)**	(804)
Total tax charge for the year	**14,886**	12,349

8. DIVIDENDS

	2009	2008
	HK$'000	*HK$'000*
Interim — HK2.0 cents (2008: HK2.5 cents) per ordinary share	**7,189**	8,986
Proposed final — HK5.5 cents (2008: HK5.0 cents) per ordinary share	**19,770**	17,973
Proposed special — HK3.0 cents (2008: HK6.0 cents) per ordinary share	**10,783**	21,567
	37,742	48,526

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.

9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the parent of HK$60,769,000 (2008: HK$67,035,000) and the number of ordinary shares in issue during the year of 359,450,000 (2008: 359,450,000).

Diluted earnings per share amounts have not been presented as no diluting events existed during the years ended 31 March 2009 and 2008.

10. TRADE AND BILLS RECEIVABLES

	Group	
	2009	2008
	HK$'000	*HK$'000*
Trade and bills receivables	**22,629**	26,921
Impairment	**(4,152)**	(4,060)
	18,477	22,861

Retail sales are made on cash terms or by credit card with very short credit terms. Wholesales are made to customers with general credit terms ranging from 30 days to 60 days, except for certain well-established customers with a long business relationship with the Group, where the terms are extended, while no credit terms were granted to sales to franchisees. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed. In view of the aforementioned and the fact 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 mostly 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	
	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**17,710**	22,422
91 to 180 days	**767**	396
181 to 365 days	**—**	43
	18,477	22,861

11. TRADE AND BILLS PAYABLES

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Within 90 days	**15,050**	16,654
91 to 180 days	**614**	176
181 to 365 days	**286**	179
Over 365 days	**71**	42
	16,021	17,051

The trade payables are non-interest-bearing and are normally settled on 30-day to 60-day terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In fiscal year 2008/09, the Group faced a challenging economic environment. The gloomy economic outlook and rising unemployment rate resulting from the global financial crisis in the second half of 2008 dealt a heavy blow on consumption sentiment and retail industries in various regions around the world. The Group's business during the year ended 31 March 2009 was thus inevitably affected, but fortunately to a limited extent thanks to the strategic efforts of the Group to diversify business in recent years and its prompt actions in tackling the adverse economic conditions.

During the year under review, the Group achieved for the sixth year double-digit growth in turnover at about 20.7% and in the total amount of about HK$745.6 million (2008: HK$617.6 million). However, as a result of surging rental expenses and a one-off impairment loss and write-off of about HK$5.1 million in relation to closure of certain loss-incurring retail shops, the Group's net profit dropped by about 9.3% to about HK$60.8 million for the year ended 31 March 2009 (2008: HK$67.0 million).

The Group is gradually transforming from a local retailer into a regional trendy fashion supplier. As at 31 March 2009, it had in operation the following self-managed retail outlets and franchise network in Hong Kong, Macau, Taiwan and Mainland China under the brand names of "BAUHAUS", "TOUGH Jeansmith", "SALAD", "80/20", "ELITE" and "ATTACHMENT".

	As at 31 March 2009	As at 31 March 2008
Self-managed outlets		
Hong Kong	**60**	52
Macau	**4**	3
Taiwan	**34**	23
Mainland China	**18**	6
	116	84
Franchised outlets		
Mainland China	**66**	54
TOTAL	**182**	138

Retail Operation

The business segment reported steady growth in turnover at about 21.9% to about HK$648.9 million for the year ended 31 March 2009 (2008: HK$532.2 million). Geographically, all markets, particularly Taiwan and Mainland China, achieved satisfactory sales growth.

Hong Kong and Macau

The retail operation in Hong Kong made turnover of about HK$453.6 million (2008: HK$432.6 million), a mild growth of about 4.9%, and accounted for about 60.8% of the Group's turnover during the year under review despite the slack local retail market. Retail business in Macau, however, performed outstandingly with turnover at about HK$49.9 million, doubling that of the previous year. (2008: HK$23.6 million).

The satisfactory sales performances during the year under review in the two markets were attributable to the dedicated efforts of the Group's retail staff and effective measures taken to counter the lack lustre economy. Apart from mounting focused promotional and discount programmes, particularly in the second half of fiscal year 2008/09, to stimulate demand, the Group also organised several large-scale bargain sale to reduce off-season and aged inventories. Furthermore, in line with its diversification strategy, the Group offered a number of new in-house brands that target different segments in the local market during the year under review. The move not only widened the Group's customer base, but has also improved its overall gross margin.

Taiwan

The retail operation in Taiwan remained robust. During the year ended 31 March 2009, its turnover from the market increased by a remarkable 45.0% to about HK$89.3 million (2008: HK$61.6 million), with the support of skillful sales teams and an extensive and well-coordinated retail network. The Group added 11 (at a net basis) self-managed retail shops in Taiwan during the year under review. Apart from traditional sales counters in departmental stores, the Group established new retail stores in prime shopping areas in Taipei and Taichung, which markedly enlarged distribution coverage. The Group has solid presence in Taiwan built over the years. It is a leading trendy fashion retailer in the market and will continue to carefully undergo business expansion.

Mainland China

During the year under review, retail sales in Mainland China became one of the Group's key growth drivers. It rocketed by about 289.6% to about HK$56.1 million (2008: HK$14.4 million), attributable to the relentless effort of the Group since September 2006 to penetrate the market through operation of self-managed retail outlets focusing strategically on selected first-tier cities. As at 31 March 2009, the Group operated 11 self-managed shops in Shanghai, 5 in Beijing and 2 in Guangzhou. (2008: 6 in Shanghai).

As for the overall sales performance of the China retail division in the fiscal year 2008/09, it was encouraging, although high operating costs mainly attributable to rental expenses had critical impact on the division's profitability. During the year under review, certain retails shops in Mainland China operated at a very slight profit margin or at loss. Heeding the uncertain market environment, the Group terminated early the lease of a loss-incurring mega store in Beijing in May 2009 and shelved a development project in Guangzhou. As a result, an impairment loss for fixed assets and a write-off of rental deposits of about HK$4.1 million in aggregate were incurred for the year ended 31 March 2009. The Group, however, remains cautiously optimistic about the Mainland China retail market and will implement appropriate measures in response to changes in the market with the aim of enhancing profitability and ensuring healthy sales growth.

Franchise Business

Franchise business in Mainland China continued to be another growth engine of the Group. Turnover from the segment was up by an impressive about 49.4% to about HK$58.1 million (2008: HK$38.9 million) for the year ended 31 March 2009. Years of dedicated efforts of the Group in promoting in-house brands has seen "TOUGH Jeansmith" and "SALAD" emerged as acclaimed brands in the country. In addition to boosting the footprint of its franchise network in Mainland China, the Group has also worked hard at facilitating penetration of the network in major cities. Although the macroeconomic environment is expected to continue to be uncertain in the near future, the Group will continue to grow and strengthen its distribution network so as to capture the immense growth potential in the Mainland China market with the aim of ensuring long-term sustainable growth of its franchise business in the country.

Wholesale Operation

The Group's wholesale business covered various countries in Asia, Europe and the Middle East during the year under review. It recorded about 17.0% decline in turnover during the year to about HK$38.6 million (2008: HK$46.5 million). Hit by the economic downturn in the second half of fiscal year 2008/09, sales performance in the European market for the year slumped by about 43.4%. The Japanese market, however, had an unexpected about 9.9% improvement in turnover as compared with the fiscal year 2007/08. With a diversified customer base, the Group was able to effectively lower the risk of relying on a single market and the volatility of sales performance at large.

Financial Review

Turnover

The Group recorded a double-digit growth in sales of about 20.7% to about HK$745.6 million (2008: HK$617.6 million). The strong growth was mainly driven by increase in retail and franchise sales by about 21.9% and 49.4% respectively despite wholesales business dropped by about 17.0%.

Gross Profit

The gross profit of the Group was up by about 24.2% to about HK$513.4 million (2008: HK$413.3 million) in the fiscal year of 2008/09. The Group's gross margin improved by two percentage points from about 66.9% to about 68.9%, which was mainly resulted from the rise in average retail price and sales mix of in-house brand products. In general, the Group's in-house brand products bring about higher gross margin than goods of international brands and other vendors' brands sold by the Group. In addition to certain well-established in-house labels, like "TOUGH Jeansmith" and "SALAD", the Group also launched a group of new in-house labels to the market during the year under review. However, intensive and frequent discount and privilege sale offered to markets, particularly in the second half of fiscal year 2008/09, in response to the fierce market competition and weak spending sentiment limited the increment on the Group's gross margin.

Operating Expenses

The operating environment during the year under review continued to be difficult and challenging. The Group's operating expenses soared by about 29.7% to about HK$440.6 million for the year ended 31 March 2009 (2008: HK$339.8 million). The overall operating expenses as a percentage of turnover was about 59.1% (2008: 55.0%).

The rental cost of land and buildings, which accounted for about 42.8% (2008: 40.9%) of the Group's operating expenses and represented about 25.3% (2008: 22.5%) of the Group's turnover, surged by about 35.7% to about HK$188.6 million (2008: HK$139.0 million) for the year under review because of the increase in market rents, number of retail outlets and gross shop areas. To release unreasonable rental burden and reduce operating costs, the Group strategically consolidated and re-allocated certain retail shops during the year under review and actively re-negotiated with landlords for rent cut upon renewal of leases. Followed recent economic downturn and as a result of proactive re-negotiation, the Group has obtained rent cut or short term rental concessions from some individual landlords.

Also a key operating cost, staff costs rose moderately by about 18.1% to about HK$136.8 million (2008: HK$115.8 million) during the year ended 31 March 2009. Competent and effective human resources are 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, to monitor their performance and to ensure high accountability and efficiency of its workforces in different regions.

With enlarged retail network among different regions, depreciation charges increased significantly to about HK$23.2 million (2008: HK$13.7 million) for the year ended 31 March 2009. Advertising, promotion and exhibition expenses amounted to about HK$16.1 million (2008: HK$9.8 million) or up by about 64.3%. The increase in such marketing expenses was mainly attributed to additional promotion and brand building efforts for newly launching in-house brands and enlarged retail business.

In response to uncertain market conditions and to improve profitability, the Group terminated leases of two non-performing retail shops one in Hong Kong and the other in Beijing and suspended a development project in Guangzhou in May 2009. As a result, a one-off impairment loss on fixed assets of the retail shops and a write-off of rental deposits of about HK$2.5 million and HK$2.6 million respectively were incurred for the year ended 31 March 2009.

The Group will continue to streamline both its local and overseas distribution networks, improve operational efficiency and trim operating costs.

Segment information

Detailed segment turnover and contribution to profit before tax of the Group are shown in note 4 to this announcement.

Net Profit

The Group's net profit attributable to equity shareholders declined by about 9.3% to HK$60.8 million (2008: HK$67.0 million) for the year ended 31 March 2009. Net profit margin was also slashed from about 10.9% to about 8.2% as a result of soaring rental costs and a one-off impairment loss and write-off incurred in restructuring Group's retail network. Although some operating conditions were challenging under weak economic environment, the Group still saw and seized many opportunities in both the local and overseas markets to grow business. With appropriate and visionary strategies in action and prompt response to changing operating environments, the Group dedicated to resume sustainable growth in both turnover and profit in coming years.

Capital Structure

As at 31 March 2009, the Group had net assets of approximately HK$378.3 million (2008: HK$364.0 million), comprising non-current assets of about HK$141.2 million (2008: HK$118.2 million), net current assets of about HK$240.3 million (2008: HK$246.6 million) and non-current liabilities of about HK$3.2 million (2008: HK$0.8 million).

Liquidity and Financial Resources

As at 31 March 2009, the Group had cash and cash equivalents of approximately HK$144.6 million (2008: HK$155.0 million). The Group had no gearing at the balance sheet date. As at 31 March 2009, the Group had aggregate banking facilities of approximately HK$22.0 million (2008: HK$21.0 million) comprising interest-bearing bank overdraft, rental and utility guarantees and import and export facilities, of which about HK$16.3 million had not been utilised.

Cash Flows

The Group had strong net cash inflow from operating activities of about HK$73.3 million (2008: HK$70.0 million), which was mainly attributable to the increase in the Group's revenue. Net cash outflow from investing activities dropped from about HK$40.5 million in 2008 to about HK$37.4 million in 2009. The Group continued to invest in expanding its self-managed retail network across Hong Kong, Macau, Taiwan and Mainland China during the year under review. Net cash outflow from financing activities during the year under review amounted to about HK$46.7 million (2008: HK$39.5 million) was resulted from payment of dividends to shareholders.

Security

As at 31 March 2009, the Group's general banking facilities were secured by certain of its leasehold buildings and prepaid land lease payment with aggregate carrying value of approximately HK$6.5 million (2008: HK$6.6 million) and HK$3.3 million (2008: HK$3.4 million) respectively.

Capital Commitment

As at 31 March 2009, the Group had no material capital commitment (2008: HK$1.8 million) contracted but not provided for in the financial statements. The Company had no material capital commitment as at the balance sheet date (2008: Nil).

Contingent Liabilities

As at 31 March 2009, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK$5.0 million (2008: HK$6.8 million). The Company had no material contingent liabilities as at the balance sheet date (2008: Nil).

Human Resources

Including all directors, the Group had 1,376 employees as at 31 March 2009 (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 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 dollars, US dollar, Euro and Renminbi. The Group was exposed to limited 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.

Use of Proceeds

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 2009, all the proceeds were applied in accordance with the proposed applications set out in the Company's listing prospectus dated 29 April 2005 and the announcement dated 13 February 2009 for the change of use of proceeds.

Disclosures under Listing Rules 13.13 to 13.19 Of the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules")

There was no advance to entity, no financial assistance nor guarantees to affiliated companies of the Company as at 31 March 2009 which were discloseable under Rules 13.13 to 13.19 of the Listing Rules.

Prospects

The global financial crisis presented enormous challenges to economies around the world. The subsequent economic decline sent shockwaves across sectors, with the retail segment among the hardest hit. As consumer confidence eroded, spending for clothing and apparel inevitably declined. High rental costs also bore heavy on the bottom line of the Group. Although the downturn is far from over, signs of recovery are beginning to appear in the Greater China region, and the Group will strive for growth in these markets. The Group will push on with market diversification, focus on expanding in cities with high growth potential and brand and network building in key markets, ride on well-recognised in-house brands to introduce higher margin products, tailor marketing campaigns to promote different brands including "TOUGH Jeansmith" which is celebrating its 15th anniversary this year and regularly evaluate under-performing outlets to decide whether relocation to a more cost-effective site is required.

Mainland China will continue to be the Group's main focus. The management will focus on opening self-managed shops in top tier cities such as Beijing, Shanghai and Guangzhou to promote the Group's various brands and attract franchisees that can assist in expanding the Franchise network. Cautious about the current business environment, the Group will establish shops only where there is strong potential for growth and retail and franchise opportunities are abundant. Replicating the effective training programmes employed in Taiwan, the Group will assign experienced personnel to train both management and sales staff in Mainland China, thereby ensure the local workforce boasts the same high service standards as those of the Group's operations in other markets.

Aside from Mainland China, the management remains confident that the Hong Kong operation will deliver consistently solid business performance. In Taiwan, the management sees potential for significant business growth, hence will continue to strengthen presence of the Group to facilitate tapping of the important market.

In addition to striving for stable business development, the management is going to work hard on cost control. It will streamline the operational structure of the Group, consolidate marketing efforts and limit shop renovation. When appropriate, the Group will relocate shops to less expensive areas, such as moving to a different floor of the same shopping centre to benefit from lower rent yet remaining at a prime site. The management believes such measures will allow the Group to cut costs and improve margin gradually. It will closely monitor and control inventory with the aim of maintaining a high level of liquidity and preserving the healthy financial position of the Group.

Looking ahead, the management is cautiously optimistic about the Group's prospects. In the short term, pressure on profit margin will persist, partly because of high rental and weak consumption sentiment. However, as the Group continues to capture a greater share of the Mainland China retail apparel market and growth in Hong Kong and Taiwan remain satisfactory, expansion is expected for these regions in the coming years.

Dividend

An interim dividend of HK2.0 cents per ordinary share for the six months ended 30 September 2008 (2007: HK2.5 cents) was paid on 3 February 2009.

The Directors recommended the payment of final and special dividends of HK5.5 cents (2008: HK5.0 cents) and HK3.0 cents (2008: HK6.0 cents) per ordinary share, respectively, in respect of the year. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company, the final and special dividends will be payable on or before 18 September 2009 to shareholders whose names appear on the register of members on 27 August 2009.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 25 August 2009, to Thursday, 27 August 2009, 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, 24 August 2009.

Corporate Governance

The Company had complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the year ended 31 March 2009 except for not having a separate Chairman and Chief Executive Officer. Both positions are currently held by Mr. Wong Yui Lam ("Mr. Wong").

Code Provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. 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 the 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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 (the "Model Code") to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Based on specific enquiry with the Directors, all the Directors confirmed that they have complied with the required standards as set out in the Model Code during the year ended 31 March 2009.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2009.

REVIEW OF FINANCIAL INFORMATION

An audit committee of the Company (the "Audit Committee") comprising three independent non-executive directors was established on 22 April 2005 with written terms of reference. The Audit Committee has reviewed with management and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the consolidated financial statements for the year ended 31 March 2009.

PUBLICATION OF ANNUAL REPORT

The 2009 annual report will be despatched to the shareholders of the Company and available on the Company's website at www.bauhaus.com.hk and the Stock Exchange's website at www.hkex.com.hk in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Wong Yui Lam, 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, 15 July 2009