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 2009

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 2009, prepared on the basis set out in note 1 to the Interim Financial Statements below, together with comparative figures of the corresponding period.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2009

	Notes	Six months ended 30 September **2009** *(Unaudited)* *HK$'000*	2008 *(Unaudited)* *HK$'000*
REVENUE	3	**325,668**	319,948
Cost of sales		**(94,710)**	(92,877)
GROSS PROFIT		**230,958**	227,071
Other income and gains	4	**1,362**	4,538
Selling and distribution costs		**(171,220)**	(160,753)
Administrative expenses		**(38,851)**	(39,917)
Other expenses		**(2,506)**	(935)
PROFIT BEFORE TAX	5	**19,743**	30,004
Tax	6	**(2,635)**	(5,632)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**17,108**	24,372
OTHER COMPREHENSIVE INCOME:			
Currency translation differences		**665**	1,033
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**17,773**	25,405
DIVIDEND	7		
Interim		**7,189**	7,189
DIVIDEND PER SHARE	7		
Interim		**HK2.0 cents**	HK2.0 cents
EARNINGS PER SHARE — BASIC	8	**HK4.8 cents**	HK6.8 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2009

	Notes	**As at 30 September 2009 (Unaudited) HK$'000**	As at 31 March 2009 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**56,722**	63,114
Prepaid land lease payments		**11,481**	11,610
Intangible assets		**1,810**	1,926
Held-to-maturity debt securities	*9*	**—**	1,932
Deferred tax assets		**12,668**	12,878
Rental, utility and other non-current deposits		**48,774**	49,721
Total non-current assets		**131,455**	141,181
CURRENT ASSETS			
Inventories		**149,352**	136,939
Trade and bills receivables	*10*	**20,735**	18,477
Prepayments, deposits and other receivables		**10,166**	11,398
Prepaid land lease payments, current portion		**255**	255
Tax recoverable		**2,504**	1,722
Held-to-maturity debt securities, current portion	*9*	**1,934**	1,166
Cash and cash equivalents	*11*	**124,460**	144,615
Total current assets		**309,406**	314,572
CURRENT LIABILITIES			
Trade and bills payables	*12*	**20,676**	16,021
Other payables and accruals		**45,472**	49,900
Dividend payable		**7,200**	—
Tax payable		**6,026**	8,288
Total current liabilities		**79,374**	74,209
NET CURRENT ASSETS		**230,032**	240,363
TOTAL ASSETS LESS CURRENT LIABILITIES		**361,487**	381,544
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**3,109**	3,197
NET ASSETS		**358,378**	378,347
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*13*	**35,945**	35,945
Reserves		**322,433**	311,849
Proposed dividends		**—**	30,553
TOTAL EQUITY		**358,378**	378,347

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2009

1. 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 2009, 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 2009 annual report.

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs, amendments and interpretations (the "New Standards") for the first time for the current period's Interim 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*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 23 (Revised)	*Borrowing Costs*
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*
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 — Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*

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.

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Except for the impact as stated below, the adoption of these New Standards has had no significant effect on the Group's results or financial position. The principal effects of adopting these New Standards are as follows:

(a) HKFRS 8 *Operating Segments*

This new standard, which replaced HKAS 14, "*Segment Reporting*", requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard did not have any effect on the results or financial position of the Group. The Group determined that the operating segments were the same as the reportable segments previously identified under HKAS 14, "*Segment Reporting*".

(b) HKAS 1 (Revised) *Presentation of Financial Statements*

This revised standard introduces changes in the presentation and disclosures of financial statements, which require owner and non-owner changes in equity to be separately presented. The statement of changes in equity will include only details of transactions with owner and all non-owner changes in equity will be presented in a single line. In addition, this revised standard also introduces the statement of comprehensive income, with all items of income and expense recognised in income statement, together with all other items of income and expense recognised directly in equity, to be presented either in one single statement, or in two linked statements. The Group has elected to present in one single statement.

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

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

HKFRS 1 (Revised)	*First-time Adoption of HKFRS*[1]
HKFRS 2 (Amendments)	Amendments to HKFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 5 (Amendments)	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*[1]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[3]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for transfer of assets received on or after 1 July 2009

The adoption of these new and revised standards will not have a significant impact on the Group's results and financial position.

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) 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; and

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

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	
	2009	2008
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
TURNOVER		
Hong Kong and Macau	**211,104**	207,318
Taiwan	**62,454**	59,466
Mainland China	**54,775**	50,159
Elsewhere	**17,228**	27,015
less: Inter-segment sales	**(19,893)**	(24,010)
	325,668	319,948
RESULTS		
Hong Kong and Macau	**11,185**	10,984
Taiwan	**6,106**	7,657
Mainland China	**12,635**	18,755
Elsewhere	**3,928**	6,289
	33,854	43,685
Interest income	**168**	384
Unallocated corporate expenses	**(14,279)**	(14,065)
Profit before tax	**19,743**	30,004
Tax	**(2,635)**	(5,632)
Profit for the period	**17,108**	24,372

Business segments

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

TURNOVER		
Retail operation	**286,812**	263,453
Franchise operation	**21,615**	29,268
Wholesale operation	**17,241**	27,227
	325,668	319,948

4. OTHER INCOME AND GAINS

	Six months ended 30 September 2009 (Unaudited) HK$'000	2008 (Unaudited) HK$'000
Other income:		
Interest income	**168**	384
Others	**829**	4,023
	997	4,407
Gains:		
Gain on disposal of fixed assets, net	**—**	131
Foreign exchange gains, net	**365**	—
	1,362	4,538

5. PROFIT BEFORE TAX

Profit before tax is arrived after charging the following:

	Six months ended 30 September 2009 (Unaudited) HK$'000	2008 (Unaudited) HK$'000
Cost of inventories sold	**87,120**	88,909
Provision for slow-moving inventories, net	**7,590**	3,968
Depreciation	**13,019**	9,990
Loss on disposal of fixed assets, net	**497**	—
Amortisation of prepaid land lease payments	**129**	129
Amortisation of intangible assets	**162**	148
Impairment of trade and bills receivables	**4**	230
Foreign exchange losses, net	**—**	557
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	**85,009**	77,374
Contingent rents	**11,274**	9,973
	96,283	87,347
Rental expenses under operating leases in respect of equipments:		
Minimum lease payments	**199**	298
Contingent rents	**—**	14
	199	312
Employee benefits expenses (including directors' remuneration)		
Wages, salaries and other benefits	**59,497**	62,944
Pension scheme contributions	**3,085**	2,973
	62,582	65,917

6. TAX

	Six months ended 30 September	
	2009	2008
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Current tax — Hong Kong	**2,025**	2,485
Current tax — Elsewhere	**341**	4,716
Deferred tax charge/(credit)	**269**	(1,569)
Total tax charge for the period	**2,635**	5,632

Hong Kong profits tax has been provided at a rate of 16.5% (2008: 16.5%) 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	
	2009	2008
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Interim — HK2.0 cents (2008: HK2.0 cents) per ordinary share	**7,189**	7,189

8. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit for the period attributable to equity holders of the parent of HK$17,108,000 (2008: HK$24,372,000) and the weighted average number of ordinary shares in issue during the period of 359,450,000 (2008: 359,450,000).

Diluted earnings per share amounts have not been presented as no diluting events existed during the periods ended 30 September 2008 and 2009.

9. HELD-TO-MATURITY DEBT SECURITIES

	As at 30 September 2009 *(Unaudited)* ***HK$'000***	As at 31 March 2009 *(Audited)* *HK$'000*
Unlisted bonds, at amortised cost	**1,934**	3,098
Current portion	**(1,934)**	(1,166)
Non-current portion	**—**	1,932

These unlisted bonds have an aggregate nominal value of RMB1,690,000 (31 March 2009: RMB2,710,000), bear interests at rates ranging from 3% to 3.35% per annum and will mature in 2010.

10. TRADE AND BILLS RECEIVABLES

Retail sales are mostly made on cash terms or by credit card with very short credit periods. Wholesale sales are made to customers with general credit periods 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 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 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, based on the invoice date and net of provisions, is as follows:

	As at 30 September 2009 *(Unaudited)* ***HK$'000***	As at 31 March 2009 *(Audited)* *HK$'000*
Within 90 days	**19,595**	17,710
91 to 180 days	**1,098**	767
181 to 365 days	**42**	—
	20,735	18,477

11. CASH AND CASH EQUIVALENTS

	As at 30 September 2009 *(Unaudited)* ***HK$'000***	As at 31 March 2009 *(Audited)* *HK$'000*
Cash and bank balances	**119,090**	139,271
Non-pledged time deposits with original maturity of less than three months when acquired	**5,370**	5,344
Cash and cash equivalents	**124,460**	144,615

12. TRADE AND BILLS PAYABLES

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

	As at 30 September 2009	As at 31 March 2009
	(Unaudited)	*(Audited)*
	HK$'000	*HK$'000*
Within 90 days	**20,472**	15,050
91 to 180 days	**80**	614
181 to 365 days	**91**	286
Over 365 days	**33**	71
	20,676	16,021

13. SHARE CAPITAL

Shares

	As at 30 September 2009	As at 31 March 2009
	(Unaudited)	*(Audited)*
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 (31 March 2009: 2,000,000,000) ordinary shares of HK$0.1 each	**200,000**	200,000
Issued and fully paid:		
359,450,000 (31 March 2009: 359,450,000) ordinary shares of HK$0.1 each	**35,945**	35,945

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 2009, no option has been granted or agreed to be granted pursuant to the Scheme.

14. CONTINGENT LIABILITIES

The contingent liabilities not provided for in the Interim Financial Statements were as follows:

	As at 30 September 2009 ***(Unaudited)*** ***HK$'000***	As at 31 March 2009 *(Audited)* *HK$'000*
Bank guarantees given in lieu of utility and property rental deposits	**7,101**	4,968

The Group or the Company had no other significant contingent liabilities at 30 September 2009 (31 March 2009: Nil).

15. COMMITMENTS

(i) Commitments under operating leases

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

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 September 2009 ***(Unaudited)*** ***HK$'000***	As at 31 March 2009 *(Audited)* *HK$'000*
Within one year	**153,927**	162,626
In the second to fifth year, inclusive	**122,715**	160,049
Over five years	**6,129**	6,058
	282,771	328,733

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

No operating lease arrangements were engaged by the Company as at 30 September 2009 (31 March 2009: Nil).

(ii) Other commitment

The Group or the Company had no significant capital commitments in respect of the acquisition of items of property, plant and equipment contracted, but not provided for in the financial statements as at 30 September 2009 (31 March 2009: Nil).

16. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Six months ended 30 September	
	2009	2008
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Computer system maintenance charges paid to a related company	**334**	862
Purchases of computer equipment from a related company	**51**	136
Rental expenses paid to a related company	**—**	81

(b) Compensation of key management personnel of the Group

	Six months ended 30 September	
	2009	2008
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Short term employee benefits	**2,016**	2,498
Post-employment benefits	**27**	33
Total compensation paid to key management personnel	**2,043**	2,531

17. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Directors on 16 December 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group recorded total turnover of about HK$325.7 million (2008: HK$320.0 million) for the six months ended 30 September 2009, representing an about 1.8% growth when compared with the corresponding period in 2008. The global financial crisis which hit in the second half of 2008 has sent economies around the world into the slump and seriously weakened retail consumption sentiment. The business of the Group was inevitably affected. Furthermore, rental, which is a major operating cost of the Group, had stayed unreasonably high and only came down mildly during the period under review. Hence, the Group's profit margin was notably eroded and its net profit for the six months ended 30 September 2009 was down to about HK$17.1 million, about 29.9%, from about HK$24.4 million for the corresponding period in 2008.

Despite the tough environment and challenges, the Group maintained a strong financial position with cash and cash equivalent of about HK$124.5 million as at 30 September 2009. It also adopted appropriate strategies to tackle the challenging market conditions, allowing it to maintain a stable gross margin at about 70.9% (2008: 71.0%) during the review period. With retail markets starting to look up, performance of the Group stabilised in the third quarter of 2009 and sales has since September 2009 recorded a strong rebound. Instead of focusing on short-term results, the Group is continuously committed to expanding its business in a healthy and carefully-controlled pace and cementing its business foundation for achieving long-term sustainable growth.

As at 30 September 2009, 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 Jeansmith", "SALAD", "80/20", "ELITE" and "ATTACHMENT".

	As at 30 September 2009	As at 31 March 2009
Self-managed outlets		
Hong Kong	**58**	60
Macau	**4**	4
Taiwan	**38**	34
Mainland China	**22**	18
	122	116
Franchised outlets		
Mainland China	**70**	66
TOTAL	**192**	182

Retail Operation

Turnover of the retail operation rose by about 8.8% to about HK$286.8 million (2008: HK$263.5 million) for the six months ended 30 September 2009.

Hong Kong and Macau

The retail operation in Hong Kong, which accounted for about 58.5% (2008: 58.2%) of the Group's turnover during the period under review, brought turnover of about HK$190.4 million (2008: HK$186.2 million), a mild growth of about 2.3% against the same period last year. As for the business in Macau, sales dropped slightly by about 1.0% to about HK$20.7 million (2008: HK$20.9 million) for the six months ended 30 September 2009. The relatively stable sales performances in the tough market environment during the review period were owed to the well-trained sales forces implementing effective marketing tactics and the diverse retail network of the Group. In addition, the Group continued to consolidate non-performing shops and reallocate outlets to certain strategic shopping areas that charge more reasonable rentals.

Taiwan

The Taiwan retail operation continued to achieve encouraging results. During the period under review, turnover from the segment increased by a significant about 19.1% to about HK$43.6 million (2008: HK$36.6 million), thanks to dedicated management efforts, its shrewd sales teams and extensive retail network with well-located shops. With about 10 years' presence in Taiwan and a well-founded corporate brand, the Group was able to earn general acceptance of its own brands in the Taiwan trendy casual wear market. It was able to gradually increase penetration in major cities of Taiwan and gain more market shares. During the period under review, the Group added 4 more sales outlets in reputable department stores in Taiwan and stepped up promotion of new in-house brands so as to generate growth momentum.

Mainland China

The retail business in Mainland China is the key growth engine of the Group. During the period under review, sales from the market leaped by about 62.1% to about HK$32.1 million (2008: HK$19.8 million). The Group has gradually expanded its self-managed retail networks in Shanghai, Beijing and Guangzhou in recent years to help it capture the immense potential of the growing market. To cope with unfavorable operating conditions and the uncertain economic environment, the Group closed a loss-incurring mega outlet in Beijing in May 2009, but continued to expand its footprints in the three cities by opening small and medium shops in strategic shopping areas and optimise utilisation of sale areas. Running a more flexible distribution network at lowered cost, the Group was able to maintain stable expansion.

Franchise Operation

Turnover from the franchise business dropped by about 26.3% to about HK$21.6 million (2008: HK$29.3 million) for the six months ended 30 September 2009. Sluggish retail consumption, particularly in the second quarter of 2009, hampered sales performance of the Group's franchised shops and also the addition of new franchisees. Furthermore, to ensure the long-term efficient operation of its franchise business in Mainland, which had had years of rapid expansion, the Group streamlined the operation. It eliminated certain non-performing franchisees and consolidated its franchise networks during the period under review. The Group also invested more resources in providing technical support and training to franchisees to help them weather the challenges from the uncertain business environment. Although the franchise business slowed down temporarily, the Group continued networking efforts and enhanced marketing efforts to ensure the Group and its franchisees are ready to capture first opportunities when the retail market rebounds.

Wholesale Operation

The Group's wholesale business covered various countries in Asia, Europe and the Middle East. Turnover from the segment for the period under review decreased by a marked about 36.4% to about HK$17.3 million (2008: HK$27.2 million). The decline was mainly contributed by the decrease in sales to European regions by about 81.0% as a result of the financial crisis. Fortunately, the Japanese market, the largest overseas wholesale market of the Group, remained stable and recorded an about 1.9% growth in turnover to about HK$10.7 million (2008: HK$10.5 million) during the six months ended 30 September 2009. As Japan and markets in other East Asia regions have been more stable and considered as having strong potential to rebound, the Group shifted focus to Japan and those other markets. In addition, the Group continued to streamline various non-performing distribution channels to ensure sales efficiency and stability.

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 slightly by about 1.7% to about HK$231.0 million (2008: HK$227.1 million) for the six months ended 30 September 2009 and the gross margin was maintained at about 70.9%, similar with the level in the last corresponding period (2008:71.0%) in spite of the pressure from the market on the Group to offer bigger discount to customers.

During the period under review, although most of the rivals of the Group offered bigger discounts on their products, the Group restrained from engaging in unnecessary price competition which not only would squeeze profit margin, but might also harm its brand image. The Group continued to differentiate its products in the market by perfecting their designs and sales services. Such tactics allowed it to offer less discounts less frequently than other fashion retailers during the review period.

In addition, the Group maintained the proportion of its own label products at about 85% of the sales mix during the period under review, a level comparable to the same period in 2008. As a result, the Group succeeded in managing a stable overall gross margin.

Operating Expenses

The Group's operating expenses increased by about 5.5% to about HK$212.6 million during the six months ended 30 September 2009 (2008: HK$201.6 million), representing about 65.3% of the total turnover (2008: 63.0%).

Rental cost, which accounted for about 45.3% (2008: 43.3%) of the Group's total expenses for the review period and represented about 29.6% (2008: 27.3%) of the Group's turnover, rose by about 10.3% to about HK$96.3 million (2008: HK$87.3 million) because of increase in market rents, number of stores and gross shop areas leased by the Group. Although rental expenses still increased faster than increase in sales for the period under review, market pressure had slow down the rate of rental increment. To defend its profit margin, the Group strategically relocated and consolidated certain shops to relieve unreasonable rental burden. The Group was also prudent in adding new shops and optimising shop sale areas to achieve higher sales efficiency.

Staff cost, representing about 19.2% (2008: 20.6%) of the Group's turnover, was another key operating cost. It declined moderately by about 5.0% to about HK$62.6 million during the six months ended 30 September 2009 (2008: HK$65.9 million). The Group's cost control efforts paid off. Also, the Group enhanced the staff motivation systems and monitory of staff performance to ensure high accountability and efficiency of its workforces in different markets facing challenging conditions.

Depreciation charges increased significantly by about 30.0% to about HK$13.0 million for the six months period ended 30 September 2009 (2008: HK$ 10.0 million) because of the enlarged retail networks. Advertising, promotion and exhibition expenses amounted to about HK$6.6 million (2008: HK$7.8 million) for the period under review, representing a decline of about 15.4%. The drop in marketing expenses was mainly attributed to the Group focusing marketing resources only on selected own brands.

Net Profit

The Group's net profit attributable to shareholders dropped by about 29.9% from last year's about HK$24.4 million to about HK$17.1 million for the six months ended 30 September 2009. Net profit margin reduced from about 7.6% to about 5.3%, mainly due to weak sales growth and high rental cost.

CAPITAL STRUCTURE

As at 30 September 2009, the Group had net assets of about HK$358.4 million (31 March 2009: HK$378.3 million), comprising non-current assets of about HK$131.5 million (31 March 2009: HK$141.2 million), net current assets of about HK$230.0 million (31 March 2009: HK$240.3 million) and non-current liabilities of about HK$3.1 million (31 March 2009: HK$3.2 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2009, the Group had cash and cash equivalents of about HK$124.5 million (31 March 2009: HK$144.6 million) and had no bank borrowings (31 March 2009: Nil). As at 30 September 2009, the Group had aggregate banking facilities of about HK$22.0 million (31 March 2009: HK$22.0 million) comprising interest-bearing bank overdraft, rental and utility guarantees as well as import and export facilities, of which about HK$13.5 million had not been utilised at the balance sheet date.

CASH FLOWS

For the six months ended 30 September 2009, net cash inflow from operating activities was about HK$15.7 million (2008: cash outflow of HK$13.9 million). In the last corresponding period, the sharp increase in inventory level led to substantial net cash outflow from operating activities. To deal with the uncertainty, the Group closely monitored its inventory level in order to reduce working capital requirement. The inventory level as at 30 September 2009 was reduced by about 10.6% compared to the period ended 30 September 2008. Net cash outflow from investing activities dropped significantly from about HK$24.5 million in the corresponding period in 2008 to about HK$5.9 million in the review period. It was mainly attributable to substantial reduction in capital expenditure on expansion of the retail shop network in the period under review. Net cash outflow from financing activities during the period under review constituted mainly the about HK$30.5 million payment of 2008/09 final and special dividend (2007/08: HK$39.5 million).

SECURITY

As at 30 September 2009, the Group's general banking facilities were secured by certain of its leasehold buildings and prepaid land lease payments with aggregate carrying value of about HK$6.4 million (31 March 2009: HK$6.5 million) and HK$3.3 million (31 March 2009: HK$3.3 million) respectively.

CAPITAL COMMITMENT

The Group and the Company had no significant capital commitments as at 30 September 2009 (31 March 2009: Nil).

CONTINGENT LIABILITIES

As at 30 September 2009, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to about HK$7.1 million (31 March 2009: HK$5.0 million). The Company had no material contingent liabilities as at 30 September 2009 (31 March 2009: Nil).

HUMAN RESOURCES

Including all directors, the Group had 1,344 employees as at 30 September 2009 (31 March 2009: 1,376). To attract and retain high performance staff, the Group provided competitive remuneration packages covering 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 practices. Remuneration packages were reviewed regularly. Regarding staff development, the Group provided regular in-house training to retail staff and subsidies for them to pursue 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 and Renminbi. The Group is exposed to certain foreign currency exchange risk, but does not expect future currency fluctuations to cause material operational difficulties or liquidity problems. It will continuously monitor its foreign exchange position and, when necessary, hedge its foreign exchange exposure arising from contractual commitments in sourcing apparel from overseas suppliers.

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 2009.

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 2009 which was discloseable under Rules 13.13 and 13.19 of the Listing Rules.

PROSPECTS

During the first half of 2009, consumer confidence eroded as a result of the economic downturn and adversely affected the Group's business. However, the Group is pleased to see the global economy gradually recovering since September 2009 and in turn consumer confidence slowly returning. Since after the review period, sales performance of the Group has picked up. Although there are still uncertainties on the economic horizon, the management is optimistic that the Group, with a sound business platform and well-established corporate and product brands, has promising prospects.

Given the robust Chinese economy and major international events to be staged in the country next year such as the World Expo in Shanghai and the Asian Games in Guangzhou, the management has great confidence in the Mainland China retail market and the Group will continue to focus on growing the market. The management will continue to open self-managed shops in top tier cities such as Beijing, Shanghai and Guangzhou to promote the Group's various brands. The Group will recruit local management and sales staff and provide them with training programmes conducted by experienced personnel to ensure the mainland workforce is capable of delivering the same high service standards as their counterparts in other markets. In addition to self-managed shops, the Group will continue to strengthen its franchise business by streamlining the franchised network to enhance efficiency and providing solid support and training to franchisees.

The management remains confident of the Hong Kong and Macau operation in reporting consistently solid business performance. In November 2009, the Group opened a shop at City Plaza in Hong Kong. It will continue to monitor the performance and rental costs of different shops and make adjustments as needed such as relocate shops and improve utilisation of shop areas, so as to minimise rental expenses and improve operational efficiency. Also, the Group will focus its marketing efforts in promoting its selected in-house labels, with an aim to further enhance its profit margin.

In Taiwan, which the Group has recorded outstanding results, efforts including opening new shops and expanding retail networks will be made to strengthen presence and penetrate into the prime cities. The Group will continue to recruit and train the management and sales team in order to facilitate tapping of the high-potential market.

Regarding its wholesale business, in view of the economic uncertainty in Europe in the near future, the Group will shift its focus to East Asia regions where the markets are more stable and have higher potential to rebound. Besides, the Group will continue to streamline various distribution channels to ensure sales stability and efficiency.

The management will also focus efforts on product range planning so as to make sure the Group's products align with latest fashion trends and heed concerns over the global climate change. Operating own brand production, the Group has more flexibility in designing fashion that cater for the specific tastes and needs of customers.

Looking forward, having strong presence in the Greater China region, the Group is confident of capturing a greater share of the Mainland China apparel retail market. More importantly, it will continue to strengthen its brand image and distribution networks to realise the goal of becoming a leading trendy fashion house and sustain business growth in the long run.

DIVIDEND

The Directors declared to pay an interim dividend of HK2.0 cents per ordinary share for the six months ended 30 September 2009 (2008: HK2.0 cents) payable on or about 5 February 2010 to shareholders whose names appear on the register of members of the Company on 21 January 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19 January 2010 to Thursday, 21 January 2010, 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 Monday, 18 January 2010.

CORPORATE GOVERNANCE

The Company had 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 2009 except for not having a separate Chairman and Chief Executive Officer, both positions 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 be separate and not be performed by the same individual. However, as founder of the Group, Mr. Wong has substantial experience in the fashion industry and the Directors are satisfied with the present leadership structure which they believe can provide the Group with strong and consistent guidance that can facilitate effective development and smooth execution of the Group's business strategies and plans. The Directors believe that it is in the best interest of the shareholders that Mr. Wong continues to assume the Chairman and Chief Executive Officer roles.

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. Specific enquiry was made with the Directors and all the Directors confirmed that they had complied with the required standards as set out in the Model Code throughout the six months period ended 30 September 2009.

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 2009.

AUDIT COMMITTEE

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

The audit committee had reviewed with the management the accounting principles and practices adopted by the Group, and also discussed internal control and financial reporting matters, including review of the Interim Financial Statements for the six months ended 30 September 2009.

BOARD OF DIRECTORS

As at the date of this announcement, the board of directors comprises of 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, 16 December 2009