bauhaus

annual report 2017

BAUHAUS INTERNATIONAL (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code:483)


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Contents

On behalf of the board of directors (the "**Board**"), I am pleased to present the annual results of Bauhaus International (Holdings) Limited (the "**Company**") and its subsidiaries (collectively the "**Group**" or "**Bauhaus**") for the year ended 31 March 2017.

Over the past year, market conditions have continued to be challenging, as the economic slowdown in Mainland China created a difficult business environment for many retail players. The lackluster economy was the result of a slow growing global economy and political instability in several countries combined with weak consumer sentiment at home. Retailers in Hong Kong did not fare much better as they too were affected by many of the aforementioned developments, as well as appreciation of the Hong Kong dollar, decline in consumer spending and unseasonably warm winter months. Furthermore, operating costs have remained high, particularly for retailers such as the Group that have stores primarily located in malls where the cost of rent has not elastically decreased despite the poor economic conditions. Though the Group did experience a decline in sales revenue, it was nonetheless able to raise the overall gross profit margin, improve net profit to a more reasonable level, as well as maintain highly flexible operations with low financial gearing and strong liquidity, to prepare for future challenges. Such achievements were the result of the implementation of cost control measures, while operating costs were reined in through retail network optimisation as well as adjusting promotional strategies.

With regards to the optimisation of our retail network, we have been carefully examining the performance of individual stores over the past year, and closing those that have underperformed. At the same time, we have been able to improve cost-effectiveness by relocation, consolidation and conversion of our retail portfolio. Such measures have allowed us to raise the efficiency of our retail network which is essential for helping us to achieve sustainable growth in the future. We will continue to closely monitor the performance of each store and make further adjustments on a case-by-case basis.

In addition, the Group is evaluating the current use of all its self-owned properties. When necessary, the Group may consolidate its back offices and warehouses and realise certain redundant properties to enhance the return on its assets.

Just as we are meticulous in our efforts to bolster the performance, so too we are conscientious about controlling costs. In the past year, we have continued to rationalise workflow, taken a cautious approach towards inventory restocking, exercised restraint in our advertising and promotion efforts, as well as streamlined workforce to raise effectiveness. While we have reduced spending on traditional advertising, we have strengthened our online presence, including social media, which provides a relatively cost-effective solution for raising brand equity. Our greater online presence also aligns with the development of the Group's e-commerce business; hence it is a complementary effort. As cost pressure is ever present, we will remain highly vigilant and implement relevant measures when called upon.

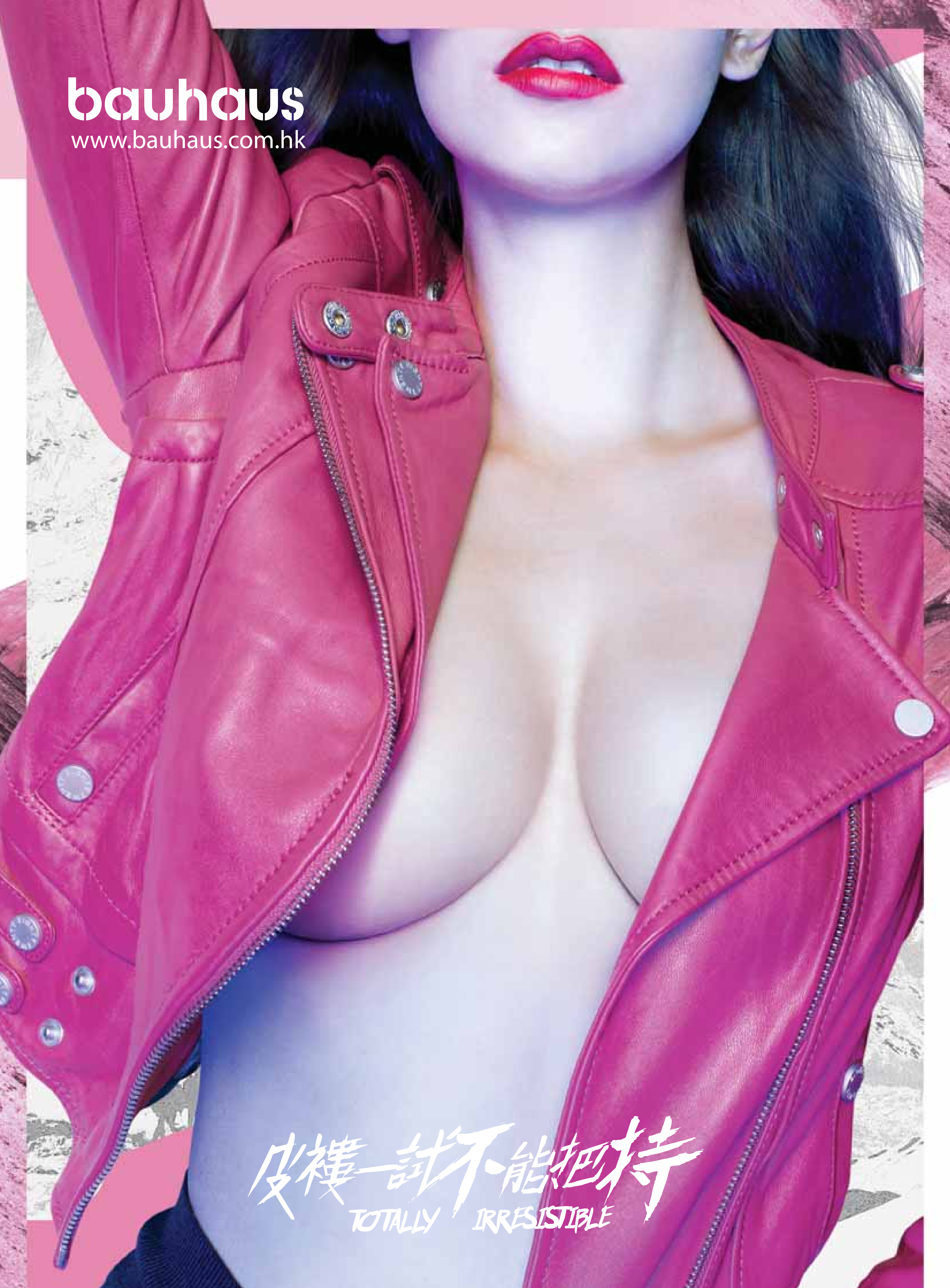
Aside from furthering the development of our Hong Kong operations, we have sought to gain a strong foothold in Macau as well. Our expansion efforts in the enclave over the past year have yielded encouraging results, which further improved with the opening of a new large-scale resort and shopping mall in the second half year. We will look to build on the progress made in the Macau market by further enhancing our presence. Strategies are also in place for growing our footprint in Mainland China. To strengthen our presence and raise awareness in the country, we will both expand our retail network and develop an O2O business.

Overall, we expect the operating environment to remain challenging in the near future as rent, raw material costs and wages will remain high. Compounding matters will be weak consumption sentiment, although there are signs of stabilisation. With extensive experience in our key markets, well-recognised brands, diverse product portfolios and unique market positions, we are confident in our ability to cope with whatever challenges that may lie ahead. To sustain long-term growth, we will further bolster the business foundation that we have built over the years; remain pliant to market developments; and strengthen our product portfolio and brand identity, all of which will also enable us to deliver favourable returns to our shareholders.

APPRECIATION

On behalf of the Board, I would like to offer my appreciation to our shareholders, business partners and customers for their unwavering support. I wish to also thank the entire management team and Bauhaus workforce for their dedication and contributions to the Group.

Wong Yui Lam
Chairman
Hong Kong, 22 June 2017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TOUGH CHALLENGE
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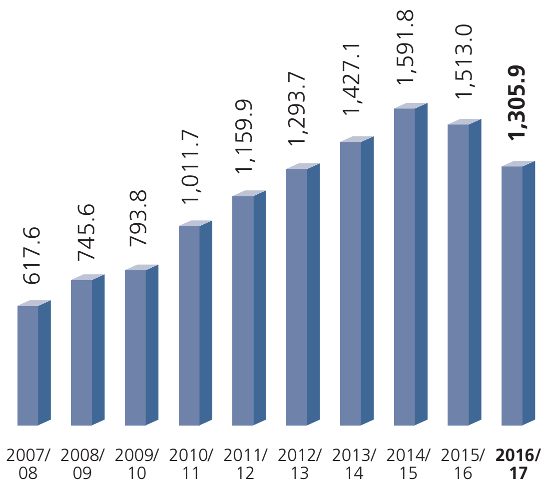
SEGMENT TURNOVER

By region	Turnover FY 2016/17 HK$ million	Turnover FY 2015/16 HK$ million	Turnover Change %	Turnover Composition FY 2016/17 %	Turnover Composition FY 2015/16 %	Turnover Composition Change % pts
Hong Kong and Macau	838.4	1,030.0	-18.6	64.2	68.1	-3.9
Taiwan	340.6	342.2	-0.5	26.1	22.6	+3.5
Mainland China	123.3	128.8	-4.3	9.4	8.5	+0.9
Elsewhere	3.6	12.0	-70.0	0.3	0.8	-0.5
	1,305.9	1,513.0	-13.7	100.0	100.0	

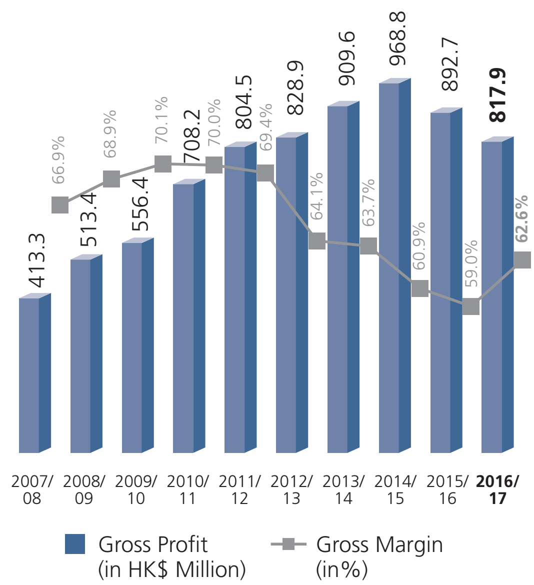
SELF-MANAGED RETAIL NETWORK

		No. of shops/counters Hong Kong and Macau	No. of shops/counters Taiwan	No. of shops/counters Mainland China	TOTAL
As at 31 March 2017					
In-House Brand	BAUHAUS	30	11	4	45
	SALAD	26	7	18	51
	TOUGH	3	27	3	33
	Others	4	2	–	6
Licensed Brand	SUPERDRY	15	33	–	48
	Others	2	11	–	13
TOTAL		80	91	25	196
Aggregate sales footage (in sq. feet)		106,383	86,644	21,621	214,648
As at 31 March 2016					
In-House Brand	BAUHAUS	32	11	5	48
	SALAD	25	9	25	59
	TOUGH	5	29	4	38
	Others	8	5	–	13
Licensed Brand	SUPERDRY	14	32	–	46
	Others	2	8	–	10
TOTAL		86	94	34	214
Aggregate sales footage (in sq. feet)		105,624	82,674	26,157	214,455

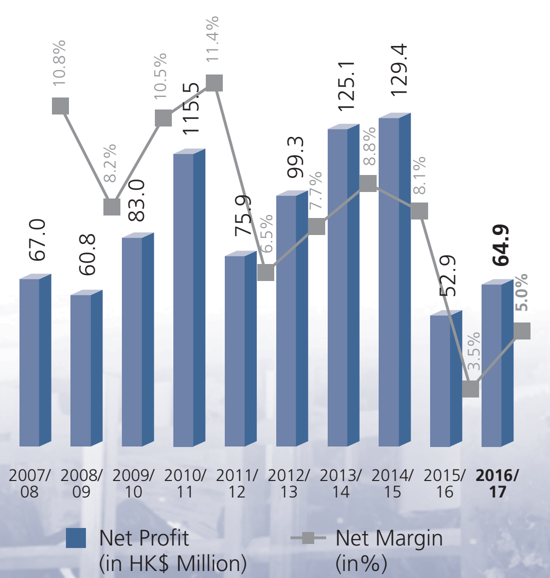
Sales (in HK$ Million)



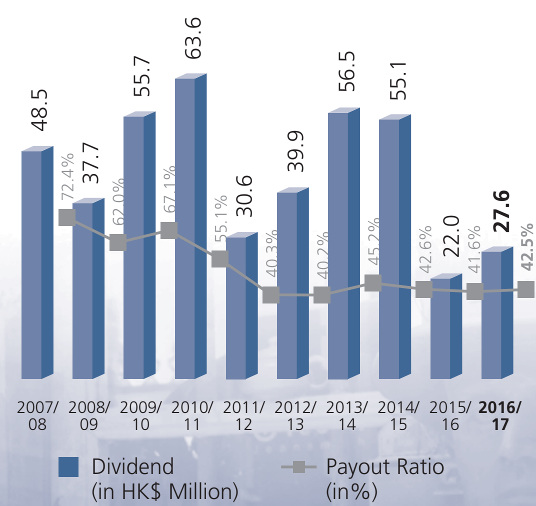
Gross Profit & Gross Margin



Net Profit & Net Margin



Dividend & Payout Ratio



		Notes	FY 2016/17	FY 2015/16	Change
KEY FINANCIAL RATIOS					
Performance					
Gross Margin	(%)	1	**62.6**	59.0	+3.6% pts.
Net Profit Margin	(%)	2	**5.0**	3.5	+1.5% pts.
Return on Average Equity	(%)	3	**8.2**	6.9	+1.3% pts.
Return on Average Assets	(%)	4	**7.0**	5.8	+1.2% pts.
Operating					
Inventory Turnover Days		5	**200**	153	+47 days
Debtors' Turnover Days		6	**14**	14	–
Creditors' Turnover Days		7	**21**	17	+4 days
Liquidity and Gearing					
Current Ratio		8	**4.9**	4.9	–
Quick Ratio		9	**2.8**	2.6	+7.7%
Gearing Ratio	(%)	10	**0.6**	1.4	-0.8% pts.
PER SHARE DATA					
Book Value Per Share	(HK cents)	11	**220.6**	209.4	+5.3%
Basic Earnings Per Share	(HK cents)	12	**17.7**	14.4	+22.9%
Diluted Earnings Per Share	(HK cents)	13	**17.7**	14.4	+22.9%
Dividend Per Share					
Interim	(HK cents)		**–**	–	–
Proposed Final	(HK cents)		**7.5**	6.0	+25.0%
			7.5	6.0	+25.0%
Dividend Payout Ratio	(%)	14	**42.5**	41.6	+0.9% pts.

Notes:

1 "Gross Margin" is based on gross profit divided by turnover for the year.

2 "Net Profit Margin" is calculated as the profit for the year attributable to equity holders of the parent divided by turnover for the year.

3 "Return on Average Equity" represents the profit for the year attributable to equity holders of the parent divided by average of opening and closing balance of shareholders' equity.

4 "Return on Average Assets" represents the profit for the year attributable to equity holders of the parent divided by average of opening and closing balance of total assets.

5 "Inventory Turnover Days" is based on average of opening and closing balance of inventories divided by cost of sales and then multiplied by number of days during the year.

6 "Debtors' Turnover Days" is based on average of opening and closing balance of trade receivables divided by turnover and then multiplied by number of days during the year.

7 "Creditors' Turnover Days" is based on average of opening and closing balance of trade payables divided by purchases and then multiplied by number of days during the year.

8 "Current Ratio" represents current assets divided by current liabilities.

9 "Quick Ratio" represents current assets less inventories then divided by current liabilities.

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

11 "Book Value Per Share" represents shareholders' equity divided by the total number of issued shares at the end of the reporting period of 367,380,000 (2016: 367,380,000).

12 "Basic Earnings Per Share" is calculated as the profit for the year attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the year under review of 367,380,000 (2016: 367,373,965).

13 "Diluted Earnings Per Share" is calculated as the profit for the year attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the year under review and all dilutive potential ordinary shares of 367,380,000 (2016: 367,665,937) in aggregate.

14 "Dividend Payout Ratio" represents the aggregate dividends declared and proposed for the year under review divided by the profit for the year attributable to equity holders of the parent.

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

DIRECTORS OF THE COMPANY
Executive directors:
Mr. Wong Yui Lam *(Chairman and Chief Executive Officer)*
Madam Lee Yuk Ming
Mr. Yeung Yat Hang

Independent non-executive directors:
Mr. Chu To Ki
Mr. Mak Wing Kit
Mr. Mak Siu Yan

AUTHORISED REPRESENTATIVES
Mr. Wong Yui Lam
Madam Lee Yuk Ming

COMPANY SECRETARY
Mr. Li Kin Cheong

QUALIFIED ACCOUNTANT
Mr. Li Kin Cheong

AUDIT COMMITTEE
Mr. Mak Wing Kit *(Chairman)*
Mr. Chu To Ki
Mr. Mak Siu Yan

REMUNERATION COMMITTEE
Mr. Mak Wing Kit *(Chairman)*
Mr. Chu To Ki
Mr. Mak Siu Yan

NOMINATION COMMITTEE
Mr. Mak Siu Yan *(Chairman)*
Mr. Chu To Ki
Mr. Mak Wing Kit

PRINCIPAL AUDITOR
Ernst & Young, *Certified Public Accountants*
22nd Floor
CITIC Tower,
1 Tim Mei Avenue, Central
Hong Kong

PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
382-384 Prince Edward Road
Kowloon City
Kowloon
Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road, Central
Hong Kong

REGISTERED OFFICE
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 501, Sino Industrial Plaza
9 Kai Cheung Road
Kowloon Bay, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Services (Cayman Islands) Limited
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATION
Strategic Financial Relations Limited
Unit 2401-2, 24/F, Admiralty Centre I
18 Harcourt Road, Hong Kong

Listing information

Listing exchange	Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")
Listing date	12 May 2005
Stock code	483

Share information

Board lot size	2,000 shares
Par value	HK$0.10

Shares	As at 31 March 2017 No. of shares	As at 31 March 2016 No. of shares
Authorised shares	2,000,000,000	2,000,000,000
Issued shares	367,380,000	367,380,000

	FY 2016/17 HK cents	FY 2015/16 HK cents
Basic earnings per share	17.7	14.4
Diluted earnings per share	17.7	14.4
Dividend per share		
Interim	–	–
Proposed final	7.5	6.0
TOTAL	7.5	6.0

Key dates

2015/16 annual results announcement	24 June 2016
Closure of Register of Members for 2015/16 annual general meeting	24 August 2016 to 26 August 2016 *(both days inclusive)*
2015/16 annual general meeting	26 August 2016
Closure of Register of Members for 2015/16 proposed final dividend	7 September 2016 to 9 September 2016 *(both days inclusive)*
Payment of 2015/16 final dividend	23 September 2016
2016/17 interim results announcement	25 November 2016
2016/17 annual results announcement	22 June 2017
Closure of Register of Members for 2016/17 annual general meeting	25 August 2017 to 29 August 2017 *(both days inclusive)*
2016/17 annual general meeting	29 August 2017
Closure of Register of Members for 2016/17 proposed final dividend	11 September 2017 to 13 September 2017 *(both days inclusive)*
Payable of 2016/17 proposed final dividend	27 September 2017
Official website	www.bauhaus.com.hk
Financial year end	31 March
Interim period end	30 September

As a regional fashion company with 196 stores and counters in Hong Kong, Macau, Taiwan and Mainland China, we are obliged to raise our efforts of improving our corporate governance, the community and the environment at large.

We, as a fashion retailer, are responsible for providing the best services, good quality and safe products for customers, favourable working conditions for employees, a clean and fair environment for business and engaging in community activities to help those in need.

Bauhaus formed a work team to identify the areas and issues caused by our routine operations, which are considered material and important. Through the data collection processes, we made a number of observations and recommendations that would help us formulate sustainability policies to minimise the potential effects adversary to the environment, community and the Group itself.

To enable all stakeholders to have an overview of our policies, measures and performances in the environmental, social and governance ("**ESG**") aspects, the Group hereby presents this ESG report for the year ended 31 March 2017 in accordance with the requirements set out in Appendix 27 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

In particular, the in-depth discussion and disclosures on the Group's corporate governance policies and practices are set out under section headed "Corporate Governance Report" on pages 23 to 32 of this Annual Report. Since Hong Kong accounts for the largest portion of the Group's turnover and the head office is located here, this ESG report would primarily focus on the Group's business and operations in Hong Kong. Disclosures relating to the identified ESG aspects which are considered as material have been included in this ESG report.

ENVIRONMENTAL PROTECTION

The Group recognises the increasing public awareness of environmental protection and pollution control. In this regard, the Group put enhanced efforts to manage the potential impact of its operations on the environment. Air and greenhouse gas emissions are the major causes of global warming. The Group principally engages in retail operations and its greenhouse gas emissions are mainly constituted by emissions of carbon dioxide ("**CO_2**").

During the year under review, the Group did not note any cases of non-compliance relating to environmental laws and regulations in its Hong Kong retail operations. In addition, no significant water and hazardous wastes discharges were noted.

Energy consumption

Bauhaus is committed to rationalise energy consumption and hence reduce greenhouse gas emissions. With a diverse retail network in Hong Kong, a saving in electricity consumption will definitely reduce CO_2 emission. We participated in the "Energy Saving Charter" scheme in some of shopping malls to keep the air conditioning temperature between 24 and 26 degree Celsius at our stores.

Over the past two years, we have been vigorously replacing light bulbs and fluorescent lamps both in stores and offices with energy-saving LED lighting. The power consumption and the related carbon emissions were both reduced as a result. One of our company cars has been turned into a battery-powered one, thus saving the fuel consumption.

For the year ended 31 March 2017, the Group's operations, including retail shops, warehouses and offices, in Hong Kong consumed electricity of about 3,443,000 kWh, with an equivalent CO_2 emission of approximately 1,936.2 tonnes.

Use of papers

Bauhaus pledges to become a paperless office in the foreseeable future. We formulated a paper-saving policy with a view to minimise the use of paper. A large portion of business documents and records such as delivery notes, purchase orders, etc., are gradually digitalised into image records to reduce printing as well as physical storage spaces.

We encourage the use of recycled papers for printing and double-side printing while avoiding unnecessary colour printing. We are producing less paper leaflets, product catalogues and posters for marketing promotion. Instead, we encourage the use of digitalised promotion through social media platforms and mobile apps.

For the year ended 31 March 2017, we purchased about 6.2 tonnes of papers for use in the Group's retail business and head office in Hong Kong, with an equivalent CO_2 emission of about 29.8 tonnes.

Plastic/Plastic-coated bags

As a retailer, it is inevitable to use plastic bags as shopping bags or as wrapping material for consumer products. In the year under review, Bauhaus purchased about 37.7 tonnes, of which about 84% were shopping bags and about 14% were wrapping bags for garment. We understood that plastic bags are unrecyclable and harmful to environment. Since the implementation of Environmental Levy Scheme on plastic shopping bags in Hong Kong, the purchase of plastic bags by the Group had been greatly reduced. We pledge to minimise the usage in the following years.

Traditionally we offer e-shop customers the choice to deliver parcels to their preferred address, but we encourage our customers to choose a preferred Bauhaus store to pick up the products, thus saving the packaging material.

	Total Purchases (tonne)	Equivalent CO_2 Emission (tonne)
Plastic/Plastic-coated bags	37.7	235.5
Paper	6.2	29.8
Total	43.9	265.3

Waste management

We pledge to produce as little waste as possible. However, computer tools have to be upgraded for advanced corporate management and outdated versions of computer equipment are inevitably disposed of. Toner cartridge and other wastes are collected for systematic disposal.

Waste Type	Treatment	Total (tonne)
Computer equipment at shops, office, warehouse	Sent to certified suppliers for recycling/disposal	0.98
Toner cartridge at shops, office, warehouse	Returned to suppliers for recycling	0.02
Non-hazardous waste at shops, office, warehouse, e.g. plastics, paper, metal, glass	Separated and sent to the nearest collection points daily	18.20

Business trips

Bauhaus is a trade name of multi-brands and going global. Business trips to fashion exhibitions, manufacturers and fabric and material suppliers at various cities are unavoidable. Most of the staff got on flights with economy class of seating. Business class seats are restricted to top management for long-journey travelling. The equivalent CO_2 emission due to business travelling is about 57.6 tonnes in the year under review.

HUMAN RESOURCES

The nature of retail business relies heavily on people. We need an energetic army of creative, aggressive, quick-thinking and devoted staff to help us cope with the challenges of the ever-changing environment and the highly competitive fashion world. Our success hinges on talented people and a devoted work force.

As at 31 March 2017, we have around 560 employees in Hong Kong, of which 73% are shop staff. It is undoubtedly a young and energetic workforce – more than 80% of our staff at the age between 21 and 40. With a view to retaining the talented people, we offer attractive remuneration packages and fringe benefits.

We believe that a balanced work-family life has a great impact on the satisfaction and performance of our employees. We offer longer paid maternity leave for our female staff, who need more time to nurture their babies and take care of their families. We are one of the first employers in Hong Kong to offer paternity leave to our male staff, even earlier than the implementation in the civil service.

As an employer, it is important to enable our employees to develop their strengths and skills and provide them with long-term career perspectives. In the year under review, we arranged the staff in Hong Kong to attend a total of about 8,135 hours of training and courses, including seminars, workshops and courses on employment ordinance, customer services, application of excel spreadsheet on shop management, and a number of inhouse training on products, visual merchandising and supervisory management.

Bauhaus recruited fresh university graduates to become our management trainees with a view to engaging them into the management of our stores and points of sales in the Greater China Region. Six had been promoted to formal staff after one and a half year of the trainee programme. Four are seconded to Shanghai, Guangzhou and Macau respectively. Three management trainees, who are being given on-the-job training in retail, buying and marketing departments, will finish their training programmes in the next financial year. They will add to our army of fashion professionals.

We adopt an open and fair recruitment policy to make sure the best talent, free from age and sex discrimination, are employed. A transparent performance evaluation system has been established to ensure equal chance of promotion. Recruitment and promotion are countersigned by the executive directors of the Company as checks and balances.

Providing a safe working environment for our employees is of priority concerns. Our warehouse staff are required to attend seminars organised by Occupational Safety and Health Council (the "**Council**"). The Council's leaflets and booklets on occupational health and industrial safety are distributed to warehouse staff. We also equip proper tools such as ladders and trolleys. For frontline staff at shops, notices are posted at the workplaces to remind them of the safety hazards. Retail managers and shop supervisors carry out spot checks to ensure the execution of the safety requirements.

In addition, the Group strictly prohibits child and forced labour. We monitor effectively in our recruitment process to ensure proper compliance. During the year under review, the Group had no significant non-compliance cases in Hong Kong in relation to applicable laws and regulations on employment, health and safety as well as labour standards.

SUPPLY CHAIN MANAGEMENT AND PRODUCT RESPONSIBILITY

It is Bauhaus' commitment to provide our customers with the best quality of products and seek to ensure that the products meet the environmental and product safety standards.

All our apparel and accessories are required to meet safety standards, including but not limited to GB 18401-2010 National General Safety Technical Code For Textile Products, QB/T 1333-2010 for handbags, knapsacks, and GB 20400-2006 for leather products, etc., before they are sold to customers. We also provide an easily accessible and responsive customer services hotline and email and clearly state on the back of each sales memo of the product exchange or refund policy.

Bauhaus expects all our suppliers and contractors to respect our key values and philosophy of ethical business practices. The Group performs regular site visits and annual review to ensure that all of them abide by our requirements that no toxic material is used for product safety; no child and forced labour is employed; no workplace is unsafe for workers; no toxic waste is inappropriately disposed of; and no toxic gas is illegally emitted. The suppliers are clearly informed that any violations of such requirements may result in the cancellation of orders and have to give remedies to the Group.

There are no significant non-compliance cases of the Group in Hong Kong in relation to applicable laws and regulations on product responsibility during the year under review.

Customer Services

Making customers happy and pretty is Bauhaus' mission. We are committed to keeping customers in good mood all the day by dressing our products which make them pretty and confident. We pledge that the shopping experience every customer encounters at our shop must be a happy and memorable one. Our frontline staff are trained to be fashion consultants. They teach customers how to choose apparel that fit them well and keep them informed of the latest fashion trend in the world. We constantly provide training to our new staff, senior sales staff and supervisors to make them aware of the ever-changing customer needs and do our best to meet their expectations.

Jack Wong receiving the Gold Award from Commissioner for Tourism

In the year under review, in more than half a million of sale transactions, 118 complaints were received about quality of our goods or services. All cases were investigated and resolved, however, we are still not happy with that. We are striving to minimise the number of complaints from customers. Many customers gave their supporting views through the hotline or email as to how to improve our services further. We took their sincere advices to improve our training content accordingly. We treasure every comment from our customers. From time to time we keep reviewing our customer service training with a view to improving our frontline services.

With customers' sincere and genuine feedbacks, Bauhaus was honoured to have been awarded in two consecutive years the Quality Tourism Retail Shops for its excellent services provided to customers.

One of our shop supervisors, Mr. Jack Wong Chi-kit ("**Jack Wong**"), was presented the Golden Award of the Merchant & Staff Awards by Quality Tourism Services Association for his excellent customer services. His colleague, Ms. Mak Tsui-Kwan, was also highly commended by the judging committee.

Data Privacy Policy

The Group puts personal data privacy in top priority and pledges to meet fully with the requirements of the Personal Data (Privacy) Ordinance, Chapter 486 of the Laws of Hong Kong. The personal data collected will be used for the purpose as stated at the time such data is collected. The Group will never sell, transfer or disclose any personal data to third parties unless with consent from the data owner. Sound security protection of the personal data is in place. The Group has implemented appropriate electronic and managerial measures in order to safeguard, protect and secure the personal data against unauthorised access and use.

ANTI-CORRUPTION

Free and fair competition forms not only the basis of all commercial activities but also the core values of Hong Kong as well. Bauhaus has been stressing the importance of integrity and honesty in its retail business and adopting a clean and fair business philosophy. We expect our staff to denounce and decline any monetary offers, gift and favours from suppliers. It is therefore of utmost importance that our staff must be cultivated with a strong sense of integrity and ethicality. We ensure them to adhere to the Group's policies and practices on connected transactions, conflict of interest, and ethical business practices.

Bauhaus treasures its ethical values and leads its employees to abide by too. Besides, all the Group's business partners, including suppliers, contractors, franchisees, and wholesale partners, must agree to our business practices. Bauhaus disapproves of any corruptive practices.

To our existing and new suppliers and contractors, we conduct a review annually. We require them to sign a letter of commitment that they have no conflict of interest with our staff, no offer or attempt to offer or acceptance of bribes or any form of facilitation payments to or from Bauhaus staff.

To raise our awareness of the corruption prevention, we invited Corruption Prevention Advisory Committee of the Hong Kong Independent Commission Against Corruption (the "**ICAC**") to arrange anti-graft talks for different levels of our staff in May and June 2016. The first session was held for supervisory grades of frontline staff. More than 200 retail managers and store seniors attended. The second session was arranged for departmental staff involving in procurement, marketing, project works and fashion buying who are frequently in contact with suppliers and contractors. The last session was held for designers and merchandisers who are in frequent contacts with factories, fabric and material suppliers.

The ICAC officers outlined the prevention of bribery ordinances, reminded our staff, particularly colleagues in the risk-exposed areas, of the potential traps into which they may fall. Our Directors also attended an informative seminar at the ICAC Headquarter. In striving for a clean and ethical business practice, we took the opportunity to raise our corporate governance by inviting ICAC to give advices to further improve our relevant policies.

During the year under review, the Group was not aware of any significant non-compliance cases in its Hong Kong operations in relation to applicable laws and regulations on corruption, fraud and money laundering.

ICAC officer giving talks on corruption prevention to more than 200 frontline staff

Whistleblowing channel

In addition to upholding the standard of integrity and ethical conduct, a designated email address is offered to all staff to file their reports or complaints where necessary as a means of reinforcing the Group's governance.

The channel was established not just for colleagues to report suspected graft issues, but also for whatever irregularities, abuses or malpractices. The audit committee of the Company has been designated to receive and consider any such cases reported with appropriate evidences, to obtain information and explanation from the management, to perform necessary investigations through the internal audit functions and/or external professional parties, and make recommendations to the Board to address issues and correct irregularities.

SOCIAL RESPONSIBILITY AND COMMUNITY INVESTMENT

Social engagement is part of Bauhaus' heritage. Bauhaus is particularly concerned with local education and social services.

For years, Bauhaus has been awarded the Caring Company presented by the Hong Kong Council of Social Service. In 2016, Bauhaus was awarded the 10 Years Plus Caring Company for our commitment to caring employees, community and environment.

Bauhaus is a regular donor and sponsor to CCC Mongkok Church Kai Oi School, which is a special education school. A graduate from this school has been employed in Bauhaus. Bauhaus' chairman, Mr. George Wong ("**Mr. Wong**"), makes regular visits to the school and teaches students to ride bicycles. In 2016, Bauhaus donated toothbrushes and tooth pastes to teach Kai Oi students how to keep their teeth clean and healthy. The responses from the students and parents are encouraging. This will be made a regular sponsorship in future.

Mr. Wong is concerned with teenage education. He shared his career experience with about 500 students in the Fanling Lutheran Secondary School on 13 March, 2017 and encouraged them to study hard so as to set a good foundation for their future career development.

Bauhaus was selected by the Hong Kong Institute of Certified Public Accountants and Education Bureau to be a supporting company to be studied by nearly 2,000 students from around 140 secondary schools who took part in the Accounting and Business Management Case Competition 2016-17. Through the participation, students were able to enhance their analytical competence, problem solving abilities, team building and presentation skills.

We also gave our full support to the Phoenix Intellectuals Foundation in organising a Business Leader Career Forum in September 2016.

Mr. Wong is himself a keen cyclist. He encourages young people to take part in cycling sport to keep a sunshine life. Bauhaus is a regular sponsor to many charitable cycling activities. In March 2017, Bauhaus sponsored the activities jointly organised by Shanghai Commercial Bank and Pok Oi Hospital.

In January 2017, Bauhaus staff was called to give blood. A Bauhaus training room was turned into a blood donation centre. The response was encouraging. The Hong Kong Red Cross is vigorously arranging the next donation in August 2017.

For the past years, Bauhaus has been closely involved with the Hong Kong Christian Service (the "**HKCS**") services. In addition to donation, we offered training opportunities for HKCS teenagers to work as salespersons and warehouse helpers in Bauhaus.

In 2015, HKCS was granted a five-year donation from the Hong Kong Jockey Club to launch a "CLAP for Youth" programme Club to help students and non-engaged youth to identify their career interests and develop their career roadmaps. Bauhaus was invited to become HKCS's participating partner from 2015-2020. A five-year collaboration plan was rolled out in the year under review. As part of our commitment, we invited 10 teenagers from HKCS to participate in our fall winter fashion presentations in January 2017 to give them an idea of what is fashion and how fashionable apparel are created and marketed. Mr. Wong personally gave them a debriefing after the presentations.

Bauhaus makes donations in cash and in kind. In Hong Kong, a total of HK$498,000 was donated to a variety of charitable organisations during the year under review. A quantity of clothing was donated to the needed through the Strategic CSR Network and the Officiel Charitable Foundation as well.

DIRECTORS

Executive Directors

Mr. Wong Yui Lam, aged 59, is the founder, the Chairman, the Chief Executive Officer and the Authorised Representative of the Group. He is responsible for the overall management and strategic planning of the Group. Mr. Wong conceived the concept and brandname "TOUGH", the first in-house brand of the Group, and is responsible for overall development including design and direction of the brand. Mr. Wong has more than 25 years of experience in fashion industry. He was awarded the Teacher's Certificate by Sir Robert Black College of Education in 1981 and obtained an Executive Master Degree in Business Administration from The Chinese University of Hong Kong in 2014. In March 2015, Mr. Wong was awarded the Honorary Fellowship by The Hong Kong Institute of Education to salute his outstanding achievement and devotion. Mr. Wong is the father of Ms. Wong Hei Ting and Ms. Wong Hei Man, Frances, members of the Group's senior management.

Madam Lee Yuk Ming, aged 49, is the General Manager and the Authorised Representative of the Group. She is responsible for implementation of corporate strategies and co-ordination among different departments and business units of the Group. Madam Lee is also responsible for administration, human resources, leasing affairs and financial management of the Group. She oversees the Group's business operation in Taiwan. Madam Lee is an associate member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. She obtained a diploma in Management Studies from The Hong Kong Polytechnic University/Hong Kong Management Association in 1998. Madam Lee has more than 25 years of experience in different areas including accounting, finance and management. She joined the Group in April 2002.

Mr. Yeung Yat Hang, aged 40, is the Operation Manager of the Group. Mr. Yeung is responsible for overseeing the Group's business operation in Mainland China. He is also responsible for the Group's leasing affairs and executing various development projects. Mr. Yeung has extensive experience in business negotiation, project management, shop decoration and retail operation. He joined the Group in May 1994.

Independent Non-Executive Directors

Mr. Chu To Ki, aged 51, was appointed as an Independent Non-Executive Director on 1 May 2005. Mr. Chu graduated from the University of Hong Kong in June 1998 with Postgraduate Certificate in Laws and obtained from Manchester Metropolitan University a Bachelor Degree in Laws in September 1999. Mr. Chu was admitted as a solicitor of the High Court of Hong Kong in March 2000. Mr. Chu has about 25 years of working experience in the legal field in Hong Kong. Mr. Chu is currently a principal of the solicitors firm TKC Lawyers.

Mr. Mak Wing Kit, aged 49, was appointed as an Independent Non-Executive Director on 1 May 2005. Mr. Mak graduated from the Boston University in United States in 1997 with a Master Degree of Science in Administrative Studies. Mr. Mak is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Mak has about 25 years of experience in auditing, accounting, company secretarial affairs and financial control in Hong Kong. Mr. Mak is currently the financial controller of a private company based in Hong Kong and People's Republic of China ("**PRC**").

Mr. Mak Siu Yan, aged 43, was appointed as an Independent Non-Executive Director on 4 July 2016. Mr. Mak has more than 15 years' experience in the electronic, electrical and information systems engineering industry. Mr. Mak was serving Thales Transport & Security (Hong Kong) Limited as Hardware Manufacturing Engineer, while he has now been assigned as an Industrial Engineer with effect from 24 April 2017 and is still serving in the same Thales group. He previously served as managing director with Katze Engineering Company from 1996 to 1999, responsible for project management in various railway projects. He also served various positions such as analyst, project manager and internal test consultant in several companies, namely AIA Pension and Trustee Co. Ltd., CMG Pension and Retirement Co. Ltd., Xavor Corporation and EMC Computer Systems (Far East) Limited, in-between the period of 2000 and 2004, responsible for business analysis and software assurance. In addition, Mr. Mak was an account delivery manager in Hewlett Packard (HKSAR) Limited from 2007 to 2008, the general manager of Fuel Injection Technologies Limited from 2008 to 2009, and a factory manager of Dongguan Korex Machinery Co. Ltd. from 2004 to 2007 and from 2010 to 2014, respectively. Mr. Mak holds a Master Degree of Business Administration from the University of Sunderland in 2014, a postgraduate diploma in Business Administration from the University of Leicester in 2006 and a Bachelor Degree of Engineering from the University of Sussex in 1995.

SENIOR MANAGEMENT

Ms. Wong Hei Ting, aged 30, is the Design Director of the Group. Ms. Wong oversees the Group's product design and accessories merchandising. She delivers seasonal planning of collections as well as managing the design and production process. Ms. Wong obtained a Bachelor Degree in Business Administration from The Hong Kong University of Science and Technology in 2009. She joined the Group in February 2013 and is a daughter of Mr. Wong Yui Lam, the Chairman, the Chief Executive Officer and an executive director of the Company, and the sister of Ms. Wong Hei Man, Frances, the Retail Director of the Group.

Ms. Wong Hei Man, Frances, aged 29, is the Retail Director of the Group. Ms. Wong oversees the Group's retail operations. She is responsible for developing retail and promotional strategies with a view to optimising the sales across the shop networks to meet the Group's business goals. Ms. Wong obtained a Bachelor Degree in Management from The University of Warwick in United Kingdom in 2010, and a Graduate Diploma in Law from the BPP University in United Kingdom in 2012. She joined the Group in December 2013 and is a daughter of Mr. Wong Yui Lam, the Chairman, the Chief Executive Officer and an executive director of the Company, and the sister of Ms. Wong Hei Ting, the Design Director of the Group.

Mr. Chan Chi Keung, aged 66, is the General Manager – Production of the Group. Mr. Chan is responsible for providing consultancy on the Group's production processes and the sourcing of raw materials in the PRC. Mr. Chan has more than 30 years of manufacturing experience in the garment and fashion accessory industry. Mr. Chan joined the Group in August 2001.

Mr. Chan Chung Kai, aged 52, is the Strategic Marketing Director of the Group. Mr. Chan has more than 25 years of experience in brand development and he has successfully introduced many foreign brands into Hong Kong market with overwhelming responses. He is responsible for the Group's overall procurement strategies, implementation of buying plans and overseeing the Group's import and licensed brand development. Prior to joining the Group in January 2007, Mr. Chan gained extensive strategic marketing experience in a sizable fashion group.

Madam Lau Wing Yu, Win, aged 48, is the Chief Marketing Officer of the Group. She joined the Group in July 2010 and has more than 25 years of experience in fashion marketing. Madam Lau is an associate member of Hong Kong Retail Technology Industry Association and a member of Hong Kong Institute of Marketing. She is principally responsible for marketing strategies, brand building, product marketing, media relations, public relations, visual merchandising and brand crossover cooperation with various worldwide renowned artists.

Mr. Li Kin Cheong, aged 41, is the Financial Controller, the Company Secretary and the Qualified Accountant of the Group. He is responsible for overseeing the Group's financial management, accounting and company secretarial affairs. Mr. Li is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He holds a Master Degree in Business Administration from The Chinese University of Hong Kong and a Bachelor Degree in Accountancy from The Hong Kong Polytechnic University. He has about 20 years of experience in accounting, auditing, corporate finance and company secretarial affairs. Prior to joining the Group in June 2005, he was a manager of an international accounting firm.

Madam Chan Wai Chun, Candy, aged 50, is the Administration Manager of the Group. She is responsible for administration and human resources management of the Group. Madam Chan has more than 25 years of shop management and administration experience in Hong Kong. She has been with the Group since the opening of its first Bauhaus shop in 1991.

BUSINESS REVIEW

The Group is principally engaged in the design and retailing of trendy apparels, bags and fashion accessories. It operates self-managed retail stores in Hong Kong, Macau, Taiwan and Mainland China and franchise outlets in Mainland China. The Group's turnover is mostly contributed by its major in-house labels like "SALAD", "TOUGH" and "80/20", as well as some reputable licensed brands including "SUPERDRY".

Financial year 2016/17 was a challenging year for the Group, with retail markets dragged down by sluggish consumption sentiment. The Group recorded an about 10% negative same-store-sales growth for the year ended 31 March 2017. To cope with the difficult operating environment, aiming for an improved cost structure and a more flexible and robust retail portfolio, the Group decided during the year under review to consolidate its offline retail networks and streamline under-performing retail stores, particularly in Hong Kong. Turnover of the Group therefore inevitably dropped, by about 13.7%, to approximately HK$1,305.9 million for the year under review (2016: HK$1,513.0 million), however, profitability of the Group has since been gradually resuming. Encouragingly, net profit of the Group increased by about 22.7% to about HK$64.9 million (2016: HK$52.9 million) for the year ended 31 March 2017 and its net margin improved to about 5.0% (2016: 3.5%).

In spite of having to operate under the sway of complex market dynamics, the Group still managed to maintain highly flexible operations, with low financial gearing and strong liquidity, bracing it against market challenges. The Group is committed to managing a sustainable retail business focusing on achieving organic growth of its traditional retail networks and also fostering new prospective business platforms.

Hong Kong and Macau

The retail operations in Hong Kong and Macau make up the largest geographical operating segment of the Group. For the year under review, the segment accounted for about 64.2% (2016: 68.1%) of the Group's turnover. With, unfortunately, many negative factors severely dampening performance in the region, an about 13% negative same-store-sales growth was recorded for the year under review and turnover from the region dropped substantially by about 18.6% to approximately HK$838.4 million (2016: HK$1,030.0 million). The segmental profit decreased by about 16.8% to about HK$82.9 million (2016: HK$99.6 million) for the year ended 31 March 2017.

In Hong Kong, the relatively strong performance in exchange rate of Hong Kong dollar discouraged inbound tourist spending and, at the same time, encouraged locals to travel and spend abroad during the year under review. Uncertain local economic prospects and the volatile investment markets were probably also the reasons behind the more cautious local spending sentiment. There has also been a widening product matching gap as a result of rapid changes in consumer preference and the shortening lifespan of fashionable products. And, high shop rentals in the region continued to pose serious cost pressure on the Group. Despite the uncertain economic prospects, rentals in major shopping arcades in the region remained steep and there was no sign of them coming down any time soon and staying low. These adverse factors combined presented substantial difficulties to the Group's operations in the region during the year under review.

Expecting the weak retail climate to continue, the Group saw the need to have a more competitive cost structure. Thus, it proactively streamlined loss-making or under-performing offline retail shops in Hong Kong and consolidated its point-of-sales in the same shopping mall during the year under review. At the same time, however, it strategically placed retail shops in new locations with either better sales potential or a competitive operating cost structure. During the year under review, the Group closed 14 shops in Hong Kong and opened 5 new shops, including one strategically at the Hong Kong International Airport and a "SUPERDRY" flagship shop in Mira Place (the revamped Miramar Shopping Centre). As at 31 March 2017, it had 69 stores in Hong Kong (2016: 78).

The business performance in Macau was relatively stable despite the slump of the city's gaming sector in recent years. Although tourist traffic is expected to stay volatile for a while, the latest figures indicated that retail sentiment in Macau is steadily recovering. The Group extended retail coverage to certain reputable shopping malls, including The Parisian Macao (a grand entertainment and resort complex in Cotai, Macau which opened in September 2016), during the year ended 31 March 2017 and recorded a mild sales growth in Macau.

BUSINESS REVIEW *(Continued)*

Taiwan

The retail market in Taiwan was still stagnant. The Group recorded a negative same-store-sales growth of about 3% in Taiwan for the year ended 31 March 2017. The Group, however, closely monitored the effectiveness of its shop merchandise and was able to promptly adjust its retail portfolio in response to the complicated market conditions. Thanks to the professional retail management team and dedicated sales force there, the Group was able to gradually eliminate certain ineffective points-of-sales and revamp its brand mix to boost the appeal of its products to customers. In addition, the Group was able to capitalise on the immense customer traffic to a series of anniversary sales events in major department stores in Taiwan in the second-half of the financial year. Such exertions enabled the Group to achieve sales amounting to approximately HK$340.6 million in the region, on par with that in the previous year (2016: HK$342.2 million). The Group was encouraged that, as a result of gross margin improvement, profit of the segment significantly increased to about HK$24.2 million (2016: HK$6.0 million) against last year.

At the end of the reporting period, the Group operated a total of 91 stores/counters (2016: 94) in Taiwan, present in mainly reputable department stores in nine cities. In addition, the Group increased the number of short-term bargain outlets during the year under review to reduce aged and slow-moving products in inventory.

Mainland China

As at 31 March 2017, the Group ran 25 self-managed retail shops (2016: 34) in Beijing, Shanghai, and Guangzhou and maintained a streamlined franchise network covering mainly second-tier mainland cities. The Group's offline retail network in the region recorded a negative same-store-sales growth of about 3% for the year under review.

The mainland retail markets where the Group operates are considered volatile, but not weak relatively. During the year under review, the Group coordinated its offline and online channels to build a lean and efficient retail network. On the offline side, it revamped most of its stores to "SALAD" specialty stores, which afforded relatively stable sales and profit contributions to the region. In addition to the traditional offline retail network, the Group also proactively developed distribution channels on certain e-commerce platforms like Tmall. While the economic slowdown in Mainland China, which has dampened consumption sentiment, might have affected its offline sales, the Group saw an exponential growth in sales on China's online sales platforms. With business presence online, the Group is gradually achieving seamless retail coverage nationwide at a relatively lower cost.

Turnover from the Mainland China segment just dropped by about 4.3% to about HK$123.3 million (2016: HK$128.8 million) and the region remained profitable, contributing positively by about HK$3.9 million (2016: HK$8.1 million) in segmental profit for the year ended 31 March 2017, despite the substantial decrease in the number of offline retail stores and unsatisfactory same-store-sales growth.

FINANCIAL REVIEW

Turnover and Segment Information

The traditional offline retail business was the largest sales contributor, accounting for approximately 97.1% (2016: 97.3%) of the Group's turnover for the year under review, but a negative same-store-sales growth of about 10% was recorded. Turnover of the Group declined by approximately 13.7% to around HK$1,305.9 million for the year ended 31 March 2017 (2016: HK$1,513.0 million), attributable mainly to the sluggish retail sentiment in many regions where the Group operates and the closure of under-performing and costly stores, particularly in Hong Kong. Details of the Group's turnover and the contribution to profit before tax by segment are shown in Note 4 to the financial statements.

Gross Profit and Gross Margin

The Group's gross profit decreased to approximately HK$817.9 million for the year ended 31 March 2017 (2016: HK$892.7 million), while gross margin improved to around 62.6% (2016: 59.0%). The Group has worked hard over past years to turn around the dwindling gross margin. Massive bargain sales activities were mounted in the past few years to lower inventory of slow moving products and improve cash position. With those efforts bearing fruit, the Group was able to greatly reduce the scale of bargain sales events during the year under review. In addition, the Group also managed to lower cost of sales at its push to refine strategies and control over procurement, and optimise inventory restocking. The significant depreciation of the pound sterling against Hong Kong dollars also helped to reduce purchase cost of the Group's merchandise.

FINANCIAL REVIEW *(Continued)*

Operating Expenses and Cost Control

The Group placed much effort on managing expenses during the year under review. On controlling rental costs, a major component of its operating expenses, the Group closed a number of under-performing and costly stores and was more cautious in identifying locations for new stores and striking a balance between prospective sales opportunities and cost efficiency. Rental expenses decreased by about 7.4% to about HK$318.8 million (2016: HK$344.2 million), which accounted for about 41.8% (2016: 41.2%) of the Group's total operating expenses for the year under review. To mitigate market rental increment as well as attain a more cost-effective operating structure, the Group continued the on-going practice of strategically relocating, consolidating and converting its retail portfolio.

The management was also aware of the need to control costs in other work areas. Efforts were made to rationalise work procedures, streamline the workforce to raise effectiveness, manage advertising spending and reduce capital expenditure, etc. Staff cost came down by about 10.7% to approximately HK$218.3 million (2016: HK$244.4 million) during the year ended 31 March 2017. At the end of the reporting period, headcount of the Group was reduced to 1,197 (2016: 1,341) and staff cost-to-sales ratio was about 16.7%, comparable to that of last year (2016: 16.2%).

Depreciation charges decreased to approximately HK$40.4 million (2016: HK$44.7 million) for the year under review. Marketing and advertising expenses totalled approximately HK$36.5 million for the year ended 31 March 2017, representing proportionally about 2.8% (2016: 3.3%) of the Group's turnover, a substantial less about 26.1% than that in the previous same period (2016: HK$49.4 million). The Group intended to focus marketing efforts wisely on key brands and products to capture optimum promotional benefits.

The Group's overall operating expenses declined by about 8.6% to approximately HK$762.6 million (2016: HK$834.5 million) during the year ended 31 March 2017.

Other Income and Gains

In addition to the strict cost control, the Group also proactively improved its assets management and streamlined its group structure. During the year under review, the Group disposed an under-utilised property situated in Macau, which previously served as a staff quarter for retail management staff. The disposal of the property contributed to the Group's gain on disposal of about HK$5.5 million.

Gain on Deregistration of Subsidiaries

Upon closure of an uncompetitive factory in Shantou, China owned by a Group's Mainland subsidiary and officially completed the deregistration of the Mainland subsidiary as well as a dormant subsidiary incorporated in the United Kingdom during the year under review, a gain on deregistration of subsidiaries of about HK$8.1 million was recognised for the year ended 31 March 2017.

Finance Cost

The Group incurred finance cost of about HK$0.2 million (2016: HK$0.8 million), representing interest expense paid for a mortgage loan, during the year under review.

Net Profit

The Group's net profit attributable to equity holders increased by about 22.7% to approximately HK$64.9 million for the year ended 31 March 2017 (2016: HK$52.9 million). Net profit margin improved to about 5.0% (2016: 3.5%).

SEASONALITY

Seasonality has heavy bearing on the sales and results of the Group as its track record shows. The first-half of each financial year has historically been less important than the second-half. In general, more than 50% of the Group's annual sales and most of its net profit are derived in the second-half of the financial year, within which the holiday seasons Christmas, New Year and the Lunar New Year fall.

CAPITAL STRUCTURE

As at 31 March 2017, the Group had net assets of approximately HK$810.6 million (2016: HK$769.5 million), comprising non-current assets of approximately HK$312.1 million (2016: HK$307.5 million), net current assets of approximately HK$503.6 million (2016: HK$467.3 million) and non-current liability of approximately HK$5.1 million (2016: HK$5.3 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2017, the Group had cash and bank balances of about HK$290.4 million (2016: HK$219.2 million). At the end of the reporting period, the Group had aggregate banking facilities of about HK$150.7 million (2016: HK$157.7 million) comprising an interest-bearing bank overdraft, revolving loans, rental and utility guarantees as well as import facilities, of which about HK$137.9 million had not been utilised (2016: HK$131.4 million). In particular, the Group had a bank borrowing of about HK$5.9 million as at 31 March 2017 (2016: HK$12.9 million), which was in Hong Kong dollars repayable within one year and bearing interest at variable rates from about 2% to 3% per annum (2016: 2% to 3% per annum). The Group's gearing ratio at the end of the reporting period, representing a percentage of total interest-bearing bank borrowing to total assets, was about 0.6% (2016: 1.4%).

CASH FLOWS

For the year ended 31 March 2017, net cash inflow from operating activities increased remarkably to approximately HK$142.7 million (2016: HK$72.9 million), which was due to better management on payment and receipt cycles. The Group's net cash flow used in investing activities was reduced significantly to about HK$33.8 million (2016: HK$51.9 million) during the year under review. The drop was mainly contributed by the reduction in capital expenditure on shop renovation. In addition, the Group disposed a property situated in Macau during the year under review and generated additional cash proceed of about HK$8.4 million (2016: Nil). Net cash flow used in financing activities declined substantially by about 48.3% to approximately HK$29.0 million (2016: HK$56.1 million) as a result of the decrease in dividend paid during the year under review.

SECURITY

As at 31 March 2017, the Group's general banking facilities and bank borrowing were secured by certain of its leasehold land and buildings with aggregate carrying value of approximately HK$114.7 million (2016: HK$117.3 million).

CAPITAL COMMITMENT

The Group had no material capital commitment contracted, but not provided for as at 31 March 2017 (2016: HK$1.8 million).

CONTINGENT LIABILITIES

As at 31 March 2017, the Group had contingent liabilities in respect of bank guarantees given in lieu of utility and property rental deposits amounting to approximately HK$5.2 million (2016: HK$6.8 million).

During the year, the Group early terminated certain leases for properties. Pursuant to the respective lease agreements, the Group may be required to compensate for losses or damages to the respective landlords subject to various conditions. At the reporting date, it is not practicable to estimate the related losses or damages as the outcome which could determine the compensation is not wholly within the control of the Group. In the opinion of the directors, the likelihood of an outflow of resources embodying economic benefits by the Group is uncertain.

HUMAN RESOURCES

Including the Directors, the Group had 1,197 (2016: 1,341) employees as at 31 March 2017. To attract and retain high quality staff, the Group 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 the prevailing market rate. Remuneration packages were reviewed regularly. Regarding staff development, the Group provided regular in-house training to retail staff and subsidised their external training programmes for their professional development.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's sales and purchases during the year have been mostly denominated in Hong Kong dollar, New Taiwan dollar, Renminbi and pound sterling. The Group has been exposed to certain foreign currency exchange risks but it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. However, the Group continuously monitors its foreign exchange position and, when necessary, will hedge foreign exchange exposure arising from contractual commitments in sourcing apparel from overseas suppliers. The Group's objective and policies in foreign exchange and other major financial risk management are set out in Note 34 to the financial statements.

The Company and its subsidiaries (the "**Group**") are committed to maintaining a high standard of corporate governance which serves as a vital element throughout the development of the Group. The board of directors (the "**Board**") of the Company emphasises on maintaining and conducting sound and effective corporate governance structure and practices. Throughout the year ended 31 March 2017, the Company has complied with the applicable code provision of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") of the Stock Exchange except for the deviation from CG Code provision A.2.1 in respect of the roles of chairman (the "**Chairman**") and chief executive officer (the "**CEO**") of the Company. Explanations for such non-compliance are discussed later in the section of "Chairman and Chief Executive Officer" in this Corporate Governance Report.

BOARD OF DIRECTORS

The Board is collectively responsible for the management of the Group, and is charged with a mission of promoting success and providing effective leadership to the Group. All directors of the Company (the "**Directors**") are aware of their collective and individual responsibilities to the shareholders, the duties to act honestly and in good faith in the interest of the Company and its shareholders as a whole and to avoid conflict of interests.

The Board is responsible for formulating corporate strategies of the Group, setting goals and objectives for the management as well as monitoring and controlling the performance of the management. The management of the Group implements the strategic plans and deals with day-to-day operational matters of the Group under the delegation and authority of the Board.

As at 31 March 2017, the Board comprised six members, including three executive Directors and three independent non-executive Directors, as shown below:

Executive Directors

Mr. Wong Yui Lam *(Chairman and Chief Executive Officer)*
Madam Lee Yuk Ming
Mr. Yeung Yat Hang

Independent Non-Executive Directors

Mr. Chu To Ki
Mr. Mak Wing Kit
Mr. Mak Siu Yan (appointed on 4 July 2016)

During the year under review, Dr. Wong Yun Kuen ("**Dr. Wong**") resigned as an independent non-executive Director with effect from 27 December 2016. Upon his resignation, Dr. Wong ceased to be the chairman of the nomination committee and a member of the audit committee and remuneration committee of the Company, each with effect from 27 December 2016.

The biographical details of the Directors and the relationship among the members of the Board, if any, are set out in the section of "Directors and Senior Management" on pages 17 to 18 of this Annual Report.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive strategic planning and execution experience and/or expertise relevant to the business of the Group.

In compliance with Rule 3.10(1) and (2) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, who have represented at least one-third of the Board. The Board considers that all the independent non-executive Directors have appropriate and sufficient business, legal and/or finance experience and qualifications to carry out their duties so as to protect the interests of the shareholders of the Company.

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

BOARD OF DIRECTORS *(Continued)*

Each of the independent non-executive Directors has taken up the role as an independent non-executive Director for an initial term of one year and is subject to retirement and re-election in accordance with the articles of association of the Company.

If a Director has conflict of interest in a transaction or proposal to be considered by the Board and which the Board has determined to be material, the individual Director concerned declares his/her interest and is required to abstain from voting. The matter is considered at a Board meeting with the presence of the independent non-executive Directors who have no material interest in the proposed transaction.

According to the articles of association of the Company, the Directors for the time being of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty in their respective offices. The Company has maintained appropriate director liability insurance in respect of legal action against the Directors from their liabilities arising out of corporate activities. The insurance coverage will be reviewed regularly to ensure its effectiveness and sufficiency.

Pursuant to CG Code provision A.6.5, the Directors are required to participate in continuous professional development so as to ensure that their contribution to the Board remains informed and relevant. Accordingly, the Group also adopted a corporate governance policy requiring every newly appointed Director should receive a comprehensive, formal and tailored induction on appointment of at least 15 hours from the Chairman, other senior Directors and/or external professional bodies, as appropriate, so as to ensure that they have appropriate understanding of the business and operations of the Group and that they are fully aware of their responsibilities and obligations under the Listing Rules and relevant regulatory requirements. In addition, all the Directors are required to participate in at least 15 hours of continuous professional development in each financial year to develop and refresh their knowledge and skills, either through in-house training or external professional resources. All the Directors have complied with the requirements during the year ended 31 March 2017.

A summary of training received by the Directors during the year under review is as follows:

	Type of training
Executive Directors	
Mr. Wong Yui Lam *(Chairman and Chief Executive Officer)*	A, B, C, D
Madam Lee Yuk Ming	A, B
Mr. Yeung Yat Hang	A, B
Independent Non-Executive Directors	
Mr. Chu To Ki	A, B
Mr. Mak Wing Kit	A, B
Mr. Mak Siu Yan (appointed on 4 July 2016)	A, B
Dr. Wong Yun Kuen (resigned on 27 December 2016)	A, B

A: reading newspaper/journals and updates relating to retail industry, corporate governance and/or director's responsibilities

B: attending technical seminars/conferences/workshops/forums

C: giving talks at classes/seminars/forums

D: attending postgraduate studies organised by a tertiary educational institution

During the year ended 31 March 2017, Mr. Li Kin Cheong, the company secretary of the Company (the "**Company Secretary**"), has also undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

BOARD MEETINGS

Board meetings are held regularly and at least four times a year at approximately quarterly intervals. For regular Board meetings, notices of at least 14 days together with respective agendas are given to facilitate maximum attendance of the Directors. At the meeting, the Directors are provided with the relevant documents to be considered and approved. Draft minutes of Board meeting are circulated to all the Directors for comments. Minutes of Board meetings are taken by the Company Secretary or a duly appointed secretary of the Board meeting and are open for inspection by any Director.

The table below sets out the attendance of each Director at the annual general meeting (the "**AGM**") and the meetings of the Board and other Board committees held during the year under review:

	AGM	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. Wong Yui Lam *(Chairman and Chief Executive Officer)*	1/1	10/10	n/a	n/a	n/a
Madam Lee Yuk Ming	1/1	10/10	n/a	n/a	n/a
Mr. Yeung Yat Hang	1/1	10/10	n/a	n/a	n/a
Independent Non-Executive Directors					
Mr. Chu To Ki	1/1	10/10	4/4	2/2	2/2
Mr. Mak Wing Kit	1/1	10/10	4/4	2/2	2/2
Mr. Mak Siu Yan (appointed on 4 July 2016)	1/1	7/7	3/3	1/1	1/1
Dr. Wong Yun Kuen (resigned on 27 December 2016)	1/1	6/7	2/3	–/1	–/1

BOARD COMMITTEES

The Board established three committees, namely the audit committee, the remuneration committee and the nomination committee, on 22 April 2005 with written terms of references in compliance with the CG Code. As at 31 March 2017, all those committees comprise three independent non-executive Directors, namely, Mr. Mak Wing Kit, Mr. Chu To Ki and Mr. Mak Siu Yan, who have appropriate professional qualifications and experiences in accounting, legal affairs, financial, information technology and/or business management. Mr. Mak Wing Kit is the chairman of the audit committee and the remuneration committee and Mr. Mak Siu Yan is the chairman of the nomination committee. The committee members may call any meetings at any time when necessary or desirable.

BOARD COMMITTEES *(Continued)*

Audit Committee

The primary duties of audit committee are to make recommendations to the Board on the appointment, re-appointment and removal of external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; to review and monitor the integrity of the Group's financial information (including, but not limited to, the Group's consolidated financial statements, interim report and annual report, etc.); to oversee the Group's financial reporting system, risk management and internal control systems; and to develop, review and monitor the Group's corporate governance functions delegated by the Board.

During the year under review, the audit committee reviewed the Group's consolidated financial statements, interim and annual reports, the accounting principles and practices adopted, risk management, internal control and financial reporting systems, and also plans and findings of audit from both internal and external auditors. In addition, the audit committee also reviewed the external auditor's independence, approved the external auditor's remuneration and terms of engagement and recommended the Board for re-appointment of the external auditor. For corporate governance, the audit committee reviewed the Group's compliance with the CG Code, including respective policies and practices, and disclosures in this Corporate Governance Report.

Remuneration Committee

The primary duties of remuneration committee are to make recommendations to the Board on the Group's policy and structure for Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing such remuneration policy; to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

The primary goal of the remuneration policy with regard to the remuneration packages to the Directors, senior management and other employees of the Group is to enable the Group to retain and motivate them to meet corporate goals and to support continuous development of the Group by linking their remuneration with performance as measured against corporate objectives achieved. The remuneration package is determined by reference to individual's duties and responsibilities, experiences, qualifications, prevailing market conditions and both corporate and individual performance. Subject to the Group's profitability, the Group may also grant discretionary bonus and share options of the Company to its employees as an incentive for their contribution to the Group.

During the year under review, the remuneration committee reviewed and evaluated the Group's remuneration policy and structure for the executive Directors, their performance against corporate objectives and results achieved and terms of their service contracts. In addition, the remuneration committee has reviewed the remuneration packages of individual executive Directors and senior management of the Group and recommended the Board for approval. No Director was involved in deciding his/her own remuneration during the year under review.

The details of the remuneration to the Directors for the year under review are set out in the Note 8 to the financial statements on pages 71 to 72 of this Annual Report.

In addition, the details of the remuneration for the year ended 31 March 2017 to the senior management of the Group fell within the following bands:

	Number of individuals
HK$1,000,000 or below	5
HK$1,000,001 – HK$1,500,000	2

BOARD COMMITTEES *(Continued)*

Nomination Committee

The primary duties of nomination committee are to review the structure, size and composition of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Group's corporate strategy and on the selection of individuals nominated for directorships as well as appointment or re-appointment of the Directors. The nomination committee is also responsible for making succession planning for the Directors, in particular the Chairman and the chief executive of the Company.

In compliance with CG Code provision A.5.6, the Board has adopted a board diversity policy. The Company recognises and embraces the benefit of having a diverse Board to enhance the quality of its performance. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. When determining the composition of the Board, board diversity will be considered from a number of factors, including but not limit to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

During the year under review, the nomination committee reviewed the present structure, size and composition of the Board as well as the board diversity policy adopted.

The nomination committee has recommended to the Board for appointment of a new independent non-executive Director, Mr. Mak Siu Yan, who was eventually appointed by the Board on 4 July 2016 and has been re-elected at the annual general meeting on 26 August 2016. Mr. Mak Siu Yan has also been appointed as the chairman of the nomination committee with effect from 27 December 2016 as the successor of Dr. Wong upon his resignation.

In addition, according to the articles of association of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

Madam Lee Yuk Ming and Mr. Yeung Yat Hang will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. The nomination committee has reviewed the performance of Madam Lee Yuk Ming and Mr. Yeung Yat Hang and recommended them to the Board for the re-election.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The Company appointed Ernst & Young as the Group's principal auditor. The acknowledgement of their responsibilities on the consolidated financial statements are set out in the section of "Independent Auditor's Report" on pages 40 to 43 of this Annual Report.

The fees paid or payable to Ernst & Young, and its affiliated firms, for services rendered are as follows:

	Year ended 31 March 2017 HK$'000	Year ended 31 March 2016 HK$'000
Audit services	**1,871**	1,869
Non-audit services	**445**	619
Total	**2,316**	2,488

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flows of the Group for that year and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 March 2017, the Board has selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Board is responsible for keeping proper accounting records which disclose the financial position of the Group with reasonable accuracy at any time.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibilities for the Group's risk management and internal control systems (the "**Systems**") and reviewing their effectiveness. Such Systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has delegated its responsibilities to the Group's audit committee (the "**Audit Committee**") to oversee the Systems on an ongoing basis and to conduct a review of the effectiveness of the Systems at least annually.

Main features of the Systems

The Group maintains a structure with defined lines of responsibility and appropriate delegation of duty and authority. The major components of the control structure are summarised as follows:

(a) The Board

- To evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives;
- To oversee management, with the assistance of the Audit Committee, in the design, implementation and monitoring of the Systems on an ongoing basis;
- To define management structure with clear lines of responsibility and delegation of authority;
- To ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions;
- To ensure that a review of effectiveness of the Systems has been conducted at least annually.

(b) The Audit Committee

- To oversee the Systems on an ongoing basis through the Group's internal audit functions;
- To conduct a review on the effectiveness of the Systems at least annually through the Group's internal audit functions and/or external professional parties and such review should cover all material controls, including financial, operational and compliance controls;
- To coordinate, review and approve audit scope and plans proposed by both the Group's internal and external auditors;
- To consider major investigation findings and evaluate significant issues on risk management and internal control matters and make recommendations to the Board;
- To develop, review and monitor the Group's policies and practices on corporate governance and compliance with relevant CG Code, legal and other regulatory requirements and make recommendations to the Board.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Main features of the Systems *(Continued)*

(c) Management

- To identify and evaluate the risks that may significantly impact the Group's major operations;
- To design, implement and maintain appropriate and effective Systems;
- To monitor and manage risks in day-to-day operations through appropriate risk mitigation measures;
- To provide confirmation to the Board and the Audit Committee on the effectiveness of the Systems.

(d) Internal Audit Functions

- To formulate appropriate risk-based audit plans and undertake risk reviews;
- To carry out the analysis and independent appraisal of adequacy and effectiveness of the Systems;
- To systematically document and evaluate any issues may significantly affect the effectiveness of the Systems and/or operations of the Group;
- To report findings and results of the independent assessment and make recommendations to the Audit Committee and/or management to solve and improve system deficiencies or control weaknesses.

Risk Management Framework

The Group adopts a "top-down" approach in the Group's risk management framework which the Board, the Audit Committee and the management of the Group exercise strong oversight on the establishment and maintenance of the risk management policy. Besides, the Group performs independent appraisal through its internal audit functions and/or other external professional parties and undergoes a sound evaluation mechanism for continuous improvement.

The Group's risk management process comprises four core stages:

(a) Risk identification

The management (including but not limited to executive Directors, senior management and departmental heads) of the Group is responsible for assessing the market, competition environment and the daily operations to identify potential risks relating to its business processes that may materially affect the Group.

The details of the risk identified are then collected through the internal audit functions and recorded in a centralised risk register, which summarises the risks of the Group as a whole by five categories, namely reporting, operational, strategic, compliance and information technology risk. The risk register is submitted to the Audit Committee for review and independent evaluation. The identification process is performed from time to time to respond to the changing business environment and to determine whether adjustment is required for the risk identification result.

(b) Risk Assessment and Prioritisation

Risk assessment involves the evaluation of the associated likelihood of occurrence and impact of risk identified. The management is required to estimate likelihood of occurrence and assign the ratings on the impact and the vulnerability of the risks. Risks are prioritised and the design of risk mitigation plan is then based on the risk prioritisation. The assessment criteria is determined by the management and approved by the Board.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Risk Management Framework *(Continued)*

(c) Risk Response

The following table summarises the types of the risk responses and the circumstances to be adopted:

Types of Risk Responses	Circumstances to be adopted
Acceptance	Risks are considered as immaterial and it is within an acceptable level
Reduction	Risks are considered as material, and controls are available to reduce the risks to an acceptable level
Sharing	Risks are considered as material, and the Group is not able to reduce the risks to an acceptable level solely. The portion of risks has to be transferred to or shared with other parties
Avoidance	Risks are considered as material, and the risks cannot be reduced to an acceptable level by all means, or it requires unreasonably high cost to reduce the risks to an acceptable level

(d) Risk Monitoring

The management is responsible to implement and monitor the risk mitigation plan, and review its effectiveness since implementation. Through the internal audit functions and effective communication with management, the Audit Committee evaluates the results on risk mitigation measures, ensures any outstanding items in the action plan have been followed up appropriately by relevant management and confirms whether any material changes in the risk assessment as well as the respective risk responses.

Review of the Systems

The Group carries out review and analysis, which cover all material controls on financial, operational and compliance aspects, from time to time through its internal audit functions to ensure that the Group's Systems are able to meet and deal with the dynamic and ever changing business environment. Any significant risks, system deficiencies and control weaknesses identified are timely reported to appropriate management and the Audit Committee for corrective actions.

In addition, the Group engaged an independent professional consultant during the year under review to perform an enterprise-wide risk-based internal controls assessment, including risk and internal controls assessment and advising on formulating the Group's risk management policies and practices. The assessment adopted a systematic and risk-based approach to review and appraise certain significant areas of the Systems, including core controls across procurement, inventory and cash management process as well as the Group's risk management practice. The Audit Committee has received and considered a Risk-based Internal controls Assessment Report prepared by the independent professional consultant for the year ended 31 March 2017. All findings and recommendations have been addressed.

During the year under review, the Audit Committee has also assisted the Board to review the resources, staff qualification and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions and were of the view that they were adequate.

The Board and the Audit Committee have reviewed and confirmed that the Systems were effective and adequate for the year ended 31 March 2017.

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

Inside Information Policy

The Group adopts an inside information policy to regulate the handling and dissemination of inside information, in particular for which may potentially price sensitive. Procedures guidelines are in place to ensure inside information is kept strictly confidential. If the inside information has to disseminate to public, it should be done in equal and timely manner in accordance with the applicable laws and regulations.

The Board identifies a list of designated officers of the Group, including all the Directors, senior management and certain employees, who substantially involve in the management of the Group's operations and may in procession of inside information. These officers not only have to comply with specific procedures in handling inside information, but also need to make appropriate declaration to a designated Director or Company Secretary and with restrictions and blackout period in respect of dealing with securities of the Company. The list of the officers is reviewed and updated from time to time by the Board.

Whistleblowing Policy

The Group has also adopted a whistleblowing policy with a set of procedures in place whereby employees can report any actual or suspected occurrence of improper conduct involving the Group, and for such matters to be investigated and dealt with effectively in an appropriate and transparent manner. The Audit Committee has been designated to receive and consider any such cases reported with appropriate evidences, to obtain information and explanation from the management, to perform necessary investigations through the internal audit functions and/or external professional parties, and make recommendations to the Board to address issues and correct irregularities.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

COMMUNICATION WITH INVESTORS AND SHAREHOLDERS

To enhance transparency and effectively communicate with the investment community, the executive Directors maintain regular communications with various shareholders, potential investors, research analysts, fund managers and media.

The Board also welcomes the views of shareholders on matters affecting the Company and encourages them to attend shareholders' general meeting to communicate directly with the Board. External auditor and the chairman of each of the Board committee attend the general meeting and are available to answer shareholders enquiries. The important details and dates for shareholders during the year under review and in the coming financial year are set out in the section of "Information for Investors" on page 9 of this Annual Report.

In addition, annual/interim reports, announcements and press releases are posted on the website of the Stock Exchange at www.hkexnews.hk and/or the Company's official website at www.bauhaus.com.hk, which are constantly being updated in a timely manner and so contain additional information on the Group's business.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING (THE "EGM")

The following procedures are subject to the memorandum and articles of association of the Company (as amended from time to time), and the applicable legislation and regulation, in particular the Listing Rules (as amended from time to time).

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "**Eligible Shareholder(s)**") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

- Eligible Shareholders who wish to convene an EGM must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at Room 501, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong, for the attention of the Company Secretary.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding(s), the reason(s) to convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned.

- The Requisition will be verified with the Company's branch share registrar and upon their confirmation that the Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the articles of association of the Company to all the registered shareholders of the Company. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM.

- If within 21 days of the deposit of the Requisition, the Board fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, pursuant to the articles of association of the Company, shareholders who wish to move a resolution may requisition the Company to convene an EGM following the procedures set out above.

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders may send their enquiries and concerns in writing to the Board of the Company by addressing them to the principal place of business of the Company in Hong Kong at Room 501, Sino Industrial Plaza, 9 Kai Cheung Road, Kowloon Bay, Kowloon, Hong Kong by post for the attention of the Company Secretary or by email to ir@bauhaus.com.hk.

Upon receipt of the enquiries, the Company Secretary will forward:

1. communications relating to matters within the Board's purview to the executive Directors;

2. communications relating to matters within a Board committee's area of responsibility to the chairman of the appropriate committee of the Company; and

3. communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the appropriate management of the Group.

The directors present their report and the audited financial statements for the year ended 31 March 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and management of the Group's operations. There were no significant changes in the nature of the Group's principal activities during the year. The principal activities of its principal subsidiaries are trading of garments and accessories, property holding and provision of management services.

BUSINESS REVIEW

The business review of the Group for the year ended 31 March 2017 is set out under sections headed "Chairman's Statement" on page 1 and "Management Discussion and Analysis" on pages 19 to 22 of this Annual Report. An analysis of the Group's performance for the year ended 31 March 2017 by key financial performance indicators is set out under section headed "Financial Highlights" on pages 4 to 6 of this Annual Report. Those discussions form part of this Report of the Directors.

The Group has complied with the relevant laws and regulations that have significant impact on the operations of the Group for the year ended 31 March 2017.

Environmental Policies and Performance

The Group recognises the importance of environmental protection and sustainable business operations. The Group is dedicated to complying with the relevant environmental laws, standards and policies prevailing in the countries or jurisdictions in which the Group principally operates. The Group also advocates a number of environment-friendly measures in its operations and workplaces including but not limited to paperless documentation, electronic communication, energy saving and materials recycling, etc.

Relationships with Employees, Customers and Suppliers

The Group considers that employees, customers and suppliers are key elements to the success of the Group's retail business. The Group provides competitive remuneration package to motivate and retain quality staff and is committed to providing a safe and healthy working environment for its staff. In particular, the Group regularly organises in-house training, team building and networking activities for retail sales staff to promote team spirit and to enhance skills.

As a leading retailer in the fashion industry, the Group not only sells products to customers, but also is committed to providing quality services and great shopping experience to them either in the Group's retail shops or via online platforms. The Group regularly interacts with customers and always welcomes to gain valuable market insights and feedback from end consumers.

On procurement side, the Group maintains a well-diversified sourcing base and has established long standing cooperation relationship with many suppliers. In addition, the Group has established certain anti-bribery policies, which are required to be observed by all parties, and regularly performs quality assurance review and on-site check to ensure the merchandises produced or supplied by vendors meet required standards and at reasonable market price.

Further elaboration on the Group's environmental policies and relationships with different stakeholders of the Group and the community is set out under section headed "Environmental, Social and Governance Report" on pages 10 to 16 of this Annual Report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2017 and the Group's financial position at that date are set out in the financial statements on pages 44 to 93 of this Annual Report.

The directors recommend the payment of a final dividend of HK7.5 cents per ordinary share in respect of the year to shareholders on the register of members on Wednesday, 13 September 2017. Subject to the approval of shareholders at the forthcoming annual general meeting of the Company (the "**AGM**"), the proposed final dividend will be payable on or before Wednesday, 27 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The AGM is scheduled on Tuesday, 29 August 2017. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 25 August 2017 to Tuesday, 29 August 2017, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 24 August 2017.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the AGM. The record date for entitlement to the proposed final dividend is scheduled on Wednesday, 13 September 2017. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Monday, 11 September 2017 to Wednesday, 13 September 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, for registration not later than 4:30 p.m. on Friday, 8 September 2017.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out on page 94 of this Annual Report. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's issued share capital and share options during the year are set out in Note 24 and Note 25 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

At 31 March 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$322,424,000 of which an aggregate of HK$27,554,000 has been proposed as final dividend for the year. In addition, the amount of HK$105,566,000 previously included in the Company's share premium account may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$548,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2017, sales to the Group's five largest customers accounted for less than 30% of the total sales of the Group for the year. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately 30% and 61%, respectively, of the Group's total purchases for the year. None of the directors or any of their close associates or any shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) had beneficial interests in the Group's top five customers or suppliers referred to above.

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Wong Yui Lam *(Chairman and Chief Executive Officer)*
Madam Lee Yuk Ming
Mr. Yeung Yat Hang

Independent non-executive directors:
Mr. Chu To Ki
Mr. Mak Wing Kit
Mr. Mak Siu Yan (appointed on 4 July 2016)
Dr. Wong Yun Kuen (resigned on 27 December 2016)

In accordance with article 87 of the Company's articles of association, Madam Lee Yuk Ming and Mr. Yeung Yat Hang will retire by rotation and, being eligible, will offer themselves for re-election at the AGM.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 17 to 18 of this Annual Report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has renewed his/her service contract with the Company for a term of three years commencing from 1 May 2017. The service contracts will continue thereafter until terminated by not less than six months' notice in writing served by either party on the other without payment of compensation. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the board of directors, be adjusted and they will each be entitled to a discretionary bonus provided that the total amount of bonuses payable to all the directors for such year shall not exceed HK$5 million. Each of the executive directors will be entitled to all the reasonable out-of-pocket expenses and medical expenses, housing benefits and reimbursements, the use of cars and the fuel and maintenance (including insurance) expenses in respect of the cars used by him/her.

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company, or any of the Company's subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2017, the interests and short positions of the directors of the Company in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), were as follows:

(a) Long positions in ordinary shares of the Company

	Number of shares held, capacity and nature of interest				
Name of director	**Directly beneficially owned**	**Through controlled corporation**	**Through a discretionary trust/as beneficiary or trustee of trust**	**Total number of ordinary shares held**	**Percentage of the Company's issued share capital**
Mr. Wong Yui Lam	1,700,000	29,900,000 (note)	180,000,000 (note)	211,600,000	57.60%
Madam Lee Yuk Ming	250,000	–	–	250,000	0.07%
Mr. Yeung Yat Hang	4,730,000	–	–	4,730,000	1.29%

Note: The 29,900,000 shares are held by Wonder View Limited ("**Wonder View**"), the entire issued share capital of which is beneficially owned by Mr. Wong Yui Lam, an executive director of the Company. The 180,000,000 shares are held by Huge Treasure Investments Limited ("**Huge Treasure**") as trustee of The Wong & Tong Unit Trust, all units of which are owned by The Wong & Tong Family Trust, a discretionary trust established by Mr. Wong Yui Lam, the executive director of the Company and Madam Tong She Man, Winnie, a beneficial shareholder of the Company.

(b) Long positions in shares of associated corporations

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

Note: Mr. Wong Yui Lam is a non-voting shareholder of these companies. The holders of these non-voting deferred shares are not entitled to any dividends and have no voting rights.

Save as disclosed above, as at 31 March 2017, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The share option scheme of the Company adopted on 22 April 2005 (the "**Old Scheme**") had expired on 21 April 2015. Therefore, the Company adopted a new share option scheme (the "**New Scheme**") pursuant to a resolution of the shareholders passed at the annual general meeting of the Company held on 27 August 2015. The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Old Scheme and the New Scheme are disclosed in Note 25 to the financial statements.

The following table discloses movements in the Company's share options outstanding during the year:

	Number of share options							
Name or category of participant	At 1 April 2016	Granted during the year	Exercised during the year	Lapsed during the year	At 31 March 2017	Date of grant of share options (i)	Exercise period of share options	Exercise price of share options (ii) HK$ per share
Directors, chief executive and a substantial shareholder and their associates								
Madam Lee Yuk Ming	250,000	–	–	(250,000)	–	13 January 2012	12 January 2014 to 12 January 2017	1.83
	300,000	–	–	(300,000)	–	13 January 2012	12 January 2015 to 12 January 2017	1.83
	550,000	–	–	(550,000)	–			
Other employees								
In aggregate	130,000	–	–	(130,000)	–	13 January 2012	12 January 2013 to 12 January 2017	1.83
	290,000	–	–	(290,000)	–	13 January 2012	12 January 2014 to 12 January 2017	1.83
	360,000	–	–	(360,000)	–	13 January 2012	12 January 2015 to 12 January 2017	1.83
	780,000	–	–	(780,000)	–			
	1,330,000	–	–	(1,330,000)	–			

Notes to the table of share options outstanding during the year:

(i) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(ii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No share option was granted during the year ended 31 March 2017. As at the date of this report, there was no option granted but not yet exercised under the Old Scheme and the New Scheme, and the total number of securities available for issue under the New Scheme is 36,738,000, representing 10% of the issued shares of the Company.

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

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

At 31 March 2017, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Name	Position	Number of shares held, capacity and nature of interest: Directly beneficially owned	Through controlled corporation	Through discretionary trust/as beneficiary or trustee of trust	Total number of ordinary shares held	Percentage of the Company's issued share capital
Huge Treasure (note 1)	Long position	180,000,000	–	–	180,000,000	49.00%
East Asia International Trustees Limited ("**EAIT**") (note 2)	Long position	–	–	180,000,000	180,000,000	49.00%
Wonder View (note 3)	Long position	29,900,000	–	–	29,900,000	8.14%
Great Elite Corporation ("**Great Elite**") (note 4)	Long position	34,068,000	–	–	34,068,000	9.27%
David Michael Webb (note 5)	Long position	9,046,000	20,354,000	–	29,400,000	8.00%

Notes:

1. The 180,000,000 shares are held by Huge Treasure as trustee of The Wong & Tong Unit Trust, all units of which are owned by The Wong & Tong Family Trust, a discretionary trust established by Mr. Wong Yui Lam, an executive director of the Company and Madam Tong She Man, Winnie, a beneficial shareholder of the Company.

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

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

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

5. The 20,354,000 shares are held by Preferable Situation Assets Limited, which is incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mr. David Michael Webb.

Save as disclosed above, as at 31 March 2017, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" on page 36, has an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group during the year are set out in Note 32 to the financial statements. These related party transactions also constituted continuing connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the applicable disclosure requirements of Chapter 14A of the Listing Rules.

DIRECTORS' INDEMNITY

According to the articles of association of the Company, the Directors for the time being of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty in their respective offices. The Company has maintained appropriate directors liability insurance in respect of legal action against the Directors during the year ended 31 March 2017 in respect of legal action against the Directors from their liabilities arising out of corporate activities.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

Ernst & Young will retire and a resolution for their reappointment as auditor of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

Wong Yui Lam
Chairman
Hong Kong, 22 June 2017

EY 安永

Ernst & Young
22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

安永會計師事務所
香港中環
添美道1號
中信大廈
22樓

電話: +852 2846 9888
傳真: +852 2868 4432
www.ey.com

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

OPINION

We have audited the consolidated financial statements of Bauhaus International (Holdings) Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 44 to 93, which comprise the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Inventory provision As at 31 March 2017, the Group had inventories of HK$266,759,000, which represented 28.2% of the Group's total assets. The Group is principally engaged in the design and retailing of trendy fashion of apparels, bags and accessories. The fast changing fashion trend is highly correlated to seasonal factors and affects the amount of inventory provision to be provided. Inventory provision is made for obsolete, damaged, slow-moving, excess and other inventory items whose costs may not be fully recoverable. Such inventory provision is estimated by management through the application of judgement and use of highly subjective assumptions. The accounting policies and disclosures are included in Notes 2.4 and 3 to the consolidated financial statements.	Our audit procedures included the performance of substantive procedures over identifying and valuing obsolete, damaged, slow-moving, excess and other inventory items whose costs may not be fully recoverable; evaluating the methodologies, inputs and assumptions used by the Group in calculating the impairments. This included comparing management's calculations for consistency against those used in the prior year; considering whether there was any indication of management bias such as manual overrides to the established methodology; and where the percentage used for provision is appropriate comparing to the historical consumption. Also, we assessed the adequacy of the impairments recorded by reviewing sales record throughout the year as well as subsequent sales after the year end and comparing them with historical sales record.
Property, plant and equipment impairment assessment At 31 March 2017, the Group had property, plant and equipment of HK$188,713,000 which represented approximately 20.0% of the Group's total assets. Impairment assessment was conducted for property, plant and equipment of loss-making retail shops, of which HK$18,768,000 represented property, plant and equipment of retail shops. The management considers each retail shop as an individual cash-generating unit as each shop generates independent cash flows, which are largely independent of the cash flows generated by other assets. The Group determines impairment provision based on the cashflow forecasts of loss-making retail shops. The evaluation process is inherently subjective, and dependent on a number of estimates. The disclosure of property, plant and equipment is included in the Notes 2.4, 3, 6 and 13 to the consolidated financial statements.	Our audit procedures in relation to management's impairment assessment included, amongst others, evaluation of the reasonableness of the bases and assumptions adopted in the valuation for estimating the value in use of the cashflow forecasts of loss-making retail shops. We challenged the assumptions about sales growth rate, discount rate, the timing of the forecasted recovery of overall market and economic conditions and the respective effect to the Group's retail shops. Also, we checked, on a sample basis, the accuracy and relevance of the input data used.
Recognition of deferred tax assets As at the end of the reporting period, the Group had tax losses arising in Hong Kong of HK$46,694,000 that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also had tax losses arising in Mainland China of HK$58,676,000 that will expire in one to five years and losses arising in Taiwan of HK$33,427,000 that will expire in five to seven years for offsetting future taxable profits, respectively. The tax impact of unrecognised tax losses in Hong Kong, Mainland China and Taiwan at applicable tax rates at 31 March 2017 were approximately HK$396,000, HK$9,269,000 and HK$5,683,000, respectively. Significant management judgement is involved to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits generated by the Group. The accounting policies and disclosures are included in Notes 2.4, 3, 10 and 16 to the consolidated financial statements.	Our audit procedures included reviewing profit forecasts and the Group's latest tax strategies and strategic business plan to ascertain if sufficient taxable profits could be generated in the future to utilise the tax losses. We evaluated the amount of deferred tax assets recognised in light of future projected profitability of the relevant subsidiaries, by assessing the profit forecasts against past results and the expectations of future trading performance. We also discussed and challenged the profit forecasts and the business plan to determine if the tax losses can be utilised within the statutory limited timeframe in the countries in which the tax losses have arisen. In addition, we performed procedures on, among others, the completeness and accuracy of the tax losses of the relevant subsidiaries, the settlement terms in the various tax jurisdictions and the completeness of the disclosures in the financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ms. Dilys Chau Suet Fung.

Ernst & Young
Certified Public Accountants
Hong Kong, 22 June 2017

Year ended 31 March 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	5	**1,305,880**	1,512,996
Cost of sales		**(488,005)**	(620,330)
GROSS PROFIT		**817,875**	892,666
Other income and gains	5	**10,913**	4,500
Gain on deregistration of subsidiaries	26	**8,111**	–
Selling and distribution expenses		**(645,646)**	(714,514)
Administrative expenses		**(105,643)**	(110,242)
Other expenses		**(11,274)**	(9,757)
Finance cost	7	**(226)**	(796)
PROFIT BEFORE TAX	6	**74,110**	61,857
Income tax expense	10	**(9,233)**	(8,908)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**64,877**	52,949
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Currency translation differences		**(8,210)**	(3,168)
Reclassification adjustments for foreign operations deregistered during the year	26	**(8,111)**	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(16,321)**	(3,168)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**48,556**	49,781
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	12		
Basic		**HK17.7 cents**	HK14.4 cents
Diluted		**N/A**	HK14.4 cents

31 March 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**188,713**	200,416
Investment property	14	**17,700**	–
Intangible assets	15	**693**	820
Rental, utility and other non-current deposits	19	**79,891**	78,232
Deferred tax assets	16	**25,099**	27,988
Total non-current assets		**312,096**	307,456
CURRENT ASSETS			
Inventories	17	**266,759**	268,110
Trade receivables	18	**41,488**	58,347
Prepayments, deposits and other receivables	19	**28,050**	35,958
Tax recoverable		**6,314**	6,914
Cash and bank balances	20	**290,436**	219,249
Total current assets		**633,047**	588,578
CURRENT LIABILITIES			
Trade payables	21	**31,807**	24,245
Other payables and accruals	22	**86,460**	76,066
Interest-bearing bank borrowing	23	**5,922**	12,876
Tax payable		**5,259**	8,132
Total current liabilities		**129,448**	121,319
NET CURRENT ASSETS		**503,599**	467,259
TOTAL ASSETS LESS CURRENT LIABILITIES		**815,695**	774,715
NON-CURRENT LIABILITIES			
Deferred tax liabilities	16	**5,098**	5,264
NET ASSETS		**810,597**	769,451
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	24	**36,738**	36,738
Reserves		**773,859**	732,713
TOTAL EQUITY		**810,597**	769,451

Wong Yui Lam
Chairman, CEO & Executive Director

Lee Yuk Ming
Executive Director

Year ended 31 March 2017

	Notes	Share capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (Note 27)	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Reserve funds HK$'000 (Note 27)	Asset revaluation reserve# HK$'000	Retained profits HK$'000	Total equity HK$'000
At 1 April 2015		36,721	105,185	744	9,186	25,886	10,116	–	581,117	768,955
Issue of shares by exercise of share options	24, 25	17	381	–	(87)	–	–	–	–	311
Final 2015 dividend declared		–	–	–	–	–	–	–	(49,596)	(49,596)
Profit for the year		–	–	–	–	–	–	–	52,949	52,949
Other comprehensive loss for the year:										
Currency translation differences		–	–	–	–	(3,168)	–	–	–	(3,168)
Total comprehensive income for the year		–	–	–	–	(3,168)	–	–	52,949	49,781
Transfer to reserve funds		–	–	–	–	–	12	–	(12)	–
At 31 March 2016		36,738	105,566*	744*	9,099*	22,718*	10,128*	–	584,458*	769,451
At 1 April 2016		**36,738**	**105,566***	**744***	**9,099***	**22,718***	**10,128***	**–**	**584,458***	**769,451**
Final 2016 dividend declared		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(22,043)**	**(22,043)**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**64,877**	**64,877**
Other comprehensive loss for the year:										
Currency translation differences		**–**	**–**	**–**	**–**	**(8,210)**	**–**	**–**	**–**	**(8,210)**
Reclassification adjustments for foreign operations deregistered during the year	26	**–**	**–**	**–**	**–**	**(8,111)**	**–**	**–**	**–**	**(8,111)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(16,321)**	**–**	**–**	**64,877**	**48,556**
Change in use from land and building to investment property carried at fair value	14	**–**	**–**	**–**	**–**	**–**	**–**	**14,633**	**–**	**14,633**
Transfer of reserve funds upon deregistration of a subsidiary	26	**–**	**–**	**–**	**–**	**–**	**(2,947)**	**–**	**2,947**	**–**
Transfer of share option reserve upon lapse of share options		**–**	**–**	**–**	**(9,099)**	**–**	**–**	**–**	**9,099**	**–**
At 31 March 2017		**36,738**	**105,566***	**744***	**–***	**6,397***	**7,181***	**14,633***	**639,338***	**810,597**

* These reserve accounts comprise the consolidated reserves of HK$773,859,000 (2016: HK$732,713,000) in the consolidated statement of financial position.

The asset revaluation reserve of HK$14,633,000 relates to an owner-occupied property of the Group transferred to investment property during the year.

Year ended 31 March 2017

	Notes	**2017 HK$'000**	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**74,110**	61,857
Adjustments for:			
Finance cost	7	**226**	796
Bank interest income	5	**(323)**	(471)
Depreciation	6	**40,389**	44,668
Loss/(gain) on disposal of items of property, plant and equipment, net	5, 6	**(3,179)**	3,128
Gain on deregistration of subsidiaries	6	**(8,111)**	–
Write-off of deposits	6	**3,506**	1,903
Disposal of trademarks	6	**11**	33
Amortisation of intangible assets	6	**208**	257
Provision for inventories, net	6	**10,916**	11,030
Provision for doubtful debts and write-off of bad debts	6	**338**	12
Fair value gain on an investment property	5, 6	**(1,700)**	–
Impairment of items of property, plant and equipment	6	**7,333**	4,420
		123,724	127,633
Decrease/(increase) in rental, utility and other non-current deposits		**(5,165)**	10,255
Increase in inventories		**(9,565)**	(27,794)
Decrease/(increase) in trade receivables		**16,521**	(2,027)
Decrease/(increase) in prepayments, deposits and other receivables		**7,908**	(1,070)
Increase/(decrease) in trade payables		**7,562**	(11,153)
Increase/(decrease) in other payables and accruals		**10,394**	(9,710)
Cash generated from operations		**151,379**	86,134
Interest received		**323**	471
Interest paid		**(226)**	(796)
Hong Kong profits tax paid		**(5,425)**	(9,284)
Overseas taxes paid		**(3,358)**	(3,638)
Net cash flows from operating activities		**142,693**	72,887
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(42,123)**	(51,843)
Proceeds from disposal of items of property, plant and equipment		**8,392**	158
Additions to intangible assets	15	**(92)**	(179)
Net cash flows used in investing activities		**(33,823)**	(51,864)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	311
New bank loans		**–**	30,000
Repayment of bank loans		**(6,954)**	(36,802)
Dividends paid		**(22,043)**	(49,596)
Net cash flows used in financing activities		**(28,997)**	(56,087)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**79,873**	(35,064)
Cash and cash equivalents at beginning of year		**219,249**	256,818
Effect of foreign exchange rate changes, net		**(8,686)**	(2,505)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**290,436**	219,249
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**290,436**	219,249

1. CORPORATE AND GROUP INFORMATION

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

During the year, the Group was engaged in the design and retailing of trendy apparel, bags and fashion accessories.

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

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Bauhaus Investments (BVI) Limited*	British Virgin Islands	Ordinary US$1,000	100	–	Investment holding
Bauhaus Holdings Limited	Hong Kong	Non-voting deferred HK$2 and ordinary HK$2	–	100	Trading of garments and accessories
Tough Jeans Limited	Hong Kong	Non-voting deferred HK$5 and ordinary HK$2	–	100	Trading of garments and accessories
Wide World Development Limited	Hong Kong	Ordinary HK$1	–	100	Trading of garments and accessories
Bauhaus (China) Limited	Hong Kong	Ordinary HK$1	–	100	Investment holding and trading of garments and accessories
Bauhaus Property Limited	Hong Kong	Ordinary HK$2	–	100	Property holding
Sky Top Investment (Group) Limited	Hong Kong	Ordinary HK$1	–	100	Property holding
Eighty Twenty Products Limited*	Hong Kong	Ordinary HK$1	–	100	Property holding
Bauhaus Management Limited	Hong Kong	Ordinary HK$1,000,000	–	100	Provision of management services
Bauhaus Retail (Macau) Limited*	Macau	Ordinary MOP25,000	–	100	Trading of garments and accessories

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Supermax Retail (Macau) Limited*	Macau	Ordinary MOP25,000	–	100	Trading of garments and accessories
Tough Jeans Macao Commercial Offshore Limited	Macau	Ordinary MOP100,000	–	100	Trading of garments and accessories
包豪氏企業有限公司	Taiwan	NT$500,000	–	100	Trading of garments and accessories
強韌貿易（深圳）有限公司*#	PRC/ Mainland China	HK$12,000,000	–	100	Trading of garments and accessories
強韌貿易（上海）有限公司*#	PRC/ Mainland China	HK$8,000,000	–	100	Trading of garments and accessories
包浩斯貿易（北京）有限公司*#	PRC/ Mainland China	HK$2,000,000	–	100	Trading of garments and accessories
包浩斯貿易（廣州）有限公司*#	PRC/ Mainland China	HK$2,000,000	–	100	Trading of garments and accessories

* The statutory financial statements of these subsidiaries were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

\# These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

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

During the year, a wholly-owned subsidiary incorporated in the PRC namely 汕頭市包浩斯服飾製品有限公司 and a wholly-owned subsidiary incorporated in the United Kingdom namely Tough Jeans (UK) Limited were deregistered. A gain on deregistration of subsidiaries of HK$8,111,000 was credited to profit or loss upon deregistration.

2.1 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 ("**HKICPA**"), 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 investment property 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 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of HKFRSs*

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 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 9	*Financial Instruments*[2]
HKFRS 15	*Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
HK (IFRIC) Interpretation 22	*Foreign Currency Transaction and Advance Consideration*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to a number of HKFRSs*[1,2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 April 2018. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 April 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 April 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 April 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

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

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 April 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 April 2017.

Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group expects to adopt the amendments from 1 April 2018.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its investment property at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

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

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Leasehold land	Over the lease terms
Buildings	2%
Leasehold improvements	2 to 5 years
Plant and machinery	9% to 25%
Computer equipment	20% to 30%
Furniture, fixtures and equipment	18% to 25%
Motor vehicles	30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as an asset revaluation reserve. On disposal of such property, the relevant portion of the asset revaluation reserve realised in respect of the change in use is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance cost of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance cost for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and an interest-bearing bank borrowing.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance cost in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance cost in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Revenue recognition

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

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

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a short period, when appropriate, to the net carrying amount of the financial asset; and

(c) rental income on a time proportion basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees rendered services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants after 7 November 2002 was measured by reference to the fair value at the date at which they were granted. The fair value was determined by an external valuer using the Black-Scholes-Merton pricing model, further details of which are given in Note 25 to the financial statements.

The cost of equity-settled transactions was recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions were fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflected the extent to which the vesting period had expired and the Group's best estimate of the number of equity instruments that would ultimately vest. The charge or credit to profit or loss for a period represented the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions were not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met was assessed as part of the Group's best estimate of the number of equity instruments that would ultimately vest. Market performance conditions were reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, were considered to be non-vesting conditions. Non-vesting conditions were reflected in the fair value of an award and led to an immediate expensing of an award unless there were also service and/or performance conditions.

For awards that did not ultimately vest because non-market performance and/or service conditions had not been met, no expense was recognised. Where awards included a market or non-vesting condition, the transactions were treated as vesting irrespective of whether the market or non-vesting condition was satisfied, provided that all other performance and/or service conditions were satisfied.

Where the terms of an equity-settled award were modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award were met. In addition, an expense was recognised for any modification that increased the total fair value of the share-based payments, or was otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award was cancelled, it was treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award was recognised immediately. This included any award where non-vesting conditions within the control of either the Group or the employee were not met. However, if a new award was substituted for the cancelled award, and was designated as a replacement award on the date that it was granted, the cancelled and new awards were treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options was reflected as additional share dilution in the computation of earnings per share.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension schemes and other retirement benefits

The Group's subsidiaries incorporated in Hong Kong operate defined contribution Mandatory Provident Fund retirement benefit schemes (the "**MPF Schemes**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Schemes. The assets of the MPF Schemes are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty

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

Estimation of useful lives of items of property, plant and equipment

Management estimates the useful lives of items of property, plant and equipment at acquisition based on the period over which the items of property, plant and equipment are expected to be available for use to the Group. The useful lives of items of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of the reporting period. The carrying value of property, plant and equipment at 31 March 2017 was HK$188,713,000 (2016: HK$200,416,000). Further details are included in Note 13 to the financial statements.

Impairment test of items of property, plant and equipment

Management estimates the recoverable amount of items of property, plant and equipment when an indication of impairment exists. This requires an estimation of the value in use of the cash-generating units. Estimating the value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. The carrying value of property, plant and equipment at 31 March 2017 was HK$188,713,000 (2016: HK$200,416,000). Further details are included in Note 13 to the financial statements.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; and

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

The carrying amount of investment property at 31 March 2017 was HK$17,700,000 (2016: Nil). Further details, including the key assumptions used for fair value measurement, are given in Note 14 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 March 2017 was HK$12,709,000 (2016: HK$14,834,000). The amount of unrecognised tax losses at 31 March 2017 was HK$72,900,000 (2016: HK$94,045,000). Further details are included in Note 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Provision for inventories

Management reviews the aging analysis of the Group's inventories at the end of each reporting period, and makes provision for obsolete items when events or change in circumstances show that the balance of inventories may not be realisable or the inventories are no longer suitable for production use. The Group carries out an inventory review at the end of each reporting period and makes provision for obsolete items. The carrying value of inventories at 31 March 2017 was HK$266,759,000 (2016: HK$268,110,000). Further details are included in Note 17 to the financial statements.

Impairment of trade receivables

The Group maintains an allowance for estimated losses arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers is to deteriorate so that the actual impairment losses might be higher than expected, the Group will be required to revise the basis of making the allowance, and its future results would be affected. The carrying value of trade receivables at 31 March 2017 was HK$41,488,000 (2016: HK$58,347,000). Further details are included in Note 18 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units that offer products to customers located in different geographical areas. In determining the Group's reportable operating segments, revenues, results, assets and liabilities attributable to the segments are based on the location of the customers. The Group has four reportable operating segments as follows:

(a) Hong Kong and Macau
(b) Taiwan
(c) Mainland China
(d) Elsewhere

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance cost, fair value gain on an investment property, gain on deregistration of subsidiaries and unallocated expenses are excluded from this measurement.

Segment assets exclude an investment property, deferred tax assets, tax recoverable and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, an interest-bearing bank borrowing, tax payable and other unallocated corporate liabilities as these liabilities are managed on a group basis.

Segment non-current assets exclude deferred tax assets, an investment property and other unallocated corporate non-current assets as these assets are managed on a group basis.

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.

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Hong Kong and Macau HK$'000	Taiwan HK$'000	Mainland China HK$'000	Elsewhere HK$'000	Total HK$'000
Year ended 31 March 2017					
Segment revenue:					
Sales to external customers	838,392	340,592	123,313	3,583	1,305,880
Intersegment sales	51,937	159,384	–	–	211,321
	890,329	499,976	123,313	3,583	1,517,201
Reconciliation:					
Elimination of intersegment sales					(211,321)
Revenue					1,305,880
Segment results:	82,936	24,162	3,849	196	111,143
Reconciliation:					
Interest income					323
Finance cost					(226)
Fair value gain on an investment property					1,700
Gain on deregistration of subsidiaries					8,111
Unallocated expenses, net					(46,941)
Profit before tax					74,110
Segment assets:	321,114	186,045	125,686	1,784	634,629
Reconciliation:					
Investment property					17,700
Deferred tax assets					25,099
Tax recoverable					6,314
Unallocated assets					261,401
Total assets					945,143
Segment liabilities:	86,711	10,182	11,529	348	108,770
Reconciliation:					
Deferred tax liabilities					5,098
Interest-bearing bank borrowing					5,922
Tax payable					5,259
Unallocated liabilities					9,497
Total liabilities					134,546
Other segment information:					
Capital expenditure*	27,428	7,530	1,377	48	36,383
Unallocated capital expenditure*					5,832
					42,215
Depreciation	21,019	9,768	3,148	–	33,935
Amortisation of intangible assets	47	38	35	88	208
Unallocated depreciation					6,454
					40,597
Loss on disposal of items of property, plant and equipment, net	1,700	107	327	–	2,134
Unallocated gain on disposal of items of property, plant and equipment, net					(5,313)
					(3,179)
Write-off of deposits	3,389	–	117	–	3,506
Provision for doubtful debts and write-off of bad debts	–	–	337	1	338
Impairment of items of property, plant and equipment	4,488	2,756	89	–	7,333

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets.*

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Hong Kong and Macau HK$'000	Taiwan HK$'000	Mainland China HK$'000	Elsewhere HK$'000	Total HK$'000
Year ended 31 March 2016					
Segment revenue:					
Sales to external customers	1,029,940	342,215	128,795	12,046	1,512,996
Intersegment sales	65,317	167,215	–	–	232,532
	1,095,257	509,430	128,795	12,046	1,745,528
Reconciliation:					
Elimination of intersegment sales					(232,532)
Revenue					1,512,996
Segment results:	99,564	6,011	8,139	3,502	117,216
Reconciliation:					
Interest income					471
Finance cost					(796)
Unallocated expenses, net					(55,034)
Profit before tax					61,857
Segment assets:	310,756	189,830	125,579	2,766	628,931
Reconciliation:					
Deferred tax assets					27,988
Tax recoverable					6,914
Unallocated assets					232,201
Total assets					896,034
Segment liabilities:	64,679	9,212	15,808	174	89,873
Reconciliation:					
Deferred tax liabilities					5,264
Interest-bearing bank borrowing					12,876
Tax payable					8,132
Unallocated liabilities					10,438
Total liabilities					126,583
Other segment information:					
Capital expenditure*	31,282	10,340	4,287	105	46,014
Unallocated capital expenditure*					6,008
					52,022
Depreciation	24,747	9,167	4,699	–	38,613
Amortisation of intangible assets	53	45	34	125	257
Unallocated depreciation					6,055
					44,925
Loss on disposal of items of property, plant and equipment, net	2,371	151	357	–	2,879
Unallocated loss on disposal of items of property, plant and equipment, net					249
					3,128
Write-off of deposits	1,521	–	382	–	1,903
Provision for doubtful debts and write-off of bad debts	12	–	–	–	12
Impairment of items of property, plant and equipment	3,754	490	176	–	4,420

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets.*

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

Non-current assets

	2017 **HK$'000**	2016 HK$'000
Hong Kong and Macau	**110,066**	107,231
Taiwan	**15,728**	19,137
Mainland China	**9,432**	13,571
Elsewhere	**324**	426
	135,550	140,365

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the year, no major customer information is presented.

5. REVENUE, OTHER INCOME AND GAINS

Revenue 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:

	2017 **HK$'000**	2016 HK$'000
Revenue		
Sale of garment products and accessories	**1,305,880**	1,512,996
Other income		
Bank interest income	**323**	471
Rental income	**503**	–
Forfeiture of franchise deposits	**791**	655
Others	**867**	941
	2,484	2,067
Gains		
Foreign exchange differences, net	**3,550**	2,433
Fair value gain on an investment property (Note 14)	**1,700**	–
Gain on disposal of items of property, plant and equipment, net	**3,179**	–
	8,429	2,433
	10,913	4,500

6. PROFIT BEFORE TAX

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories sold*		**477,089**	609,300
Depreciation	13	**40,389**	44,668
Provision for inventories, net*		**10,916**	11,030
Minimum lease payments under operating leases		**238,892**	258,139
Contingent rents under operating leases		**79,948**	86,062
Auditor's remuneration		**2,161**	2,233
Employee benefit expenses (including directors' remuneration (Note 8)):			
Wages, salaries and other benefits		**207,458**	232,840
Pension scheme contributions**		**10,795**	11,586
		218,253	244,426
Loss/(gain) on disposal of items of property, plant and equipment, net		**(3,179)**	3,128
Gain on deregistration of subsidiaries	26	**(8,111)**	–
Amortisation of intangible assets	15	**208**	257
Write-off of deposits		**3,506**	1,903
Loss on disposal of trademarks	15	**11**	33
Provision for doubtful debts and write-off of bad debts	18	**338**	12
Fair value gain on an investment property	14	**(1,700)**	–
Impairment of items of property, plant and equipment	13	**7,333**	4,420
Direct operating expenses (including repairs and maintenance) arising from a rental-earning investment property		**117**	–

* Included in cost of sales on the face of the consolidated statement of profit or loss and other comprehensive income.

** At the end of the reporting period, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2016: Nil).

7. FINANCE COST

An analysis of finance cost is as follows:

	2017 HK$'000	2016 HK$'000
Interest on a bank loan	**226**	796

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, Section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation, is as follows:

	2017 HK$'000	2016 HK$'000
Fees	**528**	453
Other emoluments:		
Salaries, allowances and benefits in kind	**4,086**	4,086
Performance-related bonuses*	**1,063**	1,472
Pension scheme contributions	**54**	54
	5,203	5,612
	5,731	6,065

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

(a) Independent non-executive directors

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

	2017 HK$'000	2016 HK$'000
Mr. Chu To Ki	**151**	151
Mr. Mak Wing Kit	**151**	151
Mr. Mak Siu Yan	**112**	–
Dr. Wong Yun Kuen	**114**	151
	528	453

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance-related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017					
Mr. Wong Yui Lam	**–**	**1,430**	**330**	**18**	**1,778**
Madam Lee Yuk Ming	**–**	**1,408**	**541**	**18**	**1,967**
Mr. Yeung Yat Hang	**–**	**1,248**	**192**	**18**	**1,458**
	–	**4,086**	**1,063**	**54**	**5,203**
2016					
Mr. Wong Yui Lam	–	1,430	330	18	1,778
Madam Lee Yuk Ming	–	1,408	758	18	2,184
Mr. Yeung Yat Hang	–	1,248	384	18	1,650
	–	4,086	1,472	54	5,612

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2016: three) executive directors, details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining two (2016: two) non-director, highest paid employees for the year are as follows:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**1,785**	1,524
Performance-related bonuses	**704**	1,485
Pension scheme contributions	**36**	30
	2,525	3,039

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

	Number of employees 2017	2016
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**–**	1
	2	2

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

The PRC corporate income tax ("**CIT**") is applicable to four (2016: five) subsidiaries located in Mainland China. All of these subsidiaries were subject to the applicable CIT rate of 25% (2016: 25%) during the year ended 31 March 2017.

For the subsidiaries in Macau, one of them (2016: one) was incorporated under the Macau Offshore Business Law and exempted from the Macau complementary tax pursuant to the Macau Special Administrative Region's offshore law.

The Taiwan subsidiary was subject to the applicable tax rate of 17% (2016: 17%) during the year ended 31 March 2017.

	2017 **HK$'000**	2016 HK$'000
Current tax – Hong Kong		
Provision for the year	**2,177**	9,340
Overprovision in prior years	**(103)**	(2,488)
Current tax – PRC		
Provision for the year	**821**	442
Overprovision in prior years	**(280)**	–
Current tax – Elsewhere		
Provision for the year	**3,719**	3,758
Overprovision in prior years	**(28)**	(284)
Deferred tax charge/(credit) (Note 16)	**2,927**	(1,860)
Total tax charge for the year	**9,233**	8,908

10. INCOME TAX *(Continued)*

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

2017

	HK$'000	**%**
Profit before tax	**74,110**	
Tax at the statutory tax rate	**12,656**	**17.1**
Lower tax rate for specific provinces or enacted by local authority	**(126)**	**(0.2)**
Adjustments in respect of current tax of previous periods	**(412)**	**(0.5)**
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**(300)**	**(0.4)**
Income not subject to tax	**(3,133)**	**(4.2)**
Expenses not deductible for tax	**1,184**	**1.6**
Temporary differences not recognised	**904**	**1.2**
Tax losses not recognised/utilised	**(1,540)**	**(2.1)**
	9,233	**12.5**

2016

	HK$'000	%
Profit before tax	61,857	
Tax at the statutory tax rate	9,984	16.1
Lower tax rate for specific provinces or enacted by local authority	(215)	(0.3)
Adjustments in respect of current tax of previous periods	(2,772)	(4.5)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	(260)	(0.4)
Income not subject to tax	(953)	(1.5)
Expenses not deductible for tax	1,750	2.8
Temporary differences not recognised	2,210	3.6
Tax losses not recognised/utilised	(836)	(1.4)
	8,908	14.4

11. DIVIDENDS

	2017 HK$'000	2016 HK$'000
Proposed final dividend – HK7.5 cents (2016: HK6.0 cents) per ordinary share	**27,554**	22,043
Additional 2016 final dividend paid in relation to share options exercised – Nil (2015 final dividend: HK13.5 cents) per ordinary share	**–**	23
	27,554	22,066

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of the parent of HK$64,877,000 (2016: HK$52,949,000) and the weighted average number of ordinary shares of 367,380,000 (2016: 367,373,965) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 March 2017. Accordingly, there is no diluted earnings per share for the year.

In the prior year, the calculation of the diluted earnings per share amount was based on the profit for the year attributable to equity holders of the parent. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during that year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

	2017 HK$'000	2016 HK$'000
Earnings		
Profit attributable to equity holders of the parent, used in the basic earnings per share calculation	**64,877**	52,949

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**367,380,000**	367,373,965
Effect of dilution – weighted average number of ordinary shares: Share options	**–**	291,972
	367,380,000	367,665,937

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 March 2017						
At 31 March 2016 and 1 April 2016:						
Cost	142,363	164,613	17,943	41,389	4,226	370,534
Accumulated depreciation and impairment	(12,710)	(116,895)	(13,101)	(24,451)	(2,961)	(170,118)
Net carrying amount	129,653	47,718	4,842	16,938	1,265	200,416
At 1 April 2016, net of accumulated depreciation and impairment	129,653	47,718	4,842	16,938	1,265	200,416
Additions	–	31,358	6,630	4,135	–	42,123
Depreciation provided during the year	(2,811)	(29,095)	(2,453)	(5,366)	(664)	(40,389)
Transfer to investment property (Note 14)	(1,367)	–	–	–	–	(1,367)
Disposals	(2,916)	(929)	(20)	(1,348)	–	(5,213)
Impairment	–	(7,120)	(213)	–	–	(7,333)
Exchange realignment	–	413	(15)	78	–	476
At 31 March 2017, net of accumulated depreciation and impairment	122,559	42,345	8,771	14,437	601	188,713
At 31 March 2017:						
Cost	136,941	175,309	22,012	40,878	4,226	379,366
Accumulated depreciation and impairment	(14,382)	(132,964)	(13,241)	(26,441)	(3,625)	(190,653)
Net carrying amount	122,559	42,345	8,771	14,437	601	188,713

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

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 March 2016							
At 1 April 2015:							
Cost	142,363	150,720	770	16,448	39,399	3,723	353,423
Accumulated depreciation and impairment	(9,863)	(102,431)	(597)	(12,672)	(23,351)	(2,899)	(151,813)
Net carrying amount	132,500	48,289	173	3,776	16,048	824	201,610
At 1 April 2015, net of accumulated depreciation and impairment	132,500	48,289	173	3,776	16,048	824	201,610
Additions	–	39,124	–	3,018	8,658	1,043	51,843
Depreciation provided during the year	(2,847)	(33,346)	(5)	(1,816)	(6,052)	(602)	(44,668)
Disposals	–	(1,361)	(161)	(120)	(1,644)	–	(3,286)
Impairment	–	(4,420)	–	–	–	–	(4,420)
Exchange realignment	–	(568)	(7)	(16)	(72)	–	(663)
At 31 March 2016, net of accumulated depreciation and impairment	129,653	47,718	–	4,842	16,938	1,265	200,416
At 31 March 2016:							
Cost	142,363	164,613	–	17,943	41,389	4,226	370,534
Accumulated depreciation and impairment	(12,710)	(116,895)	–	(13,101)	(24,451)	(2,961)	(170,118)
Net carrying amount	129,653	47,718	–	4,842	16,938	1,265	200,416

At 31 March 2017, included in the Group's land and buildings held in Hong Kong are land and buildings with an aggregate net book value of approximately HK$114,733,000 (2016: HK$117,269,000) which were pledged to secure general banking facilities and loan granted to the Group (Note 23(a)).

The directors considered that certain property, plant and equipment of the Group were subject to impairment loss because cash-generating units of these property, plant and equipment were non-performing and suffered from substantial losses for the year. An impairment provision of HK$7,333,000 (2016: HK$4,420,000) was recognised in profit or loss during the year ended 31 March 2017. The directors estimated the recoverable amounts of the respective cash-generating units based on value in use calculations which were evaluated by senior management using cash flow projections based on financial budgets covering the remaining useful life of the respective property, plant and equipment.

14. INVESTMENT PROPERTY

	HK$'000
Carrying amount at 1 April 2015, 31 March 2016 and 1 April 2016	–
Transfer from an owner-occupied property (note)	16,000
Gain from a fair value adjustment	1,700
Carrying amount at 31 March 2017	17,700

Note: During the year, an owner-occupied property of the Group with net carrying value of HK$1,367,000 (Note 13) was transferred to investment property due to the change in use of the property for rental purpose. The property was revalued at HK$16,000,000 by RHL Appraisal Limited, an independent professionally qualified valuer, at the date of change of use and the revaluation gain of HK$14,633,000 was recorded in the asset revaluation reserve.

The Group's investment property is an industrial property in Hong Kong. The directors of the Company have determined the class of asset (i.e., industrial) based on the nature, characteristics and risks of the property. The Group's investment property was revalued on 31 March 2017 based on a valuation performed by RHL Appraisal Limited, an independent professionally qualified valuer, at HK$17,700,000, resulting in a fair value gain of HK$1,700,000 which was recorded in the profit or loss for the year. Each year, the Group's directors decide to appoint which external valuer to be responsible for the external valuation of the Group's property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's directors have discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for financial reporting purpose.

The investment property is leased to a third party under operating lease, further summary details of which are included in Note 30 to the financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment property:

	Fair value measurement as at 31 March 2017 using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Industrial property	**–**	**–**	**17,700**	**17,700**

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

The fair value of the investment property was determined using the comparison approach based on market comparables of similar properties and with adjustments made on factors such as location, size, age, condition and aspects of the properties. The weighted average range of the adjusted price per square feet is HK$5,250 to HK$5,440 (2016: N/A).

A significant increase/(decrease) in the adjusted price per square feet would result in a significant increase/(decrease) in the fair value of the investment property.

15. INTANGIBLE ASSETS

Trademarks

	2017 HK$'000	2016 HK$'000
At 1 April 2015 and 1 April 2016:		
Cost	**3,860**	4,027
Accumulated amortisation and impairment	**(3,040)**	(3,096)
Net carrying amount	**820**	931
Cost at beginning of year, net of accumulated amortisation and impairment	**820**	931
Additions	**92**	179
Amortisation provided during the year (Note 6)	**(208)**	(257)
Disposal of trademarks (Note 6)	**(11)**	(33)
At 31 March 2016 and 31 March 2017	**693**	820
At 31 March 2016 and 31 March 2017:		
Cost	**3,778**	3,860
Accumulated amortisation and impairment	**(3,085)**	(3,040)
Net carrying amount	**693**	820

16. DEFERRED TAX

Deferred tax assets

	Decelerated tax depreciation HK$'000	Losses available for offsetting against future taxable profits HK$'000	Provision for unrealised profit on inventories HK$'000	Other provisions HK$'000	Total HK$'000
At 1 April 2015	3,414	14,566	5,700	4,108	27,788
Deferred tax credited/(charged) to profit or loss during the year*	687	(692)	900	(579)	316
Exchange realignment	–	–	–	(116)	(116)
At 31 March 2016 and 1 April 2016	4,101	13,874	6,600	3,413	27,988
Deferred tax credited/(charged) to profit or loss during the year*	(31)	(1,885)	(1,300)	113	(3,103)
Exchange realignment	–	–	–	214	214
At 31 March 2017	4,070	11,989	5,300	3,740	25,099

16. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	Accelerated tax depreciation HK$'000	Losses available for offsetting against future taxable profits HK$'000	Provision for unrealised profit on inventories HK$'000	Withholding taxes HK$'000	Other provisions HK$'000	Total HK$'000
At 1 April 2015	977	–	(370)	6,260	(63)	6,804
Deferred tax charged/(credited) to profit or loss during the year*	83	(960)	(345)	(260)	(62)	(1,544)
Exchange realignment	–	–	–	–	4	4
At 31 March 2016 and 1 April 2016	1,060	(960)	(715)	6,000	(121)	5,264
Deferred tax charged/(credited) to profit or loss during the year*	300	240	(270)	(300)	(146)	(176)
Exchange realignment	–	–	–	–	10	10
At 31 March 2017	1,360	(720)	(985)	5,700	(257)	5,098

* The total deferred tax charged to profit or loss during the year amounted to HK$2,927,000 (2016: deferred tax credited to profit or loss of HK$1,860,000) (Note 10).

At the end of the reporting period, the Group had tax losses arising in Hong Kong of HK$46,694,000 (2016: HK$43,919,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also had tax losses arising in Mainland China of HK$58,676,000 (2016: HK$75,003,000) that will expire in one to five years and losses arising in Taiwan of HK$33,427,000 (2016: HK$44,901,000) that will expire in five to seven years for offsetting against future taxable profits, respectively. Deferred tax assets have been recognised for tax losses arising in Hong Kong and Mainland China of approximately HK$44,297,000 (2016: HK$42,332,000) and HK$21,600,000 (2016: HK$31,400,000), respectively. Deferred tax assets have not been recognised in respect of the remaining tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings generated after 31 December 2007.

A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 March 2017, deferred tax liabilities have not been provided in respect of certain of the unremitted retained earnings of the Group's subsidiaries after 1 January 2008 amounting to HK$66,919,000 (2016: HK$70,169,000) as the payment of dividends is not considered probable.

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

17. INVENTORIES

	2017	2016
	HK$'000	HK$'000
Raw materials	**861**	1,870
Finished goods	**265,898**	266,240
	266,759	268,110

18. TRADE RECEIVABLES

	2017	2016
	HK$'000	HK$'000
Trade receivables	**41,825**	58,347
Impairment	**(337)**	–
	41,488	58,347

Retail sales (both online and offline) are made on cash terms or by credit card with 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 does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017	2016
	HK$'000	HK$'000
Within 90 days	**41,210**	57,175
91 to 180 days	**276**	688
181 to 365 days	**2**	161
Over 365 days	**–**	323
	41,488	58,347

18. TRADE RECEIVABLES *(Continued)*

The movements in provision for impairment of trade receivables are as follows:

	2017 HK$'000	2016 HK$'000
At the beginning of the reporting period	–	517
Amount written off as uncollectable	–	(517)
Provision for doubtful debts (Note 6)	337	–
At the end of the reporting period	337	–

During the year, the Group directly wrote off a bad debt of HK$1,000 (2016: nil) (Note 6). In last year, included in the provision for impairment of trade receivable was a provision for individually impaired trade receivable of HK$517,000 with a carrying amount of HK$517,000. The individually impaired trade receivable related to a customer that was in financial difficulties or in liquidation and was not expected to be recovered.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	40,697	57,565
Less than 3 months past due	790	300
3 to less than 12 months past due	1	482
	41,488	58,347

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments	14,566	19,602
Deposits and other receivables	93,375	94,588
	107,941	114,190
Portion classified as non-current assets	(79,891)	(78,232)
	28,050	35,958

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. CASH AND BANK BALANCES

	2017 **HK$'000**	2016 HK$'000
Cash and bank balances	**290,436**	219,249

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("**RMB**") amounted to approximately HK$75,368,000 (2016: HK$66,110,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 **HK$'000**	2016 HK$'000
Within 90 days	**31,418**	23,742
91 to 180 days	**345**	178
181 to 365 days	**44**	122
Over 365 days	**–**	203
	31,807	24,245

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

22. OTHER PAYABLES AND ACCRUALS

	2017 **HK$'000**	2016 HK$'000
Other payables	**47,247**	48,421
Accruals	**39,213**	27,645
	86,460	76,066

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

23. INTEREST-BEARING BANK BORROWING

	2017			2016		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current – secured						
Bank loan repayable on demand	**2-3**	**2018**	**5,922**	2-3	2018	12,876
Analysed into bank loan repayable:						
Within one year or on demand			**5,922**			6,933
In the second year			**–**			5,943
			5,922			12,876

Notes:

(a) The Group's general banking facilities and loan are secured by the Group's buildings situated in Hong Kong, which had an aggregate carrying value at the end of the reporting period of approximately HK$114,733,000 (2016: HK$117,269,000) (Note 13).

(b) The loan is in Hong Kong dollars.

24. SHARE CAPITAL

Shares

	Company	
	2017 HK$'000	2016 HK$'000
Issued and fully paid:		
367,380,000 ordinary shares of HK$0.1 each	**36,738**	36,738

Details of the Company's share option schemes and the share options issued under the schemes are included in Note 25 to the financial statements.

25. SHARE OPTION SCHEMES

On 22 April 2005, the Company adopted a share option scheme (the "**Old Scheme**") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the Old Scheme included 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 Old Scheme had expired on 21 April 2015 and no further options could be granted pursuant to the Old Scheme. Nonetheless, options granted prior to expiry of the Old Scheme shall continue to be valid and exercisable in accordance with the rules of the Old Scheme.

On 13 January 2012, the board of directors resolved to grant a total of 11,000,000 share options to certain directors and employees of the Group to subscribe for shares of HK$0.10 each in the Company, subject to acceptance by the grantees, under the Old Scheme as rewards for the grantees' contribution to the continual operation and development of the Group. Each of the 11,000,000 share option shall entitle the holder thereof to subscribe for one share upon exercise of the share option at an exercise price of HK$1.83 (2016: HK$1.83) per share.

On 27 August 2015, the Company adopted a new share option scheme (the "**New Scheme**") to provide the Company with the flexibility of granting share options to eligible participants as incentives or rewards for their contribution or potential contribution to the Group. Eligible participants of the New Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, any advisers, consultants, suppliers and customers of the Group and such other persons who, in the sole opinion of the board of directors of the Company, will contribute or have contributed to the Group. The New Scheme will remain in force for 10 years from the effective date of 28 August 2015.

The number of shares in respect of which options may be granted under the New Scheme shall not exceed 10% of the total number of shares of the Company in issue as at the date of passing of the shareholders' resolution for adoption of the New Scheme. The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share options schemes of the Company shall not exceed 30% of the issued share capital of the Company from time to time.

The major terms of the Old Scheme and the New Scheme, which are substantially the same, are set out below:

The acceptance of an offer of the grant of the respective share options must be made within 28 days from the date of offer with a non-refundable payment of HK$1.00 from each grantee. An option may be exercised at any time during a period to be determined by the board of directors of the Company, which shall not in any event exceed ten years from the date of grant. The scheme does not specify any minimum holding period but the board of directors of the Company has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders in a general meeting with such participant and his close associates (or his/her associates if the participant is a connected person) abstaining from voting.

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

25. SHARE OPTION SCHEMES *(Continued)*

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

All share options under the Old Scheme lapsed and no share option was granted during the year ended 31 March 2017.

The following represents the movements of share options under the Old Scheme during the year:

	2017		2016	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 April 2015 and 1 April 2016	**1.830**	**1,330**	1.830	1,500
Exercised during the year	**1.830**	**–**	1.830	(170)
Lapsed during the year	**1.830**	**(1,330)**	1.830	–
		–		1,330

The weighted average share price at the date of exercise for share options exercised in last year was HK$1.83 per share. No share option expense was recognised by the Group during the year ended 31 March 2017 (2016: Nil).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period were as follows:

2017 Number of options '000	2016 Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
–	130	**1.830**	**12 January 13 to 12 January 17**
–	540	**1.830**	**12 January 14 to 12 January 17**
–	660	**1.830**	**12 January 15 to 12 January 17**
–	1,330		

* The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of equity-settled share options granted in 2012 was estimated as at the date of grant, using the Black-Scholes-Merton pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	5.00
Expected volatility (%)	52.42-55.28
Risk-free interest rate (%)	0.42-0.63
Expected life of options (year)	3-4
Initial underlying stock price (HK$ per share)	1.83

At the end of the reporting period and the date of approval of these financial statements, all share options granted in 2012 were lapsed.

26. DEREGISTRATION OF SUBSIDIARIES

During the year, the Group deregistered two subsidiaries namely 汕頭市包浩斯服飾製品有限公司 and Tough Jeans (UK) Limited. The net assets of the deregistered subsidiaries at their respective dates of deregistration were as follows:

	2017 **HK$'000**
Net assets disposed of:	
Exchange fluctuation reserve released	**8,111**
Gain on deregistration of subsidiaries	**8,111**

Reserve funds of HK$2,947,000 brought forward from prior years were transferred back to retained profits upon deregistration of a subsidiary.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 46 of this Annual Report.

The Group's contributed surplus as at 31 March 2017 and 2016 comprised (i) the waiver of an amount due to a company owned by the Group's controlling shareholder; (ii) a transfer from the share premium account; and (iii) a special interim dividend in the prior years after adjusting for the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

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

28. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2017 **HK$'000**	2016 HK$'000
Bank guarantees given in lieu of utility and property rental deposits	**5,182**	6,812

During the year, the Group early terminated certain leases for properties. Pursuant to the respective lease agreements, the Group may be required to compensate for losses or damages to the respective landlords subject to various conditions. At the reporting date, it is not practicable to estimate the related losses or damages as the outcome which could determine the compensation is not wholly within the control of the Group. In the opinion of the directors, the likelihood of an outflow of resources embodying economic benefits by the Group is uncertain.

29. PLEDGE OF ASSETS

Details of the Group's bank loan which is secured by the assets of the Group are included in Note 23 to the financial statements.

30. OPERATING LEASE ARRANGEMENTS

As lessor

The Group, as lessor, leases certain of its office under an operating lease arrangement with a lease term of two years. At 31 March 2017, the Group had total future minimum lease payments receivable under non-cancellable operating leases falling due as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**618**	–
In the second year	**103**	–
	721	–

As lessee

The Group, as lessee, leases its retail shops and certain of its offices and warehouses under operating lease arrangements with lease terms ranging from one to eight years. At 31 March 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 **HK$'000**	2016 HK$'000
Within one year	**194,746**	214,421
In the second to fifth years, inclusive	**227,962**	252,932
Over five years	**983**	6,055
	423,691	473,408

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

31. COMMITMENTS

The Group had no material capital commitment contracted, but not provided for as at 31 March 2017 (2016: HK$1.8 million).

32. RELATED PARTY TRANSACTIONS

(a) During the year, the Group had the following transactions with related companies controlled by a close family member of a director of the Group:

	Note	**2017** **HK$'000**	2016 HK$'000
Computer system maintenance charges	(i)	**89**	131

Note:

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

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

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Loans and receivables	
	2017	2016
	HK$'000	HK$'000
Trade receivables	**41,488**	58,347
Financial assets included in prepayments, deposits and other receivables	**91,790**	90,716
Cash and bank balances	**290,436**	219,249
	423,714	368,312

Financial liabilities

	Financial liabilities at amortised cost	
	2017	2016
	HK$'000	HK$'000
Trade payables	**31,807**	24,245
Financial liabilities included in other payables and accruals (Note 22)	**47,247**	48,421
Interest-bearing bank borrowing	**5,922**	12,876
	84,976	85,542

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash at banks and an interest-bearing bank borrowing. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

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

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowing with a floating interest rate. The Group has no specific policy to deal with cash flow interest rate risk. However, management monitors the exposure and will consider hedging the interest rate risk exposure for significant cash flow risks should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowing) and the Group's and the Company's equity.

	2017			2016		
	Increase/ (decrease) %	**Increase/ (decrease) in profit before tax HK$'000**	**Increase/ (decrease) in equity* HK$'000**	Increase/ (decrease) %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
Hong Kong dollar	**1**	**(59)**	**–**	1	(129)	–
Hong Kong dollar	**(1)**	**59**	**–**	(1)	129	–

* Excluding retained profits

Foreign currency risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	2017			2016		
	Increase/ (decrease) %	**Increase/ (decrease) in profit before tax HK$'000**	**Increase/ (decrease) in equity* HK$'000**	Increase/ (decrease) %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
If Hong Kong dollar weakens against New Taiwan Dollar ("**NT$**")	**(1)**	**1,963**	**–**	(1)	1,999	–
If Hong Kong dollar strengthens against NT$	**1**	**(1,963)**	**–**	1	(1,999)	–

* Excluding retained profits

Credit risk

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

With respect to the credit risk arising from the other financial assets of the Group, which comprise cash and bank balances, deposits and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 18 to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking credit facilities. The Group's policy is to minimise borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2017			
	On demand HK$'000	**Less than 3 months HK$'000**	**3 to less than 12 months HK$'000**	**Total HK$'000**
Interest-bearing bank borrowing	**5,922**	**–**	**–**	**5,922**
Trade payables	**896**	**30,911**	**–**	**31,807**
Other payables	**19,757**	**24,723**	**2,767**	**47,247**
Guarantees given to banks in connection with facilities in lieu of utility and property rental deposits	**5,182**	**–**	**–**	**5,182**
	31,757	**55,634**	**2,767**	**90,158**

	2016			
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	Total HK$'000
Interest-bearing bank borrowing	12,876	–	–	12,876
Trade payables	275	23,970	–	24,245
Other payables	12,914	31,487	4,020	48,421
Guarantees given to banks in connection with facilities in lieu of utility and property rental deposits	6,812	–	–	6,812
	32,877	55,457	4,020	92,354

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2017 and 31 March 2016.

The Group monitors capital using a current ratio, which is total current assets divided by total current liabilities. The Group's policy is to keep the current ratio above 1. The current ratios as at the end of the reporting periods were as follows:

	2017 HK$'000	2016 HK$'000
Total current assets	**633,047**	588,578
Total current liabilities	**129,448**	121,319
Current ratio	**4.9**	4.9

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 **HK$'000**	2016 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**156,702**	156,702
CURRENT ASSETS		
Due from a subsidiary	**307,964**	290,264
Cash and bank balances	**86**	28
Total current assets	**308,050**	290,292
CURRENT LIABILITIES		
Other payables	**24**	23
NET CURRENT ASSETS	**308,026**	290,269
NET ASSETS	**464,728**	446,971
EQUITY		
Share capital	**36,738**	36,738
Reserves (note)	**427,990**	410,233
TOTAL EQUITY	**464,728**	446,971

Wong Yui Lam
Chairman, CEO & Executive Director

Lee Yuk Ming
Executive Director

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Contributed surplus** HK$'000	Share option reserve*** HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2015	105,185	136,518	9,186	158,806	409,695
Issue of shares by exercise of share options	381	–	(87)	–	294
Final 2015 dividend declared	–	–	–	(49,596)	(49,596)
Total comprehensive income for the year	–	–	–	49,840	49,840
At 31 March 2016 and 1 April 2016	**105,566***	**136,518***	**9,099***	**159,050***	**410,233**
Final 2016 dividend declared	**–**	**–**	**–**	**(22,043)**	**(22,043)**
Total comprehensive income for the year	**–**	**–**	**–**	**39,800**	**39,800**
Transfer of share option reserve upon lapse of share options	**–**	**–**	**(9,099)**	**9,099**	**–**
At 31 March 2017	**105,566***	**136,518***	**–***	**185,906***	**427,990**

* These reserve accounts comprise the reserves of HK$427,990,000 (2016: HK$410,233,000) in the statement of financial position of the Company.

** The Company's contributed surplus comprises the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the Company's shares issued in exchange therefor; and net-off with a special interim dividend distributed in a prior year.

*** The share option reserve comprised the fair value of share options granted which were yet to be exercised, as further explained in the accounting policy and share-based payments in Note 25 to the financial statements. The amounts were transferred to the share premium account when the related options were exercised, or transferred to retained profits when the related options expired or were forfeited.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 June 2017.

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements, is set out below.

	Year ended 31 March				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
REVENUE	**1,305,880**	1,512,996	1,591,817	1,427,113	1,293,677
Cost of sales	**(488,005)**	(620,330)	(623,050)	(517,530)	(464,748)
GROSS PROFIT	**817,875**	892,666	968,767	909,583	828,929
Other income and gains	**10,913**	4,500	10,413	2,224	14,995
Gain on deregistration of subsidiaries	**8,111**	–	–	–	–
Compensation received for early termination of tenancies	**–**	–	–	–	21,700
Selling and distribution expenses	**(645,646)**	(714,514)	(710,007)	(650,137)	(607,942)
Administrative expenses	**(105,643)**	(110,242)	(110,791)	(106,639)	(115,463)
Other expenses	**(11,274)**	(9,757)	(8,606)	(5,157)	(11,438)
Finance cost	**(226)**	(796)	(347)	(789)	(1,400)
PROFIT BEFORE TAX	**74,110**	61,857	149,429	149,085	129,381
Income tax expense	**(9,233)**	(8,908)	(20,062)	(23,966)	(30,126)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**64,877**	52,949	129,367	125,119	99,255
DIVIDENDS	**27,554**	22,066	55,068	56,510	39,899

	As at 31 March				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**945,143**	896,034	925,906	852,537	759,140
TOTAL LIABILITIES	**(134,546)**	(126,583)	(156,951)	(161,158)	(162,773)
	810,597	769,451	768,955	691,379	596,367